Docnr11

Non-paper: reform of the childcare benefit system in the Netherlands (October 2024)

The Dutch government is working on a large reform of the childcare benefits system focused on an easier system for parents. A big part of this reform is the redirection of the government funding from parents to childcare providers.

Based on this non-paper, we would like to informally exchange views related to state aid with the European Commission, to be considered in the further design of the reform.

1. Introduction

The Dutch government has decided to reform the financing system in the childcare sector. The main aim of this reform is to make the childcare benefits system easier to understand and more transparent for parents, with less personal financial risk for parents. Moreover, this reform will reduce the costs of childcare for most parents. The main changes will concern the following:

- Substantially higher benefits for most parents. 96% of the maximum hourly rate for all parents (the benefits in the current system range from 96% down till 33% dependent on family income). In the new system benefits are independent of the family's income.
- Direct payment of benefits to childcare providers (undertakings) instead of parents (natural person).
- Different distribution of responsibilities and risks amongst stakeholders in the system. No more repayment of earlier received benefits by parents.

The reform will significantly change the current benefits system, involving all parents who receive childcare benefits and all childcare providers in the Netherlands. The Dutch Ministry of Social Affairs and Employment is responsible for the reform. The expected total structural expenditures on childcare benefits will increase from approximately € 4.1 billion in 2024 up to approximately € 7.0 billion in 2029 and further years. The current tentative planning is:

- to publish the legislation for a broad (internet)consultation in the summer of 2025;
- to pass the legislation through the Dutch Parliament in 2026;
- to implement the legislation in 2027

The design of this major reform and increase in government funding in the childcare sector has led us to several questions regarding state aid, which we would like to informally discuss with the European Commission. State aid matters have not earlier been discussed in relation to the childcare benefits system in the Netherlands. We will start this non-paper with a brief overview of the foreseen changes in the childcare benefit system in section 2. In section 3 we will describe several scenarios to the matter of State aid and questions we have by each of these scenarios.

2. Reform in the benefits system

The aim of the reform is to make the childcare benefits system in the Netherlands easier to understand and more transparent for parents, with less personal financial risk. The current system in combination with a stringent fraude policy has in the past led to the Childcare Benefit Scandal. The Scandal and various scientific and governmental reports have fueled the wish to create a new financing system that redistributes the risks between parents, childcare providers, and the government. As part of the reform, in the new system childcare providers and/or the government will bear the responsibilities and risks parents bear in the current system.

Furthermore, another big difference is that parents can count on financial consistency and less uncertainty. In the current system, parents receive an uncertain childcare benefit advance, which for various reasons can be higher than the amount they are entitled to receive (resulting in recovery of payments). In the new system the childcare benefit will be independent of income and

paid from the government to the childcare provider, leading to less problematic situations for parents. In the new system, parents will only pay the remaining childcare costs[1].

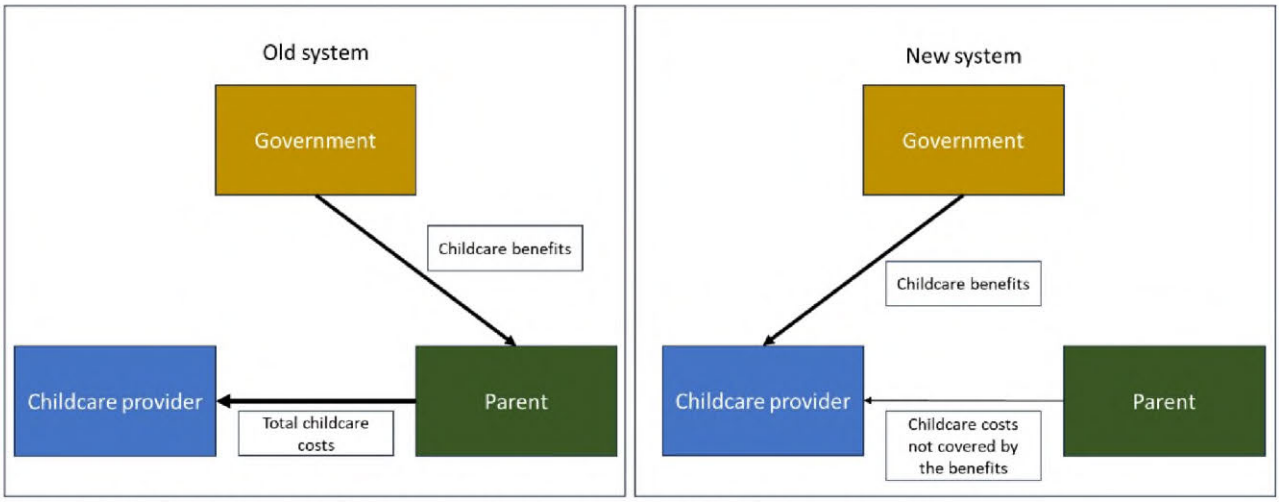


Figure 1. Redistribution of the financing in the reform of the childcare benefit system.

2.1. Family income independent benefits

In the new system, one of the main simplifications is that childcare benefits will be provided independent of the family income. In the current system parents are responsible for providing information about their expected annual income to the government. Miscalculations in the expected income or not providing new information regarding income changes are one of the two main reasons for repayment of received benefits by the parents.

In the new system the childcare benefits will be 96% of the maximum hourly rates set by the government. Parents will not be required to provide information about their expected income (or changes in their income) for the childcare benefits anymore. The childcare benefit is the same for all parents, irrespective of their income.

2.2. Application for and payment of benefits via childcare providers (instead of parents)

In the new system the childcare provider will become responsible for the application for childcare benefits instead of the parent. They will also receive the benefits from the government, which will have to be deducted from the total costs of childcare for the parent. Furthermore, the childcare provider will be required to provide any information in changes in the amount of childcare provided and the termination of the provision of childcare (in the current system this is the parents' responsibility). The incorrect number of the registered hours of the childcare provided is the second main reason for repayment of earlier received benefits by parents. This happens for instance if parents forget to inform the government if they switch from three to two days of childcare a week, sometimes leading to large repayments by parents.

2.3. Paid work requirement

A third component of the childcare benefit system is the paid work requirement: to be eligible for this scheme, the parents must be working[2]. The new system will still include a paid work requirement but will be organized in a different manner. In the new system the main change is that parents can lose their future benefits due to the paid work requirement, but repayments of earlier received benefits will not happen.

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[1] The childcare benefits never fully cover the costs of childcare. All parents must at least pay a percentage of the maximum hourly rate set by the government (in the old system the percentage is dependent on family income, in the new system it is 4% for all parents). Moreover, childcare providers are free to set their own rates, regardless of the government's maximum rate. If the provider's rate exceeds the maximum hourly rate, parents fully pay that difference themselves.

[2] Or follow a trajectory towards work such as following a study.

3. Policy designs regarding State aid and questions for the European Commission

In this section, the Dutch authorities outline one preferred policy design. Furthermore, we have also included two other potential scenarios.

In general, we would like to ask the reflections of the Commission and further discuss informally. To structure the discussion, we have formulated several questions for each policy design. In addition, we welcome other viable and/or comparable examples of policy designs from the Commission's side which we can take into consideration in the further design of this reform.

3.1. Preferred policy design: the childcare benefit as a right of the parent, not of the childcare provider

In this policy design the Dutch government perceives the childcare benefit as a right of the parent, not of the childcare provider. Therefore, the benefit is for a natural person, not for an undertaking. The childcare providers will receive the funds to make the childcare benefit system easier for the parent, but the childcare provider is not entitled to the benefit. Indirectly, the parent still 'receives' the full benefit.

For this approach, we have the following questions for the Commission:

1. What is the general view of the Commission on this policy design regarding state aid?
2. This scenario foresees the legal requirement of childcare providers to pass on the full amount of the benefit as a type of discount to the parent. What is the Commission's view on this?
3. If the childcare benefits are a parents' right will this annul state aid requirements?
4. How can we create a situation in which the parents (natural persons) will benefit financially and not the undertakings?

In addition to our preferred policy design, we have also thought about potential alternative scenario's that we could discuss further.

3.2. Alternative scenario 1: defining the provision of childcare as a non-economic activity

The first alternative scenario is defining the provision of childcare as a non-economic activity, which therefore would not fall under the state aid regulations. In this scenario a parallel is drawn with public education organized within the national educational system that is funded and supervised by the State and considered as a non-economic activity in the Netherlands. It is important to point out that the childcare benefit is only for working parents and not for all parents, whereas the educational system is for all children and their parents.

For this approach we have the following questions for the Commission:

1. What is the general view of the Commission on this scenario?
2. Does the paid work requirement affect the categorization of childcare as an economic or non-economic activity?
3. Would the Commission require consequences for the childcare providers if the provision of childcare is defined as non-economical activity (i.e., specific legislation to follow, maximization of salaries)?
4. Does this scenario require specific guarantees in the legislation underlying the childcare benefits reform?

3.3. Alternative scenario 2: an exemption based on formal childcare being a service of general economic interest

The second alternative scenario is that the new funding system would be considered as state aid, but that there is a justified exemption. The justification for the exemption is the classification of formal childcare as a service of general economic interest. In the Netherlands the childcare benefit system is essential for many persons to participate in the labor market. Furthermore, childcare is beneficial for the development of children, especially for children at risk of falling behind (e.g., due

to a non-stimulating home environment). Without childcare benefits formal childcare would be too expensive for most parents. Under Dutch law the system is also exempted from VAT due to the social nature of the service they provide.

For this scenario we have the following questions for the Commission:

1. What is the general view of the Commission on this scenario?
2. What, according to the Commission, are the requirements for fulfilling this exemption succesfully?