

# The impact of the Spending Review on Childcare

## Introduction

The Chancellor George Osborne published the Comprehensive Spending Review (CSR) on 20 October 2010, setting Government spending for the years 2011/12 to 2014/15. Over this period Government will cut £81 billion from Government spending, including £7 billion in welfare cuts, on top of the £11 billion of welfare cuts announced in the emergency budget in June 2010.

Daycare Trust has analysed the CSR to consider what the impact will be on childcare, and therefore on the millions of families who rely on childcare services. Our overall view is that families will find it harder to pay for childcare as a result of the CSR, particularly lower income families who rely on Tax Credits. However we were pleased that the free early education for three and four year olds was protected, and that additional funding has been found to pay for 15 hours per week of childcare for disadvantaged two year olds.

The Department for Communities and Local Government faced one of the biggest departmental cuts, resulting in real terms reductions of 28% in local authority budgets over the next four years. We are concerned that once local authorities have met their statutory obligations, they will drastically cut back on other areas, including early years and childcare services. Ring-fencing of most grants, including the Sure Start grant, will end.

One of the areas we are most concerned about is funding for wraparound childcare for school-age children, such as breakfast clubs and after-school childcare. This is critical for working parents, and cuts in services or increases in charges could mean that it is no longer possible for parents to work. Since schools have seen just a 0.1% real increase in their budget, and will be required to pick up other functions that are no longer delivered by local authorities, they

will struggle to meet the shortfall.

Other areas that might be cut by local authorities include the number of affordable childcare places offered to parents, support offered to childcare settings to help them remain sustainable and improve quality, childminding networks, and play and youth facilities.

The reduced funding for local authorities comes alongside direct cuts in the support offered to parents to pay for childcare. Daycare Trust is especially concerned that families will find it harder to make ends meet as a result of changes to welfare announced in the CSR and the emergency budget in June. In particular we are concerned by the freezing of Child Benefit and Tax Credits, making fewer families eligible for Tax Credits, as well as changes to Housing Benefit and other benefits.

## Free entitlement to early education

### Main announcements:

- Free entitlement to early education for three and four year olds at 15 hours a week protected.
- The most disadvantaged two year olds (the poorest 20% of families) will also receive the 15 hours free early years educational entitlement from 2012.

### Our response

Daycare Trust warmly welcomes the protection of the free entitlement for three and four year olds and the expansion of places for disadvantaged two year olds. We are delighted to see the Government acknowledge the importance of investing in early years. There is overwhelming evidence that investing in the first years of a child's life has the

“The cut to the Childcare Element of Working Tax Credit equates to a loss of up to £1,560 per year for families who are already struggling with the burden of extortionate childcare costs... The Treasury itself acknowledges in its Equality Impact Assessment that this change will have a significant impact on women, who make up the majority of lone parents.”

potential to transform their future, yet spending on early years education and care is tiny in comparison to secondary and higher education budgets. We would have preferred to see the two year old places start in 2011, as this is when families will start to feel cuts in their income, and a free nursery place could make a big difference to their ability to make ends meet.

In cash term, 15 hours of nursery care is equivalent to £49.20 per week for each child in England. This rises to £58.20 a week for children in London.<sup>1</sup>

Extending 15 hours per week of free early education and care to all disadvantaged two year old children from 2012-13 will cost around £300 million a year.

## Sure Start & early intervention

### Main announcements:

- Sure Start budget protected in cash terms.
- Sure Start to be focused on its original purposes of improving the life chances of disadvantaged children.
- More community providers to be encouraged to run Sure Start Children's

Centres, with a new focus on payment by results.

- Funding includes new investment in Sure Start health visitors.
- The Government will introduce a new and simplified early intervention grant (non-ring fenced) worth around £2 billion by 2014/15.

### Our response

Daycare Trust welcomes the recognition of the value of Sure Start Children's Centres but remains concerned that protecting funding in cash terms marks a reduction in real terms because of inflation – this is calculated by the Financial Times to mean a real terms cut of 9% over the four year period.

We would also like clarity on how the 4,200 health visitors will be funded and recruited, where they will sit within the existing structures, and whether existing outreach services will be cut in order to pay for these new health visitors.

Additionally, we have noted in the CSR that there is an intention to end ring-fencing of all revenue grants from 2011/12 – except a simplified school grants and a new public health grant – and to reduce the number of separate core grants from over 90 to fewer than ten. We are concerned that local authorities may choose not to spend their entire Sure Start allocation on services for children and families.

Furthermore, whilst we welcome the Government's recognition of the benefit that Sure Start can have for disadvantaged families, we also are concerned that the Government's call for Sure Start to be 'refocused on its original purpose' might mean that its essential nature as a universal service for the whole community is lost.

We notice that the Spending Review announces a new national campaign to support and help turn around the lives of families with multiple problems, improving outcomes and reducing costs to welfare

and public services. The campaign will be underpinned by local Community Budgets focused on family intervention, enabling a more flexible and integrated approach to delivering the help these families need. We will be seeking further clarification as to whether this means that Sure Start will be focused solely on interventions helping families with multiple problems. It is because Sure Start Children's Centres are open to all that they have been so effective at reaching the parents who would not normally use such services but who stand to gain the most from them, and this must not be put at risk. It is well documented that children do best in a mixed environment.

## Tax Credits

### Main announcements:

- Basic and 30-hour elements of Working Tax Credit to be frozen from 2011/12.
- Childcare Element of the Working Tax Credit will be reduced to pay a maximum of 70% of childcare costs (rather than the current 80%) from 2011/12.
- Child Element of the Child Tax Credit to increase above inflation by £30 in 2011 and £50 in 2012.
- Parents must between them be working a total of 24 hours a week in order to be eligible to receive the Working Tax Credit. Currently one parent must be working 16 hours in order to qualify, although currently both parents are required to be working 16 hours in order to claim the Childcare Element. As far as we are aware this will remain the same.
- The Government will go ahead with a Universal Credit to replace all benefits and Tax Credits.

## Our response

We are very concerned by the decision to freeze Tax Credits and to reduce the maximum amount of childcare costs paid through the Working Tax Credit from 80% to 70%. This will affect many of the 488,000 families who currently receive support for their childcare costs through Tax Credits, 64% of whom are lone parents.<sup>2</sup> The Treasury itself acknowledges in its Equality Impact Assessment that this change will have a significant impact on women, who make up the majority of lone parents.<sup>3</sup>

Currently families receiving the Childcare Element receive an average of £67 per week (£70 for lone parents and £63 for couples). The cut equates to a loss of up to £1,560 per year for families who are already struggling with the burden of extortionate childcare costs. Under current rules, for families with one child, the maximum childcare cost parents can claim is for £175 a week and so, at 80%, parents would actually receive £140 per week. A reduction to 70% would mean they could receive £122.50, a loss of £17.50 per week. Families with more than one child, claiming the maximum of £300 a week, would have received £240 per week but would now receive £210 – a loss of £30 per week.

Parents in the UK contribute more towards childcare costs than any other OECD country<sup>4</sup>, and this will be made more difficult after these announcements, even after taking into account the increase in the Child Tax Credit. Furthermore, this is on top of cuts already announced in the June budget such as abolition of the Child Trust Fund, the restriction of eligibility for the Sure Start maternity grant to the first child only and the abolition of the Health in Pregnancy Grant.

The Government claims that the increase in the Child Element of the Child Tax Credit will mitigate against the cuts in childcare support, but this extra £30 in 2011 and £50 in 2012 will only make a tiny difference.

Paying 70% of childcare costs, rather than 80% will save the Government £1.325 billion between 2011 and 2015 as a result of thousands of families losing up to £30 per week. In contrast the increase in the child element of the Child Tax Credit by an additional £30 per year in 2011 and £50 in 2012 will cost an additional £1.805 billion over the four years. This payment will be spread over a much larger range of families, as the Child Tax Credit is available higher up the income distribution than the Childcare Element of Working Tax Credit. It will also go to families who do not have eligible childcare costs, even though childcare remains one of the biggest barriers which prevents parents, particularly women, from moving into paid work. This seems to go against the Government's intention of focusing support on the most disadvantaged and promoting work incentives.

The increase in the working hours requirement for Working Tax Credit for couples with children will save the Government an additional £1.155 billion between 2011 and 2015. Again, this will come from some of the lowest income families, who will now be required to find an additional eight hours of work or risk losing all of their Tax Credits. They may also struggle to find and pay for the additional childcare that they need to enable them to work longer.

Furthermore, we are concerned this change may have a disproportionate effect on black and ethnic minority families, as noted in the Treasury's equality impact assessment. It notes that black and minority ethnic groups make up a significant proportion (36 per cent) of couple families with one parent in part-time work and one parent not in work, which is greater than the proportion of the general population who are from an ethnic minority (12 per cent).

The CSR also set out plans to introduce a Universal Credit which will replace all benefits and Tax Credits. Daycare Trust responded to the

Department for Work and Pensions' consultation '21<sup>st</sup> Century Welfare' and argued that it is essential that the Universal Credit provides support for childcare, and that it should be designed to resolve many of the problems of the existing Childcare Element of Working Tax Credit.<sup>5</sup> We recently held an event which explored what this might mean in practice, and the event report can be found on our website.<sup>6</sup>

### References:

1. Figures from Daycare Trust's Childcare Costs Survey 2010, based on a nursery place for a child aged two and over
2. Child and Working Tax Credit Statistics Finalised Annual Awards 2008-09, HMRC, 2010
3. Overview of the impact of Spending Review 2010 on equalities, HM Treasury
4. OECD Gender Brief, March 2010
5. Our consultation response can be found here: <http://www.daycaretrust.org.uk/pages/consultation-responses.html>.
6. <http://www.daycaretrust.org.uk/pages/event-reports.html>

For more information contact:  
Rosanna Singler  
Policy and Research Officer  
Tel: 020 7940 7523  
Fax: 020 7940 7515  
Email: [rsingler@daycaretrust.org.uk](mailto:rsingler@daycaretrust.org.uk)  
Website: [www.daycaretrust.org.uk](http://www.daycaretrust.org.uk)

Daycare Trust  
2nd Floor, Novas Contemporary Urban Centre  
73-81 Southwark Bridge Road  
London SE1 0NQ

Daycare Trust is a registered charity: 327279 and a company limited by guarantee: 02063604, registered in England and Wales. VAT registered: 830 9847 06