



## Government support for childcare under the Labour Government 1997-2010

Standard Note: SN06382

Last updated: 29 January 2014

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Section Social Policy and Business and Transport Sections

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This note gives an overview of the childcare policies of the Labour Government 1997-2010. It is one of two notes that replace a previously existing note on support for childcare since 1997. The other, SN06807, provides information on support for childcare under the current Government.

This note covers policy developments from 1997-2010 relating to:

- Early years provision
- Local authority duties in relation to childcare provision
- Extended schools
- Tax relief for childcare
- Help with childcare costs through tax credits and predecessor programmes

The sections on early years provision, local authority duties and extended schools cover England only. The sections on tax relief and tax credits apply to the United Kingdom as a whole.

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# 1 Early years provision<sup>1</sup>

## 1.1 The early years entitlement for three and four year olds

In 1998, the then Labour Government introduced free early years education provision to all four year old children in England. The entitlement consisted of five sessions of two and a half hours provision per week for 33 weeks per year. The offer of a free place was extended to all three year olds from 2004;<sup>2</sup> after 2006, the free entitlement consisted of 15 hours a week for 38 weeks of the year for all three and four year olds.

Children became eligible for free early education at different points in the year, depending on when they turn three:

If your child is born between:	They are eligible for a free place from:
1 April and 31 August	1 September following their third birthday or the beginning of the autumn* school term
1 September and 31 December	1 January following their third birthday or the beginning of the spring* school term
1 January and 31 March	1 April following their third birthday or the beginning of the summer* school term

\*Based on a three-term school year

Children remained eligible until either they started in reception at a maintained school, or the term after they turn five (statutory school age).

The free early education entitlement was a guarantee of a free part-time place – it was not a monetary subsidy or voucher scheme. Parents could not be required to pay any fee for any part of the free entitlement or pay for additional services or hours as a condition of accessing the free place, nor could parents be required to pay a fee up front to be refunded at a later date.

The free early education places could be offered at a range of early years settings including nursery schools and classes, children’s centres, day nurseries, playgroups and pre-schools and childminders.

## 1.2 Local authority duties

Local authorities have a legal duty under the *Childcare Act 2006*<sup>3</sup> to ensure that they meet the free education places commitment. Free places can be provided by a variety of providers in the maintained, and private, voluntary and independent (PVI) sectors including pre-schools, playgroups and registered childminder networks. However, providers do not have to take part in the scheme – the entitlement is to provision in an area, not to provision at a particular nursery. It is entirely up to individual providers whether they take part.

In addition, section 6 of the *Childcare Act 2006* requires English local authorities to ensure, so far as is reasonably practical, that there is sufficient childcare within the local area for working parents (the sufficiency duty). The provision must be sufficient to meet the

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<sup>1</sup> Manjit Gheera, Social Policy Section

<sup>2</sup> DfE press release *Free nursery places for all three year olds*, 27 September 2000

<sup>3</sup> Part 1

requirements of parents in the local authority's area who require childcare in order to enable them to:

- a) take up, or remain in, work, or
- b) undertake education or training which could reasonably be expected to assist them to obtain work.<sup>4</sup>

In determining whether childcare is sufficient, the local authority must have regard to the needs of parents in their area:

- a) for provision for which the childcare element of Working Tax Credit is payable; and
- b) the provision of childcare that is suitable for children with a disability.<sup>5</sup>

Further information on the 'sufficiency duty' is set out in statutory guidance for local authorities.<sup>6,7</sup>

### 1.3 Disadvantaged two year olds

In 2008, the Government announced its intention to roll-out, stage by stage, an offer of free learning to all two-year-olds across the country.<sup>8</sup> The first stage of the extended offer was to provide 10 or 15 hours of high-quality childcare a week alongside family support for most disadvantaged two year olds in every local authority in the country. In 2008-10, £137 million was allocated to support the initial offer and to test differing models of delivery to inform a wider roll-out.<sup>9</sup>

## 2 Extended schools<sup>10</sup>

Under the extended schools programme the Labour Government wanted all schools to offer access to extended services. The aim was for schools to offer a range of services before and after the school day to help meet the needs of children, families and the wider community. Extended services might include childcare before and after school, breakfast clubs, after school clubs, specialist services, family support such as parenting skills classes, and community access to school sports facilities etc.

The Labour Government made explicit that the full core offer of extended services consisted of five elements:

- a varied range of before and after school activities including study support in a safe place to be for primary and secondary schools;
- access to childcare, 48 weeks a year for primary schools;
- parenting and family support;
- swift and easy access to specialist health and social care services; and,

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<sup>4</sup> *Childcare Act 2006*, s6(1)

<sup>5</sup> *Ibid*, s6(2)

<sup>6</sup> DfE, *Securing Sufficient Childcare: Statutory guidance for local authorities in carrying out their childcare sufficiency duties*, 2010

<sup>7</sup> New statutory guidance on fulfilling this duty is due to come into effect in [September 2012](#)

<sup>8</sup> The offer was made following pilots that had been running since 2006; see: DCSF, *The Children's Plan – Building brighter futures*, December 2007; Cm 7280, paras 3.41-42

<sup>9</sup> DCSF Written Statement, *Free Entitlement for Three and Four Year-olds*, 7 November 2007, c2-3WS

<sup>10</sup> Christine Gillie, Social Policy Section

- community use of facilities including adult & family learning and information, communication and technology.

### 3 Tax relief for childcare<sup>11</sup>

In general childcare or home help services are not tax deductible. Although there has been some debate as to the merits of making childcare fully tax deductible, governments have resisted this on the grounds that it would be relatively expensive and that it would be poorly targeted, as it would be of no value to parents whose incomes were too low to be paying tax.<sup>12</sup>

There have been two limited forms of tax relief to encourage employers to give help to their employees with childcare costs. First, if an employer has established a nursery or playscheme for their employees, the employees who use it would not be taxed on the value of this benefit as part of their earned income, unlike other fringe benefits. Second, if an employer subsidises employees' childcare costs – by means of a contract with an approved childcarer or providing childcare vouchers for the purpose of paying an approved childcarer – tax relief is given up to a set weekly limit. This relief was introduced in April 2005: the first £50 a week of contracted childcare or vouchers would not be charged income tax or National Insurance contributions (NICs). In April 2006 the weekly limit was increased to £55.

In September 2009 the then Prime Minister, Gordon Brown, proposed that this relief should be withdrawn to fund the extension of free childcare for two year olds. The proposal proved highly contentious and in December 2009 Mr Brown announced that the relief would be retained, but, from April 2011, it would be restricted in value so that all new voucher recipients would get the same amount of tax relief, to ensure that higher rate taxpayers did not benefit disproportionately.<sup>13</sup> In its first Budget in June 2011 the Coalition Government confirmed that it would take this measure forward.<sup>14</sup> The new income tax limit applies to taxpayers paying income tax at the 40% higher rate or the 50% additional rate who join employer-supported childcare schemes on or after 6 April 2011. At the time it was estimated that this change would raise £15m in 2011/12, rising to £40m in 2012/13.<sup>15</sup>

Further details on the introduction of the existing relief for employer-provided childcare in 2005, and the restriction in its monetary value introduced from April 2011, are given in another [Library note](#).<sup>16</sup>

### 4 Support for childcare through tax credits and predecessor programmes<sup>17</sup>

Help with childcare costs for working families was first given in October 1994 as part of the **Family Credit** system, in the form of a childcare disregard. The maximum weekly amount that could be offset against earnings for Family Credit purposes was increased from £40 a week to £60 in April 1996, and to £100 a week (for families incurring childcare costs for two

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<sup>11</sup> Antony Seely, Business and Transport Section

<sup>12</sup> The current Government's position was given in answer to a PQ: HC Deb 18 January 2012 c833W.

<sup>13</sup> HC Deb 14 December 2009 c846W

<sup>14</sup> *Budget 2010* HC 61 June 2010 para 2.123. Provision to this effect was included in the *Finance Act 2011* (specifically clause 35 & schedule 8)

<sup>15</sup> HM Revenue & Customs, [Reduced childcare relief for higher earners \(TIIN 8275\)](#), 23 March 2011. The additional rate of income tax was cut to 45% from April 2013.

<sup>16</sup> [Tax relief for childcare](#), Library standard note SN19, 21 August 2013

<sup>17</sup> Steven Kennedy, Social Policy Section

or more children) in June 1998. This applied to costs in respect of childcare for children under 11.

The **Working Families' Tax Credit** (WFTC), which replaced Family Credit from October 1999, also included a more generous childcare tax credit which covered up to 70 per cent of eligible childcare costs of up to £100 per week for one child and £150 for two or more children. This applied to costs in respect of children under 15 (or 16 if disabled). The maximum eligible childcare costs were increased in 2001 to £135 a week for one child and £200 for two or more children.

The **Child and Working Tax Credits** replaced WFTC from April 2003. Assistance is available in respect of children up to the age of 15 (16 if disabled). The childcare element – part of the Working Tax Credit – was initially worth up to 70 per cent of eligible childcare costs of up to £135 a week for one child and £200 for two or more children. In April 2005 the ceilings on eligible childcare costs were raised to £175 and £300 a week respectively, and from April 2006 the maximum proportion of costs covered by the childcare element increased to 80 per cent. By the end of the Labour Government's term in office, therefore, the childcare element was worth a maximum of £140 for childcare for one child and £240 for two or more children.

Further background information on the childcare element – and how it fits into the wider tax credit system – can be found in a Library standard note, [Tax credits and childcare costs](#).

From October 1994, additional help with childcare costs has also been available via the **childcare disregards in Housing Benefit and Council Tax Benefit**. By 2010-11, families could have eligible childcare costs deducted from net earnings when calculating their entitlement to HB and CTB. The disregard covered costs of up to £175 a week for one child, or £300 for two or more children. Eligible childcare, and the working hours thresholds, were the same as for the WTC childcare element.

The combination of the WTC childcare element, and the HB/CTB childcare costs disregards, meant that by 2010-11 some families could have up to 97% of their eligible childcare costs covered.<sup>18</sup> In 2011, the Government estimated that around 100,000 families received support for childcare costs from both the WTC childcare element and one or both of the childcare disregards available through Housing Benefit and Council Tax Benefit.<sup>19</sup>

#### **4.1 Consideration of further reforms**

In May 2008 HM Treasury, in conjunction with HM Revenue and Customs, published a discussion paper, *Tax credits: improving delivery and choice*.<sup>20</sup> The paper set out proposals to reform the tax credit system to improve service delivery, to reduce the scope for error and overpayments, and to give claimants greater certainty about their awards. Chapter 7 of the discussion paper set out a number of options to simplify and reform the delivery of childcare support.

The paper set out four possible reforms to childcare support in the tax credits system, in light of the experience up to then and concerns voiced about certain aspects of the system:

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<sup>18</sup> Section 10.6 of Library briefing SN06548, *Draft Universal Credit Regulations 2013*, describes the combined effect of the WTC childcare element and the HB/CTB childcare disregards in more detail

<sup>19</sup> HC Deb 12 July 2011 c237w

<sup>20</sup> HM Treasury and HMRC, *Tax credits: improving delivery and choice – a discussion paper*, The Modernisation of Britain's Tax and Benefit System Number Twelve, May 2008

- Simplify the way childcare costs were calculated by basing childcare support on actual costs after they had been incurred, perhaps on a monthly basis.
- Simplify the way income related to childcare support by moving towards a system whereby families in certain “income bands” would receive broadly the same level of childcare support.
- To reduce variability of support over the year and so increase certainty for parents, establish entitlement to the childcare element for the whole of the school year ahead, but base it on family income for the tax years just ended.
- Make payments directly to childcare providers rather than to parents. This would ensure that only registered providers were supported and help reduce overpayments, but would reduce parents’ direct financial control.
- Alternatively, give parents vouchers to pay childcare providers (although it was acknowledged this could potentially be stigmatising).

The discussion paper asked for responses by 5 September 2008. The Labour Government did not issue any formal response following the consultation on whether and how it would take forward any of the ideas set out in the discussion paper. Section 5 of Library standard note, [Tax credits and childcare costs](#), gives further information on the childcare options in the discussion paper, and on responses from welfare rights organisations and others.