PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

FINANCE (NO. 3) BILL

(Except clauses 4, 7, 10, 19, 35 and 72)

Ninth Sitting

Tuesday 24 May 2011

(Morning)

CONTENTS

SCHEDULE 8 agreed to, with amendments.
CLAUSES 36 to 39 agreed to.
CLAUSE 40 under consideration when the Committee adjourned till this day at half-past One o'clock.

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Saturday 28 May 2011

STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY FACILITATE THE PROMPT PUBLICATION OF THE BOUND VOLUMES OF PROCEEDINGS IN GENERAL COMMITTEES

The Committee consisted of the following Members:

Chairs: Mr Roger Gale, †Mr Jim Hood

† Aldous, Peter *(Waveney)* (Con)
† Barclay, Stephen *(North East Cambridgeshire)* (Con)
† Blenkinsop, Tom *(Middlesbrough South and East Cleveland)* (Lab)
† Blomfield, Paul *(Sheffield Central)* (Lab)
† Bradley, Karen *(Staffordshire Moorlands)* (Con)
† Creasy, Stella *(Walthamstow)* (Lab/Co-op)
† Crockart, Mike *(Edinburgh West)* (LD)
† Crouch, Tracey *(Chatham and Aylesford)* (Con)
† Dakin, Nic *(Scunthorpe)* (Lab)
† Esterson, Bill *(Sefton Central)* (Lab)
† Gauke, Mr David *(Exchequer Secretary to the Treasury)*
† Glindon, Mrs Mary *(North Tyneside)* (Lab)
† Goodwill, Mr Robert *(Scarborough and Whitby)* (Con)
† Greening, Justine *(Economic Secretary to the Treasury)*
† Hanson, Mr David *(Delyn)* (Lab)
Harrington, Richard *(Watford)* (Con)
† Hoban, Mr Mark *(Financial Secretary to the Treasury)*
† Lee, Jessica *(Erewash)* (Con)
† Lewis, Brandon *(Great Yarmouth)* (Con)
† McCarthy, Kerry *(Bristol East)* (Lab)
† McCartney, Karl *(Lincoln)* (Con)
† McClymont, Gregg *(Cumbernauld, Kilsyth and Kirkintilloch East)* (Lab)
† McGovern, Alison *(Wirral South)* (Lab)
† Mearns, Ian *(Gateshead)* (Lab)
† Murray, Ian *(Edinburgh South)* (Lab)
† Nash, Pamela *(Airdrie and Shotts)* (Lab)
† Parish, Neil *(Tiverton and Honiton)* (Con)
† Phillipson, Bridget *(Houghton and Sunderland South)* (Lab)
† Sharma, Alok *(Reading West)* (Con)
† Shelbrooke, Alec *(Elmet and Rothwell)* (Con)
† Smith, Julian *(Skipton and Ripon)* (Con)
† Wharton, James *(Stockton South)* (Con)
† Williams, Roger *(Brecon and Radnorshire)* (LD)
† Williams, Stephen *(Bristol West)* (LD)
Wilson, Sammy *(East Antrim)* (DUP)

Simon Patrick, *Committee Clerk*

† attended the Committee

Public Bill Committee

Tuesday 24 May 2011

(Morning)

[Mr Jim Hood *in the Chair*]

Finance (No. 3) Bill

(Except clauses 4, 7, 10, 19, 35 and 72)

Schedule 8

Reduction in childcare relief for higher earners

9 am

The Economic Secretary to the Treasury (Justine Greening): I beg to move amendment 108, page 159, line 11 [Schedule 8], leave out from 'earnings' to end of line 12 and insert

'specified in regulations made by the Treasury under this paragraph.'.

The Chair: With this it will be convenient to discuss Government amendments 109 to 111.

Justine Greening: May I welcome you to the Chair, Mr Hood? It may help the Committee if I run through the background to schedule 8, and then talk about the purpose of our amendments. Schedule 8, which is introduced by clause 35, makes changes to ensure that all recipients of employer-supported child care who join schemes on or after 6 April 2011 receive the same amount of income tax relief as basic rate taxpayers. Reform in this area was announced in 2009 by the previous Government, and this Government also accept that changes to the system will make it fairer, because it will ensure that individuals do not receive a greater amount of tax relief on employer-supported child care just by virtue of being higher earners. Employer-supported child care allows participating employers to offer their employees support with their child care costs, and it supports the Government's policy on providing support for child care costs to encourage parents to work.

The latest HMRC modelling suggests that around 450,000 parents are members of employer-supported child care schemes, and about 40% of them are higher or additional rate taxpayers. That support is offered through tax relief and an associated national insurance contributions disregard, and employers are able to offer their employees up to £55 a week free of income tax and national insurance contributions.

Most employers offer that support through child care vouchers, delivered either by salary sacrifice or by flexible remuneration arrangements. Such arrangements benefit employers as they can also make national insurance contribution savings. At present, basic rate taxpayers can receive up to £900 of support a year, whereas higher rate taxpayers can receive up to £1,200 a year.

While we are very much in favour of employers helping their employees to share the cost of child care, it is neither progressive nor well targeted for wealthier parents to derive more benefit than those on lower incomes. The argument rehearsed in the debate on clause 35 in the Committee of the whole House was that the previous Administration announced these reforms in order to fund further free child care provision for the most disadvantaged two-year-olds. I remind the Committee that the basis of that was all tax relief on employer-supported child care—all tax relief—would be stopped for those joining schemes on or after 6 April 2011, and indeed tax relief for those in existing schemes would cease from April 2015. That was hardly an incentive for parents to go back to work. In the face of robust opposition from parents, the child care sector and even Ministers in the previous Government, the reforms announced in September 2009 reappeared in the 2009 pre-Budget report in the format being introduced now.

All parents who join employer-supported child care schemes on or after 6 April 2011 receive the same amount of income tax relief as basic rate taxpayers. That is the change that the clause and the schedule seek to introduce. That is achieved by limiting the amount that higher rate taxpayers and additional rate taxpayers can receive each week to £28 and £22 respectively, so all parents receive the same amount of income tax relief support each week—about £11. All existing members who joined a scheme before April 2011 will be able to retain their current rates of tax relief as long as they stay within a scheme offered by the same employer. I can assure the Committee that the change will not affect the tax and national insurance contributions relief available for workplace nurseries.

Paragraphs 2 and 3 relate to child care vouchers. Paragraph 2 introduces a new condition for tax relief to apply, based on a new condition relating to employers making an estimate of the employee's relevant earnings for the tax year in respect of which the vouchers are provided. Paragraph 3 introduces a new section setting out the detail of the relevant earnings amount and the required time for making the estimate. That should take place at the beginning of the tax year, or, if an employee is joining an employer-supported child care scheme during the course of the year, at that point.

Paragraphs 4 and 5 of the schedule deal with directly contracted child care: for example, when an employer pays a child care provider directly on the parent's behalf. The provisions mirror those for child care vouchers. Some respondents to the consultation on draft legislation, which we undertook prior to finalising the Bill, felt that this change should be through P11Ds, the normal form used by employers for the reporting of employee benefits. However, it was felt that the approach taken—of asking employers to make an assessment of employment income at the beginning of the relevant tax year—was better for several reasons.

First, it is more generous to parents, in that it focuses on the single employment offering child care support, and does not include income from further employments or other sources. Secondly, the approach taken is quicker to implement, since changing the P11D would have taken a further two years. Finally, it keeps the necessity of employer contact with HMRC to a minimum, a point that many employers will welcome. Further guidance aimed to address any outstanding concerns was published at the beginning of April, and HMRC will continue to work with key interest groups. The additional cost for all employers will be around £1 million over five years, a reasonable amount given that at least 450,000 employees participate.

I will now briefly set out the purpose of the amendments. As a result of continuing consultation with relevant interested parties on the detailed guidance to support schedule 8, we identified some further practical issues that require an amendment to the legislation as published in March.

The aim of amendment 108 is to offer further support to employers who have the responsibility for applying the legislation. It is they who will have to determine the appropriate level of tax relief on employer-supported child care. The amendment removes some of the detail related to the estimate of relevant earnings from the primary legislation. The detailed provisions will instead be replaced with a statutory instrument containing regulations relating to the estimate of relevant earnings for the year. A draft of the regulations will be made available for consideration by interested parties as soon as possible. The regulations will be introduced before 31 December 2011 and will take effect from 6 April 2011.

They will have a more generous effect than the legislation as it currently stands, and will reflect more accurately guidance published last autumn. Further guidance to help employers has already been published by HMRC. Through the amendment the Government are showing that they listen to the concerns of interested parties and take action to address them. The changes aim to support employers and make the legislation more business-friendly. Therefore, I urge the Committee to accept the amendment.

More broadly, in terms of schedule 8, the Government recognise how valuable the support is to working parents, but it cannot be right that wealthier parents receive more support than basic rate taxpayers with their child care costs. The reform will make employer-supported child care fairer, better targeted and more progressive. I urge the Committee to accept that the schedule stand part of the Bill.

Kerry McCarthy (Bristol East) (Lab) *rose—*

The Chair: Before I call the hon. Lady to address the Committee, the Minister in proposing her amendments referred throughout to the schedule. She implied that she would like me to consider the stand part question as well. I think that is right, so we will consider stand part with this group of amendments.

Kerry McCarthy: Thank you, Mr Hood. I am happy to discuss the stand part question as well as the amendments.

We had an interesting and impassioned debate on clause 35 in the Committee of the whole House several weeks ago. Given the concerns raised by many hon. Members during that debate about the finer details of the clause and the associated schedule and the implications for child care provision, it is important that we now have the opportunity to debate it in more detail and to look at the Government's amendments. I have some technical concerns about them, which I will come to later.

Schedule 8 reduces child care relief for higher earners. It has been well documented that the previous Labour Government had planned to reduce child care relief for higher earners to bring it into line with the relief for basic rate payers. There are, however, clear differences between this Government's proposals and the plan put forward by the previous Government. The original idea was motivated by a concern that support for child care was not sufficiently well targeted given that a third of funding for employer-supported child care schemes goes to higher rate payers. Currently, basic rate taxpayers can receive up to £900 a year, while higher rate taxpayers benefit from relief of up to £1,200 and additional rate payers up to £1,500. It is generally accepted that that could be targeted much more effectively and fairly, and schedule 8 accordingly introduces a new tax exempt limit of £28 a week for higher rate payers and £22 for additional rate payers, compared with £55 for basic rate payers.

To understand our reservations about schedule 8, it would be helpful to outline the differences between the proposals in front of us and Labour's intention when in government. Equalising the rate of relief will generate substantial savings for the Treasury, and the Labour Government proposal was to use that to fund an expansion of nursery places for two-year-olds, starting with 65,000 places for the most deprived children. We thought that it was right to target the families who are most in need and who stand to benefit the most from the funding, and the policy ensured that hard-working higher rate payers could continue to receive some still much-needed support.

In contrast, we understand that the present Government intend to pilot an entitlement to 15 hours a week for 28,000 two-year-olds. The Exchequer Secretary told the House that clause 35, as detailed in schedule 8, will save the Treasury £100 million a year, but my understanding is that the estimates have been revised down to £15 million this year, rising to £65 million in 2013-14. Nevertheless, it is clear that the proposals that we are discussing today fall far short of the previous Government's proposals and lack the ultimate long-term ambition of 250,000 free places for two-year-olds.

When considering what constitutes a fairer employer-supported child care scheme, it is important to consider it in the context of wider support that may or may not be available to working parents. That is why, when it was discussed by the Committee of the whole House, we tabled an amendment to clause 35 that would have required the Chancellor to report on the impact of taxation on child care. Our amendment was not selected for discussion, but we hope that the Treasury will nevertheless give due consideration to our concern that the affordability of child care, and the undoubted impact that Government policy has on it, is kept under review. Indeed, the low incomes tax reform group, responding to the proposals to reduce child care relief for higher earners, called for a full review of child care policy across government, which supports our view that the relief for higher earners cannot be considered in isolation.

The context in which we must consider the impact on families has changed markedly for both high and low-earning families since Labour's original plan to reduce higher rate payers' relief. Under this Government, all parents have had their child benefit frozen, which represents a substantial real-terms cut given that inflation is now at 5.2%, or 4.5% if the Government choose to use the consumer prices index. Moreover, families with a higher rate tax payer will not only see their help with child care reduced, but also lose all their child benefit from 2013. As we have made clear, when in government, we thought that there was an argument for reducing child care relief so that support was targeted, but the child benefit cut is not at all fair or equitable, given that higher earning

[Kerry McCarthy]

couples will continue to receive child benefit. The Government's policy on support for working parents, therefore, does not seem to be about ensuring that it is appropriately targeted.

In contrast, the Government have chosen to target their spending cuts in a way that disproportionately hits women and children. Families not only face losing child care support and child benefit, but will on average also be paying £450 a year extra in VAT. The House of Commons Library has calculated that some families will be £1,700 a year worse off due to the Government's tax and benefit changes, and there are no longer plans to improve child care provision for two-year-olds from low-income families.

9.15 am

Returning more specifically to the provisions in schedule 8, doubts have been raised about whether they achieve the Government's aim of ensuring that all working parents receive the same rate of relief. As my right hon. Friend the Member for Delyn mentioned during the Committee of the whole House, the Chartered Institute of Taxation's low incomes tax reform group has expressed concern that the schedule will only apply when an employer estimates at the beginning of the financial year that an employee will earn above the basic rate limit; what the employee actually earns is irrelevant.

Concerns have accordingly been raised that the earnings assessment will be too unreliable and inconsistent and, consequently, will wrongly penalise some parents. Additionally, putting the onus on the employer has the potential to compromise their relationship with the employee, especially as the employee has no effective means of challenging the decision. As the Treasury has confirmed, it will increase the administrative burden on employers, who are required not only to estimate their employees' earnings when they are not necessarily in possession of all the relevant facts, but to retain records for HMRC.

Clearly, there are financial implications for the employee if the employer gets the assessment wrong, which I will come to later. Is there any possibility of penalties being imposed on the employer if HMRC considers that they made a mistake with the assessment or failed to keep the necessary records?

Julian Smith (Skipton and Ripon) (Con): As a small business owner, I found that administering the voucher scheme was very difficult. Will the hon. Lady give the Committee her views on that scheme, which was set up by the previous Government? How efficient did she feel it was at dealing with this issue?

Kerry McCarthy: We will come to the child care voucher scheme when we address clause 36, which is the next clause, so it might be more appropriate for me to answer those questions then. I accept that there is some concern that the system was complicated to administer, but in this instance we are talking about tax relief, rather than the voucher scheme.

Bridget Phillipson (Houghton and Sunderland South) (Lab): I do not want to draw my hon. Friend further on the comments she has just made, but does she accept my concern that although it is important that the burden on small businesses is not onerous, without support for child care many parents would not be able to work and, therefore, would not be in the workplace to begin with?

Kerry McCarthy: That is a valid point. I am concerned, as are many of my colleagues on the Committee, that Government Members tend to portray some of the measures to support people in work with child care arrangements—whether it be through financial provisions, such as tax relief or vouchers, or through other provisions, such as allowing flexible working and maternity and paternity leave—as burdens on business, rather than something that helps employees.

Obviously, a balance has to be struck, but, particularly as the Government make great play of encouraging people back into work and, in some cases, have introduced draconian measures to force people back into work, it cannot be just a stick approach, rather than a carrot approach. There have to be conditions that allow people to juggle their busy lives. People with child care responsibilities need support from the state to combine looking after their children and going to work.

Nic Dakin (Scunthorpe) (Lab): My hon. Friend makes a powerful point. Is it not true that as well as being advantageous to employees, such flexibilities are also advantageous for employers? They allow employers to maintain their work force in an imaginative way so that skills continue to work for them, which allows them to prosper.

Kerry McCarthy: My hon. Friend makes a good point. The situation is sometimes portrayed as employees demanding certain things from employers, and employers grudgingly having to go along with it because the Big Brother state tells them that is how they have to do things. Actually, most decent companies care about their work force. When an invaluable employee who has been working for an employer for some time decides to have children and goes on maternity leave, because the employee's contribution is valued and the employer would like them to return to work, it is important that the employer can facilitate that through flexible working and other support with child care. There is an underlying philosophical debate about the state's role in helping people, rather than only imposing burdens on them, but now is perhaps not the time to venture into it.

Before those interventions, I was saying that there has been some criticism that the administrative burden on employers may lead to them being challenged by HMRC, and penalties may be imposed on people if they make mistakes with the assessment. The low incomes tax reform group concluded:

"The proposals introduce a new layer of complexity for employers and employees alike and the mechanism is, in our view, unworkable."

The tax faculty at the Institute of Chartered Accountants in England and Wales reported that the system

"will prove not to be practicable",

and warned that the earnings assessment is

"open to error, manipulation and abuse."

I would appreciate the Minister's comments on those experts' concerns, and on how schedule 8 would work in practice.

I note that the Treasury has responded to some points raised during the consultation on the draft legislation, such as the requirement to take into account the amount of any coded-in personal allowances, but reservations remain about the impact on businesses. The Treasury has estimated that the average annual cost of the administrative burden would be £200,000, so, for some businesses, the amount would not be inconsiderable. Will the Minister tell us what discussions the Treasury has had with businesses about their additional responsibilities included in schedule 8, and whether the schedule could deter them from offering employer-supported child care? As we have suggested, it is important that the balance is right. It should not be a deterrent to employers; it should be a benefit for employers and employees alike. Will HMRC be able to provide advice and assistance to employers who are uncertain about the relevant earnings assessment?

Many groups have raised concerns about the inflexibility of the relevant earnings assessment approach, which means that an employee's exempt entitlement cannot change until the next financial year, regardless of changes to their circumstances, which could be in hours or earnings. It also does not take into account the fact that some employees may have additional sources of income, meaning that one employer's assessment may misrepresent the tax band that they are actually in, which again, undermines the objective of ensuring that all parents receive basic rate relief. Although, on one hand, there can be additional complexities and administrative burdens in requiring in-year changes, will the Minister tell us what consideration has been given to allowing for those, and whether it is thought that the earnings assessment is a more accurate reflection of actual earnings?

Justine Greening: Can I take the hon. Lady back to an earlier comment, so that I can understand her point? She asked about the fact that it would only be down to the employer's earnings—the earnings that the employee had with that employer—and that only they would be taken into account, and not other earnings, which she said could put people's ability to get basic rate taxpayer support at risk. I wondered how she felt that that would be possible, given that if someone had employment elsewhere and already qualified for the support, in many respects, the only risk is that their overall earnings would have been under-calculated. Had all their earnings been taken into account, they would have been a higher rate taxpayer, but they would still be eligible for the same basic rate tax relief. Will the hon. Lady clarify that, so that I can understand the point that she was making?

Kerry McCarthy: An outside group raised that concern with us. I appreciate the Minister's point, which is that the danger would be that if somebody's extra earnings from another job were not noted, the only impact would be that they would not get the higher rate relief. I think that perhaps the concern is that if people have two separate jobs, they would be assessed separately and could somehow be entitled to the relief in respect of both employments. I am not quite sure what the issue is, but I think that is what has been suggested: somebody could benefit, as though their two jobs did not correlate, and the relief would be received in respect of both employers.

I was asking the Minister whether it would be better to deal with the matter on a more ongoing basis through in-year changes, rather than through the earnings assessment. The Chartered Institute of Taxation and the tax faculty of the Institute of Chartered Accountants have suggested that the previous year's earnings and P60 could be used as an alternative to the earnings assessment. That would not be perfect, because the parent's earnings might have changed significantly, but it is another possibility. I would appreciate further information on what consideration was given to that and why, if it was considered, it was rejected by the Treasury. Similarly, others have recommended using the P11D form to reduce the burden on employers, so that actual earnings are used. Will the Minister elaborate on the reasons for rejecting the P11D method and treating employer-supported child care like any other benefit?

Many responses to the draft legislation queried whether it took account of employment income exemptions under part 4 of the Income Tax (Earnings and Pensions) Act 2003 and suggested that it could mean, for instance, that provisions for transport for disabled employees might result in their basic earnings assessment classing them as a higher rate payer when they are not. Can the Minister confirm that that is no longer the case and that sufficient guidance and information will be given to employers to ensure that the appropriate exemptions are made?

Uncertainty about what should be included in the earnings assessment brings me to the four Government amendments. Amendments 108 and 109 give the Treasury further powers to change the definition of "relevant earnings" and "excluded amounts." Not only does that have implications for the level of parliamentary and external scrutiny, but it might mean that employers are more dependent on interpreting guidance and additional regulations than on following clear legislation. Can the Minister clarify why the Government are proposing this amendment and what they plan to include, and exclude, from the proposed regulations? How will the Treasury ensure that the list is a clear and exhaustive one, which will help employers more accurately to assess an employee's tax band?

The reason for these changes is unclear. The explanatory notes to the amendments state that they are

"designed to better express the policy intention of the measure"

and that they

"will increase clarity for employers through the introduction of regulations which will contain further detail to help them carry out the estimate of relevant earnings required under the legislation."

It is difficult to see how giving further powers to the Treasury to change those definitions whenever it likes will result in greater clarity for employers. If more detailed definitions were needed, why did the Minister not provide them by making amendments to the Bill, as she has done with schedule 2? Regulations will result only in more uncertainty for employers, because they will have to watch for secondary legislation rather than being able to rely on the certainty of primary legislation, and the secondary legislation may be liable to change without notice. It seems more sensible, therefore, for the Government to include those definitions in a further amendment to the Bill. For the sake of clarity and transparency, I encourage the Minister to consider bringing that forward on Report.

[Kerry McCarthy]

Amendment 111 would allow the Treasury to make retrospective changes, which would apply to the current tax year, as far down the line as 31 December 2011. That is particularly troubling and seems impractical. Paragraph 3(5) of schedule 8 makes it clear that the relevant earnings assessment will be conducted only once each year and that unless the employee joins the scheme part way through the tax year, the assessment will take place at the beginning of the tax year. Can the Minister explain to the Committee how changes can be retrospectively applied part way through the financial year? Does the amendment mean that a parent's entitlement could change with very little warning, and does it increase the burden on employers still further by potentially requiring them to conduct another assessment in December? I think that the Minister said during her opening remarks that secondary legislation would be brought forward before December this year, which seems rather a long time given that the Bill has been discussed on the Floor of the House and is now being considered in Committee. Will she explain why it might take until December to produce the secondary legislation?

The Chartered Institute of Taxation has commented:

"We are disappointed that the Government has not listened to our concerns that this proposal will complicate matters and introduce a significant additional burden on employers. The mechanism proposed for restricting tax relief on employer-supported childcare is, in our view, impractical and depends on an employer's 'back of the envelope' calculation of 'basic' earnings."

With the Office of Tax Simplification including employer-supported childcare in the reliefs that it plans to review, is the Minister satisfied that the requirements in schedule 8 are sufficiently straightforward for employers, employees and HMRC and that they will promote fairness in ensuring that all parents can access the same level of relief?

9.30 am

In conclusion, although we support the general principle of trying to make the system of child care tax relief fairer and removing the higher rate, as we suggested when we were in government, there are real concerns about how it would be implemented. We want to make sure that the system works so that employees with child care responsibilities are supported in work and get some help from their employers and from the Government via their employers. There are concerns that people will find themselves in very complicated situations and that we will have to unpick the mess once the new system is in place. I would be grateful if the Minister reassured us that the Government had looked at alternatives ways of delivering this measure and addressed some of my points about the potential complexities and problems that could arise from the current proposal.

Justine Greening: Before I answer the hon. Lady's points, it is probably worth while setting out the original starting point for the legislation and the schedule. The previous Government introduced a proposal to abolish employer-supported child care entirely. Many felt that that was a retrograde step and, as a result of the fallout from that proposal, a hybrid and more sensible approach was proposed. The previous Government were right to recognise that their original proposal was not well targeted and to seek to remedy that. Their initial proposal to abolish employer-supported child care altogether to ensure that it was better targeted by having it targeted at nobody was seen by many as a draconian step. The measures before us today and the measures that the previous Government finally realised were perhaps more sensible will strike a balance between targeting employer-supported child care and ensuring that it does not get spent excessively on higher rate and additional rate taxpayers who, under the previous scheme, were benefiting the most financially. We are going to press ahead with this.

To answer the hon. Lady's questions, we are absolutely committed to striking a balance between supporting people in work but more broadly supporting families and working families. That is one of the reasons why we are providing access to affordable and high-quality early education and care with 15 hours of free early education for all three and four-year-olds. It is also why we are extending that entitlement for the first time to all disadvantaged two-year-olds, which is a targeted measure that will bring some real benefits. The spending review provided £380 million per year by 2014-15 to fund that new entitlement for two-year-olds. More broadly, and not explicitly related to child care per se, but to support families, we have brought forward above-indexation increases in the child care tax credit for this year and for next year too.

As for the impact on individuals, when employers carry out the basic earnings assessment they are not expected to take employment income from other employments into account. In other words, we have built in some generosity in a sense to make sure that it is simple for employers and that they do not have to go through a whole process of asking their employees whether they have other sources of income.

Bill Esterson (Sefton Central) (Lab): The hon. Lady uses the term "generosity". The Library calculates that some families will be £1,700 a year worse off. They may not feel that the Government are being desperately generous in those circumstances. The Chartered Institute of Taxation has warned of a considerable increase in the effective burden on those on incomes in the £40,000 to £50,000 bracket. Does the Minister accept that analysis, and will she explain how those on middle incomes are so heavily squeezed by this and the related changes?

Justine Greening: I realise that the hon. Gentleman is speaking up for people who will feel that this puts a squeeze on them. Obviously, the people worst hit by this will be those earning £150,000 a year who receive tax relief on their employer-supported child care. He may want to argue that, in this time of fiscal deficit—which the Government have picked up—we should prioritise supporting those earning £150,000 a year with tax relief. He may feel that that is the right priority. The Government believe in ensuring that money is there to support the families who need it most. Perhaps that priority is different to his, but I think that it is right. *[Interruption.]*

I can see that I have made Opposition Members slightly irate, but I remind them that if they argue against me then they argue against their Government's policy prior to the election. I also remind them that to argue against this is effectively to argue against the

money that we now have to help improve free education and child care support for the most disadvantaged children. That would undermine our ability to bring forward the pupil premium and a range of measures targeted at low-income families to help them and their children have a better life.

Kerry McCarthy: I said in my remarks that there was a correlation between the amount that we would have saved by abolishing the higher rate of relief when we were in government, and a direct programme with the ambition of creating 250,000 free nursery places for two-year-olds. It was not hypothecated as such, but we made a clear link between reducing something that benefited higher rate taxpayers and shifting the money to provide for people who needed it at the lower end of the scale. The Minister just outlined a broad-brush approach, such as the pupil premium. Will she clarify how much the Government think will be saved by introducing the measure—I think the figure of £65 million was mentioned—and how much of it will actually be spent on providing nursery places for children?

The Chair: Order. I remind the Committee that interventions should be a little shorter than that.

Justine Greening: We will be churning £380 million per year into the new entitlement for two-year-olds by 2015, particularly targeted at the disadvantaged. That is the right thing to do. I understand that many families on the higher rate, and those on an additional rate, will lose out because of the proposal. I understand that they will not welcome that, but, when you look at the sweep of reforms and changes that we are introducing to tackle the deficit left by the previous Government, the biggest burden falls on those with the greatest shoulders. This measure contributes to that.

Bill Esterson: The hon. Lady makes the point that the burden falls on those on the highest incomes, and yet that is not what the Chartered Institute of Taxation says. It says that

"increasing the tax burden on middle-income households while withdrawing tax credits and child benefit from them will result in their being squeezed proportionately more than those on higher incomes".

More, not less. That is the complete opposite of what the Minister just said.

Justine Greening: The problem with the hon. Gentleman's point is that it is a half argument. There is an argument that pretends we live in a world without a fiscal deficit to tackle; that we do not have to make any savings; and that we can somehow ignore all that debt and pass it on to our children. I do not accept that argument. We need to sort out the country's public finances as fast as possible. Debt is costing the taxpayer £120 million every day. Getting a grip on that by taking the actions that we are to bear down on it and ensure that we do not hand that debt and deficit on to our children is critical.

I will make more progress on the questions put by the hon. Lady. We have published guidance. I want to reassure the Committee that we have worked with employers and general stakeholders on the guidance and the amendments to ensure that the legislation will operate as intended. The hon. Lady asked about some of the amendments we have brought forward. Those amendments reflect the discussions that we had with stakeholders and the clarity they felt they needed to ensure that the schedule and the clause work well. We are encouraging employers to use that guidance, and to speak to HMRC if they encounter problems. As any further problems are pointed out, we will of course update the guidance. The message to employers is that as long as they take reasonable care in how they look at the earnings assessment, the question of penalties should not arise.

I was asked explicitly whether using the P11D would have been a better approach. That was obviously a possible alternative. However, the estimated administrative cost for employers of the approach we are using is approximately £1 million over five years. If P11Ds were used, the estimate was £4.7 million over five years, nearly five times as much. Using the P11D to deliver the reform would not just have been more expensive, it would have meant that we could not have made progress for two years, which would have delayed any savings and meant that employers could not report national insurance contributions on any overpayments at year end using the P11D. Generally, the thought for employers of having to file P11Ds for 450,000 employees would be the practical evidence of that increased administrative burden. It would also have carried significant processing costs for HMRC.

Nic Dakin: The Minister is explaining the situation well, but could she be a little more precise about what she means by employers taking "reasonable care"?

Justine Greening: Obviously, it is as I have just said. If employers can demonstrate that they have reasonable processes and systems in place to collate information, and that they are taking their information from the payroll system, for example, which would be most companies' source data on the level of employment remuneration, that will clearly be seen as reasonable.

All we are saying is that we want to find a balance between being prescriptive enough, so that employers have the detail and understand what they need to do, and flexible enough, to enable them to get that detail in the way that is most straightforward for them. We hope we have found that balance. The regulations approach will enable us to provide more detail and that extra degree of support and certainty for employers—something that came out of our consultation with external stakeholders. That has enabled us to remove some of the detailed provisions from schedule 8. The regulation-making powers for HMRC will enable greater detail to be provided, but should support employers and make the legislation more business friendly, which, as the Committee can imagine, is what they wanted.

9.45 am

I hope I have been able to answer the questions. Although these are difficult debates and important questions, I remind the Committee that we are implementing a proposal that the previous Government had gradually reached, probably not starting from the best approach—of proposing to abolish employer-supported child care entirely. We did, however, end up in the right place, and we will ensure that we continue to work with business to ensure that the measure now operates as intended. With that, therefore, I hope that we can accept the amendment and the schedule.

Amendment 108 agreed to.

Amendments made: 109, in schedule 8, page 159, leave out lines 13 to 33 and insert—

'(4) In subsection (1)(b) "excluded amounts" means amounts specified in regulations made by the Treasury under this subsection.'.

Amendment 110, in schedule 8, page 160, leave out lines 40 to 43 and insert—

'( ) In subsection (1)—

"relevant earnings" has the same meaning as in subsection (1)(a) of section 270B (see subsection (3) of that section), and

"excluded amounts" has the same meaning as in subsection (1)(b) of section 270B (see subsection (4) of that section).'.

Amendment 111, in schedule 8, page 161, line 38, at end insert—

Regulations made under section 270B(3)(b) or (4) of ITEPA 2003 (inserted by paragraph 3) on or before 31 December 2011 may have retrospective effect in relation to the tax year 2011-12.'.*—(Justine Greening.)*

Schedule 8, as amended, agreed to.

Clause 36

CHILDCARE: SALARY SACRIFICE ETC AND THE NATIONAL MINIMUM WAGE

Question proposed, That the clause stand part of the Bill.

Kerry McCarthy: I have some fairly brief comments to make on clause 36, which amends the limited exemption for qualifying child care vouchers in the Income Tax (Earnings and Pensions) Act 2003 to relax the requirements for any child care scheme to be generally open.

At present, employees on or near the national minimum wage cannot benefit from any salary sacrifice scheme that would bring their earnings under the legal limit. That remains true under clause 36. It is important that people on the minimum wage are protected from back-door attempts by employers to reduce the amount that they are paid.

Many of us will have encountered situations in our constituencies over the years in which employers provide rented accommodation or food for restaurant workers, which actually has the effect of undercutting what the people are paid, because those things are, in effect, deducted from their wages or seen as payment in lieu of wages. It is important that we maintain the legislative protection for people on the minimum wage who would be vulnerable to such attempts to reduce the amounts that they are paid. Again, that remains true under clause 36.

The regulations for employer-supported child care and child care vouchers, which are included in ITEPA 2003, however, mean that an employer can offer a child care scheme with tax relief only if the scheme is open to all employees. Under existing legislation, that means that employers cannot offer it to any employees if some are on or near the minimum wage. The fact that some employees are paid the minimum wage in an attempt to protect them actually means that the employers are prevented from offering the scheme to anybody, which, people would accept, is an unfair provision and something that ought to be changed. Clause 36 changes that, so that employers are not prevented from offering a salary sacrifice tax-relief scheme to other employees simply because they cannot include the workers on the minimum wage.

I can see the advantages of extending the provision so that more working parents are entitled to the child care vouchers. There are some concerns, however, about the Treasury's reasoning, which, according to the explanatory notes, is

"the alternative availability of the childcare element of the Working Tax Credit"

to employees on or near the minimum wage, in most cases. That is the child care element that the Government have just reduced from covering 80% of child care costs to covering 70%, representing a loss of up to £1,560 a year for some families. At the same time, the Government have chosen to freeze the basic and 30-hour elements of working tax credits, to freeze child benefit and add £450 to the average family's annual bills with the VAT increase.

Consequently, when considering clause 36, it is important to note the low incomes tax reform group's advice to working parents, which stated:

"For the last few years we have been warning that if you were on a low or middling income and able to recoup most of your childcare costs through tax credits, it would usually be to your disadvantage to start receiving childcare vouchers from your employer in exchange for a reduction in salary. From 6 April 2011 the rules change so for some low-income people there may now be a small advantage in taking vouchers."

It went on to cite the

"less generous help in tax credits"

as the reason for the change in advice.

It should also be remembered that parents working fewer than 16 hours a week are not entitled to working tax credits, and consequently do not receive help with child care. I have spoken to young mothers in my constituency who work with the Prince's Trust on issues around helping them to get back to work, and they have raised this as an obstacle. Before the reduction of working tax credit to 70% of child care costs, the charity Gingerbread was campaigning for an increase to 100%, arguing that this would cost

"£420 million but would have a much lower net cost as it would help parents to access employment."

I do not necessarily advocate that, but Gingerbread raises an important alternative viewpoint. It also cited a 2008 study indicating that only one in 10 working tax credit recipients take up the additional child care support, which they partly attributed to the complicated eligibility criteria. That is an important issue for the Government. Given that the take-up of child care reliefs is so low, the balance between whether the provision of child care vouchers by employers is an easier alternative that would result in better take-up, and whether it would have administrative problems, is significant.

I accept that the alternative—tax-exempt child care vouchers—is not available to the lowest earners, or consequently to any of their colleagues, and that the point of the clause is to make the vouchers more widely available. I am concerned with ensuring that reducing the "generally open" requirement does not mean that the needs of working parents with lower earnings are neglected.

Does the Minister have any information about the number or proportion of employers that would like to offer salary sacrifice vouchers but are prevented from doing so, or whose schemes cannot include tax relief because they employ people on or near the minimum wage? I say "prevented", but that is not necessarily the case, because employers have the option of offering a salary plus arrangement, which can provide a much needed supplement to a parent's low pay.

Will the Government give us an indication of the prevalence of such arrangements? It would be troubling if clause 36 withdrew any incentive for employers to offer this benefit, and if workers on the minimum wage lost out as a result. Would employers be more likely to offer salary sacrifice vouchers than salary plus vouchers? That might have an impact on people close to the minimum wage.

Affordable child care can make the difference as to whether a parent can work or not. That is why, recently in the House, I asked the Minister at the Department for Work and Pensions, the right hon. Member for Epsom and Ewell (Chris Grayling), about worrying reports that Jobcentre Plus offices tried to impose sanctions on single parents on jobseeker's allowance because they were only looking for work that fitted around their child care needs. Given that single parents whose child has reached the age of five are expected to look for work from next year, and reports that Jobcentre Plus is not showing the flexibility that it should, in order to keep the claimant count down, the availability of affordable child care will become increasingly important.

What estimate has the Treasury made of the number of employers who will offer vouchers as a result of the clause? My concern is that this will not prove sufficient, and that the Government do not have a coherent plan for child care, particularly following the cuts to Sure Start and working tax credits. As was noted during the discussions on clause 35 and schedule 8, the previous Labour Government planned to redistribute child care support and invest in places for younger children from lower-income backgrounds. Although the Government are continuing with the reduction in relief for higher earners, there is no commensurate investment for lower earners.

The previous Labour Government set ambitious targets to reduce child poverty, and lifted 600,000 children out of poverty. The child care policy, if implemented, could have contributed to continuing this trajectory, but instead we have the OECD and the Institute for Fiscal Studies warning that Government policies could push another 300,000 children into poverty. We would, therefore, appreciate further information from the Minister on plans to support working parents more generally, and whether the Government have a coherent strategy to ensure that all parents can access affordable child care.

The Department for Business, Innovation and Skills launched a consultation on flexible working and parental leave, but the potential benefits for parents will not be available for another four years. In the meantime, the Government have removed new employment rights for workers in micro-businesses, so child care will remain a priority for working parents struggling to balance their commitments. Although working tax credits make a significant contribution, I have highlighted why we should be cautious about thinking that they are the solution to all the problems of working parents, especially as the future of tax credits and the child care element are in doubt, given the introduction of universal credit.

This week's Gingerbread and Resolution Foundation report has raised fears that child care changes with the universal credit could mean that working parents lose 94p in every pound if they increase their working hours. Given that the explanatory notes emphasise the role of the child care element, what steps will the Treasury take to ensure that parents on low incomes know that they can access it and what help will it offer to encourage them to apply? Another recent Gingerbread report concluded that changes to the tax credit system this April have

"significantly, blunted the incentives to remain in work for the majority of single parents who are currently claiming tax credits".

Has the Treasury considered that report? It would be helpful to know whether it had held any discussions with Ministers or officials in the Department for Work and Pensions about the impact of clause 36 on working parents and the provision of employer-supported child care.

The Bill refers to "relevant low-paid employees", defined as those employees for whom, if they were part of a salary sacrifice scheme, their remuneration

"would be likely to be lower than the national minimum wage".

The "likely to" seems rather vague and imprecise. Who is expected to be the judge and what evidence will they use? If a decision is not to be based on exact calculations, is the Minister satisfied that workers will not be wrongly excluded from a tax-relief scheme? How much will clause 36 cost the Treasury if more parents qualify for tax relief? The Bill allows for it to be introduced retrospectively from 2005-06, so how does HMRC plan to implement it?

Justine Greening: Clause 36 amends the condition on employer-supported child care to be generally open. The shadow Minister has run through some of the situations that we seek to address through the clause. It should enable some employers to make their child care schemes more available to their employees by removing the restriction that applies to those employees at or near the minimum wage.

Employer-supported child care is a benefit provided by employers to help their work force with child care costs, and it is valued greatly. The Government support it with a limited exemption from income tax and a national insurance disregard. Many employer-supported child care schemes are offered through salary sacrifice or flexible remuneration packages. The hon. Lady asked how the salary sacrifice scheme will relate to salary plus arrangements. Employers will be able to offer a mixture of such schemes to their employees, so hopefully there will be additional flexibility. Where employer-supported child care schemes are offered through salary sacrifice or flexible remuneration packages, working parents who earn the minimum wage, or near it, cannot join their employer's scheme, because making deductions from a person's salary or earnings that lead to them being paid less than the minimum wage is prohibited.

The minimum wage rules are in place to ensure that the wage is at least at or near the minimum wage. At the same time, unless employers make their employer-supported child care schemes available to all employees, except for

[Justine Greening]

in exceptional circumstances, the existing tax exemption does not strictly apply, so we have ended up with employees caught between minimum wage legislation and the conditions needed to allow for the tax and national insurance contribution exemptions from employer-supported child care. The changes made by the clause will rectify that anomaly.

The clause will allow employers to meet the "available to all" conditions and thereby continue to offer schemes through salary sacrifice or flexible remuneration arrangements. We know that many parents with earnings at or near minimum wage are already excluded from employer child care schemes. That reflects the Low Pay Commission's 2006 report, which

"concluded that childcare voucher schemes would benefit few low paid workers; the majority would be better off claiming support for childcare through the Working Tax Credit system."

Although this might seem to be a reduction in support for low-income parents, I think the shadow Minister recognised that in practice it corrects an anomaly between the minimum wage legislation and the conditions in place to encourage employers to provide employer-supported child care; it should not have any real effect.

10 am

I stress that the majority of working parents paid at national minimum wage levels are already eligible for support with their child care costs through the child care element of the working tax credit, which, in many cases, is more generous than employer-supported child care would have been. The changes are being made retrospectively to put widespread practice on a proper footing and to allow us to make the appropriate amendments to the national insurance contributions legislation.

The hon. Lady asked about the impact on employers. These clauses have been out for consultation since December 2010. The clauses and the explanatory documents were perhaps worded clearly, but we received no responses asking for further clarification or challenging the Government's rationale. We are amending the law to reflect a problem that employers had to address themselves in a way that did not stack up with the contemporary legal situation. Hopefully, clause 36 will ensure that we reflect the reality faced by employers. In practice, the clause will not remove any child care support from working parents. Conversely, it will allow employers to meet the conditions required to continue to offer this tax relief to the 450,000 parents who currently benefit from the scheme.

The hon. Lady asked more broadly about what the Government can do to support child care. We in the Treasury worked alongside the Department for Work and Pensions to develop the recently published White Paper. The White Paper contained a commitment to developing a system of support for child care costs that will work alongside the universal credit when it comes in. We will ensure that that support is maintained as the broader legislation on supporting families, particularly working families, changes.

The hon. Lady also asked about the impact on child poverty, and she talked about the recent OECD report, which is interesting. She will be aware of our child poverty strategy consultation, which we have now published. How we talk about child poverty, and the breadth with which we talk about it, is a challenge. Is it purely about income, or do we want more measures that address a wider definition of child poverty? It is perhaps not only about the financial poverty in which children may find themselves, but about emotional poverty and poverty of opportunity, too.

Alongside the OECD report, the IFS has done some work, which the hon. Lady briefly mentioned. The IFS analysis is not directly comparable with Treasury forecasts, but I draw her attention to the fact that the Office for Budget Responsibility has looked at the past two Budgets and said that there will be no measurable increase in child poverty. I think I am right in saying that the OBR has said that, if anything, the measures we brought forward in the Budget would result in a small decrease in child poverty, albeit a decrease so small that it is not statistically significant.

Kerry McCarthy: As the Minister said, the past two Budgets have been assessed as not leading to an increase in child poverty; there may be a statistically insignificant decrease in child poverty. Does she think that that is adequate, given that both Government parties signed up to the Labour Government's pledge to abolish child poverty by 2020?

Justine Greening: The child poverty strategy consultation is now under way, and I hope that we can have an informed and balanced debate. That is one of the reasons why we are pleased that the right hon. Member for Birkenhead (Mr Field) has provided his input.

I can see Opposition Members rolling their eyes. We need to debate not just the financial aspect of child poverty but the broader issues that we must tackle in terms of support for early years, and particularly for disadvantaged children. They often face disadvantage far more broadly based than simple income targets. The right hon. Member for Birkenhead and many others are clearly saying that we need a broader-based strategy if we are to reach our longer term 2020 target. I hope that we can stand away from just having a debate on a statistic, important though it is, and remember that behind that there are children whose lives we want to change for the better.

Perhaps I can give one final example of what I mean. By raising personal allowance over the course of this year and next, we will take over 1 million people out of income tax altogether. The impact of that will be to raise average incomes ever so slightly. Because child poverty is worked out as a median relative indicator, that change will see more children technically slip into child poverty. Those extra children will suddenly be defined as being in poverty, but will go to bed that night unaware of any change in their circumstances. That shows that, while statistics do matter and should be looked at, if we are to make a real difference to children's lives that they actually notice, which surely is the main point of this, we need a broader-based strategy and a broader argument about where investment can be best placed to ensure that we make a difference on the ground.

Question put and agreed to.

Clause 36 accordingly ordered to stand part of the Bill.

Clause 37

ACCOMMODATION EXPENSES OF MPS

Question proposed, That the clause stand part of the Bill.

Kerry McCarthy: I am sure that on both sides of the Committee the title of this clause will cause hearts to sink. I suspect that people would much rather we were discussing something else. The only reason why I comment on it is that there have been reports on the provision in the media along the lines that hon. Members are being granted a special exemption from the new tax avoidance legislation. We are being portrayed as trying to get away with something that ordinary members of the public would not be able to get away with and as being up to our old tricks again.

Karl McCartney (Lincoln) (Con): Some of us here are new Members and we are therefore not looking to get away with some of our old tricks.

Kerry McCarthy: When I talked about getting away with our old tricks, I was talking about the way the media and, perhaps, some members of the public portray the matter. I was not saying that I believe that old tricks are being got up to, apart from a small number of people who, in most cases, are getting their just deserts now. It is probably best not to start digging in that minefield.

I appreciate that the Exchequer Secretary wrote to all Members about this clause and the schedule to explain that, as the new rules are intentionally broad, this exemption is one of several necessary to ensure that legitimate behaviour is not unintentionally caught by them. In particular, an exemption is created for the accommodation expenses of Members where they are paid by the Independent Parliamentary Standards Authority directly to a third party such as a landlord, rather than to the Member. That results from a change IPSA made last November that allowed such direct payments to be made. Previously, we had to pay the landlord direct and then claim it back. That seems reasonable. Individual Members cannot change the way they are paid because it is statutory, so they should not be caught by anti-avoidance rules. In my view, this clause should not be necessary. Some Members might say that this clause would not be necessary if we had not moved to the IPSA regime, but that is a can of worms that we do not want to open in Committee right now. More importantly, the clause would not be necessary if the rules that the Government have proposed were not so complex. The clause is intended to ensure that the rules do not have unintended consequences. The rules are very difficult for the ordinary person to understand, so it is not too surprising that the media raised concerns. John Whiting, the director of the Office of Tax Simplification, was concerned about the provision. He said to the Economic Affairs Committee that the new rules had

"developed into so much detail it is in danger, at its 59 pages or wherever we are up to, of starting to create further loopholes that people will try and exploit or inadvertently block things."

My right hon. Friend the Member for Delyn quoted him as saying

"Whoa, this is just getting too much"

and we had quite a debate about that. Specifically on Members' expenses, the Chartered Institute of Taxation has said:

"The fact that the parliamentary draftsman felt that Members might be caught by the legislation, is indicative of the wider problem...of it unintentionally catching legitimate arrangements which have nothing to do with tax avoidance, as well as the tax avoidance schemes that are its target."

It has also said that the fact that the draftsman was still not sure that the rules would not catch Members, even after the changes that have been made to the draft clauses since December,

"shows the difficulties inherent in this kind of approach."

How many more such clauses will the Government have to add to the Bill? That is quite a difficult question to answer, but it highlights the fact that the legislation has created a great deal of uncertainty in this area of the tax system. That goes against the Government's own aims set out in their framework for tax policy making.

Ian Mearns (Gateshead) (Lab): I am very concerned about this clause, because if there is a question of expenses of this nature being subject to tax, it is essential that they come out of the right IPSA budget. In my own case, I have had accommodation expenses for my London flat taken out of my office budget by IPSA. I wonder whether that might cause me a problem in income tax terms.

Kerry McCarthy: I hesitate to start advising my hon. Friend on his tax arrangements, or to venture into advising him on his problems with IPSA. I suspect that if I showed myself willing to do so, I would be besieged by hon. Members asking me for advice. It is best not to go there.

Karl McCartney: I find it hard not to add my two penny-worth, as I threatened to do last week in Committee. I thank the hon. Member for Bristol East for what she has said regarding IPSA. To draw this part of the Committee to a close, would the hon. Lady welcome the proposals that were put forward by my hon. Friend the Member for Windsor (Adam Afriyie), who is not on the Committee, for a resolution of the problems that Members from all parts of the House have had to date with IPSA?

The Chair: Order. That is just a shade wide of the clause.

Kerry McCarthy: Thank you, Mr Hood, for coming to my rescue. My stance in respect of that debate has been to keep well out of it and let other people have the discussion. That may be rather cowardly of me, but given the other demands on my time I think it is probably quite sensible.

The Government have the stated objective of creating simplicity and predictability in the tax system. Some of these measures do not seem to be particularly helpful in meeting that objective. I would appreciate the Minister's comments.

Justine Greening: To be clear, this clause is not about disguised remuneration rules, but as the hon. Lady has pointed out it makes a minor change to the legislation on the income tax treatment of accommodation expenses that are paid to MPs under the scheme that is administered

[Justine Greening]

by the very popular Independent Parliamentary Standards Authority. She has asked whether we will see further changes coming through. The answer I would give her, which is perhaps the answer to many questions in life, is that it depends. It depends on any future modifications that IPSA makes to the rules.

10.15 am

The clause does not grant MPs any new special tax treatment. It broadly continues the tax treatment that has applied for accommodation expenses payable under the MPs' expenses scheme, which was introduced by IPSA at the start of the current Parliament. With effect from 1 November, IPSA introduced a minor simplification, which allows it to make payments in respect of MPs' rental charges direct to a third party such as a landlord or letting agent, on the authorisation of the claimant MP. The existing exemption from tax for residential accommodation expenses payments applies only to payments made by IPSA directly to the MP. So the Bill will merely address the consequences of this simplification.

Legislation which provides an income tax exemption for expenses paid to MPs that are necessarily incurred on overnight accommodation required for the performance of their parliamentary duties, whether in Westminster or their constituencies, has existed for many years. That legislation was updated in the second Finance Act last year so that, following the introduction of IPSA's new expenses scheme on 7 May 2010, it applies to overnight accommodation expenses paid under this scheme where appropriate. As I said, from 1 November 2010, IPSA introduced a further minor simplification to the way it pays MPs' expenses in respect of rental charges on constituency and residential properties. From that date, IPSA's rules allowed such expenses to be paid direct to another person, such as a landlord, at the direction of the claimant MP. It is clear that the clause does not grant MPs any new special tax treatment as that would not be appropriate.

Question put and agreed to.

Clause 37 accordingly ordered to stand part of the Bill.

Clauses 38 and 39 ordered to stand part of the Bill.

Clause 40

INDIVIDUAL INVESTMENT PLANS FOR CHILDREN

Mr David Hanson (Delyn) (Lab): I beg to move amendment 97, in clause 40, page 26, line 6, at end add—

'(7) The Treasury shall, within three months of the passing of this Act publish final details of a new UK-wide Government contribution-based tax-free children's savings scheme for looked-after children.'.

The Chair: With this it will be convenient to discuss the following: amendment 98, in clause 40, page 26, line 6, at end add—

'(7) The Government will, by 30 September 2011, publish a report on—

(a) children's savings accounts, and

(b) saving across society,

including the impact of Government policy.'.

Clause stand part.

Mr Hanson, would you like to speak to your amendment?—*[Interruption.]*

Mr Hanson: I was just giving the Ministers an opportunity to decide which of them would respond to the debate. There seemed to be a bit of confusion, and as the Financial Secretary dealt with this issue on a previous Bill I thought he would do so on this Bill too.

The amendments are very political amendments to a very political clause. The clause sets a divide in Committee, which I hope we can explore in some detail this morning, over the replacement for the child trust fund. I hope we can also make progress on some issues that have been raised by the Government, but not answered by them to date, about what happens to looked-after children and children in care. The provisions of clause 40 are in place because the Government chose to end the child trust fund, which was established by the previous Labour Government, towards the end of last year, with effect from 3 January 2011.

Clause 40 is very political. The child trust fund—a universal benefit provided for all irrespective of income, with particular help to the poorest children and those with disabilities and in care—was a successful scheme established by the Labour Government. It was abolished by the Conservatives, with support from the Liberal Democrats, with effect from 3 January this year. Clause 40 contains the Government's proposed replacement: a self-selecting benefit or child trust fund ISA, available to those who can afford to contribute. We need to explore the objectives, the possible take-up and how the scheme will benefit the many people who would previously have benefited from the child trust fund.

Hon. Members will know that the child trust fund was originally a savings and investment account for children born on or after 1 September 2002, and was established by the then Labour Government to support a long-term saving culture, with particular help for the poorest individuals. We spent some time with the Financial Secretary in Committee before Christmas debating the future of the child trust fund. I can see the hon. Member for Reading West nodding: he spent many a happy hour with me in Committee as we explored those issues.

The Government's Bill was passed before Christmas, and they abolished the child trust fund from January 2011. The fund was worth more than £500 to all children over their lifetime and £1,000 to the poorest. The previous Government wanted to encourage saving, so that at 18 people had some savings towards the considerable costs they would face such as tuition fees. Children were also due to receive a £250 top-up on their seventh birthday—£500 for the poorest. All of that went under the Savings Accounts and Health in Pregnancy Grant Act 2010.

Nic Dakin: Is it not true that in their manifesto the Conservatives committed to retain the child trust fund for the two-thirds poorest families?

Mr Hanson: My hon. Friend anticipates what I am to say. The child trust fund was abolished in the face of a Conservative manifesto—on which every Conservative Member stood at the general election just over a year ago—which I read intently at the time and took in good faith. I believed they were honest individuals who would stand on their manifesto. The manifesto said they would "cut government contributions to Child Trust Funds for all but the poorest third of families and families with disabled children".

The Financial Secretary, when he was a shadow Minister in February 2010, committed to keep the child trust fund for disabled children and the poorest third of families. I give credit to the hon. Member for Brecon and Radnorshire: he went into the general election with a commitment to stop spending on child trust funds for the public at large. He stood on his manifesto. All 57 of the Liberal Democrats convinced 300-plus Conservative Members of Parliament, who jumped at the chance to cut public spending still further, to cut child trust funds and to break their manifesto commitment made only six weeks before announcing the coalition agreement.

Roger Williams (Brecon and Radnorshire) (LD): I thank the right hon. Gentleman for his congratulations. The problem is that it is a universal benefit, and that it is received by families who can afford to provide for their children. Surely, it would be better for the money to targeted on those who really need it.

Mr Hanson: I do not want to revisit the Savings Accounts and Health in Pregnancy Grant Act 2010, which was passed before Christmas. We expressed our objections at the time, with a large number of Divisions in Committee—the most Divisions I have known in such a short time—and fought to maintain the child trust fund.

I pay tribute to the hon. Member for Brecon and Radnorshire for sticking to his manifesto. He was not supported by the two parties that said that they would keep the child trust fund for the poorest third and for disabled children. I give him credit for the fact that his 57 Members of Parliament managed to convince more than 570 other Members to support Liberal Democrat policy, even though he opposed it in Committee.

Good luck to the hon. Gentleman: I trust that when he goes back to Brecon and Radnor—I know the place well, as it is near my constituency—he will explain why the people there have lost that universal benefit. He should also explain why he may be supporting clause 40, which provides for a self-selecting contribution, probably from people who can afford it, including the hon. Gentleman and other Members, to support their children, while poor people in places such as Ystradgynlais in his constituency will not be able to contribute to the fund because they will no longer receive the universal benefit.

Ian Mearns: Did my right hon. Friend take the intervention of the hon. Member for Brecon and Radnorshire to imply that there is antipathy among Liberal Democrats towards all universal benefits?

Mr Hanson: It would be interesting to consider that. We will shortly debate child benefit, and I look forward to the Liberal Democrats breaking the principle of universality yet again. They will have the opportunity to stand up to the Government once more, and I wonder how they will perform.

Ian Murray (Edinburgh South) (Lab): As always, my right hon. Friend makes illuminating points about what was in other manifestos. Not only did the Conservatives claim that they would keep the child trust fund for the bottom third, but things omitted from the manifesto, such as VAT increases and reforms to the health service, are now happening.

Mr Hanson: Indeed. As my hon. Friend points out, it seems that manifestos are flexible documents.

Nic Dakin: I believe that my right hon. Friend is drawing attention to the fact that the British people gave an overwhelming mandate for retaining the child trust fund and focusing it on the most disadvantaged families.

Mr Hanson: There was overwhelming consensus in the Conservative party on maintaining the child trust fund for the poorest third and for people with disabilities; and there was a consensus on our side for maintaining it as a whole. These are important matters.

We are debating amendment 97, which deals with looked-after children, and we shall come shortly to the principle of clause 40, under which the child trust fund is replaced. This is important because, in itself, the child trust fund was a successful scheme. During the last year of its operation, 2 million people were contributing to 4.45 million open accounts; and £2 billion of assets were under management, attracting £22 million of regular contributions each month. There was a 60% increase in tax-efficient saving over the period, and the next generation of 18-year-olds will have amassed some £3 billion every year through the child trust fund over the course of its operation. That is according to Save Child Savings, which made strong representations on behalf of companies operating child trust funds that they should continue. The Minister has to look at how much money in savings the replacement for the child trust fund will generate, and whether that will address in any way, shape or form, the important need to improve the savings ratio for people, for their children in particular, and for future savings activity.

10.30 am

Roger Williams: The right hon. Gentleman is generous in giving way. I supported my party's policy in the previous election because all the evidence that I have seen indicates that life-changing investment in a child's development occurs very early in their life, which is why we preferred the pupil premium to the fund that the right hon. Gentleman advocates.

Mr Hanson: The hon. Gentleman makes my point, by walking completely into the fist that I will now put into him. Like me, he represents a constituency in Wales. As he will know, one of the Government's arguments was to scrap the child trust fund and replace it with the pupil premium. As he will also know, the pupil premium does not apply to Scotland, Northern Ireland, or to his constituency. He has therefore voted to take money from his own constituents and transfer it to people in England.

Roger Williams: The right hon. Gentleman knows how the Barnett formula works. Money that is allocated for the pupil premium in England will be transferred to Wales, and it will be up to his party, who form the Government in Wales, to decide whether they use it for children during their early years.

Mr Hanson: The hon. Gentleman knows that he has taken a universal benefit away from people in his constituency and transferred part of the resource—not all of it—to help and support people receiving the pupil

[Mr Hanson]

premium in England. As he will know, the pupil premium, in itself, is not universal, because it does not deal with every borough in every part of England, so I will not take lessons from the hon. Gentleman on that point.

Bill Esterson: The Liberal Democrats use words such as "evidence". They talk about universal benefit, which they opposed, and the hon. Member for Brecon and Radnorshire mentioned the importance of early-years support, which the child trust fund is aimed at—I do not know whether the hon. Gentleman is aware of that. The professor of social policy at the London School of Economics called the child trust fund

"the most successful government savings scheme ever",

supporting not only early years, but families much later in life, and it also helped many better-off families in getting young people into further education.

Mr Hanson: The key point is that the child trust fund was designed to encourage a savings culture, and it did so . During the final year of its operation, 823,504 child trust fund vouchers were issued; there were 70,000 a month. The vast majority of families—74%—contributed over and above that to the child trust fund. This issue is important, not because I want to revisit the battles around the child trust fund—they were lost with the 2010 Act—but because clause 40 is about the replacement for the fund.

Justine Greening: I want to check whether the Labour party would like to see the child trust fund reintroduced in the form that it had before the election. Is that the case, and if so, is that not a spending commitment?

Mr Hanson: The Minister again tempts me to talk about what the Labour party will do in four years' time, when we are in government. I cannot give her a commitment, but as she will know, when we voted against the abolition of the child trust fund, we made it very clear that we wanted it to be maintained in the Budget. She will have to wait for the Labour manifesto before the next election in four years' time. We will assess the commitment then, but at the time of the abolition, we supported the fund. We were committed to that £500 million worth of expenditure, and we wanted it to be maintained.

Alec Shelbrooke (Elmet and Rothwell) (Con): I have listened carefully to what the right hon. Gentleman has said about the clause. In trying to rescue the hon. Member for Sefton Central, who said that it helped in early years—when of course, a person could not have access until they were 18—the right hon. Gentleman said that the fund was there to encourage saving. I say to him that the previous Government did nothing to encourage saving because, by simply means-testing anybody who had any savings, they completely disincentivised people from saving anything in this country.

Mr Hanson: Let me stick to the clause and the amendment. They indicate that we need to look at the replacement for the child trust fund, which is what clause 40 is about. The child trust fund was a success. Some 70,000 children are born into the UK each year and they were getting a contribution from the state towards a potential trust fund. Parents were matching that, and savings were generated for all sectors of society because of the financial incentive that the child trust fund gave. The fund was abolished. What savings have there been from individuals since January into the particular models that we have?

Stella Creasy (Walthamstow) (Lab/Co-op): May I take this opportunity to congratulate the hon. Member for Elmet and Rothwell on his forthcoming nuptials? May he be better at doing the sums within a household than he is at doing sums for saving.

One of the challenges for us is whether the legislation will have the same impact that the child trust fund has had, particularly in encouraging saving among the poorer families in our communities. Does my right hon. Friend agree with me that one of the tests we should set for this child ISA is how well it does in encouraging those on lower incomes to save? As we have clearly seen, the child trust fund did that, and many of us on this side fear that the junior ISA will not.

Mr Hanson: My hon. Friend makes a valuable point. That is one of the points that I want to explore in our questions today—the junior ISA, in clause 40, replacing the child trust fund. The child trust fund was successful because it gave a financial contribution from the state and said to families from all sectors of society, "The state is in partnership with you to provide for your children's future at the age of 18. Here is a financial contribution from the state." In response, parents from across the social spectrum, from all incomes, rallied to that call and contributed to help build assets for the future.

Paul Blomfield (Sheffield Central) (Lab): Is it worth noting, on a day in which we welcome President Barack Obama to the UK, that there is also evidence from the United States of the growing recognition of the importance of asset-building in transforming social mobility? The Child Savings Account Coalition in the US reports that increasing numbers of states are moving towards similar schemes, where state injection of funds incentivises savings and transforms the life chances of young people.

Mr Hanson: My hon. Friend makes a valuable point about the experience in the United States. In our discussions before Christmas on these matters, that was the case that I, as the shadow Minister, was trying to make for the retention of the child trust fund. We need to look at how clause 40 and the replacement meet that similar objective; the state will not be contributing financially, and therefore not encouraging parental contributions through any financial contribution. The savings ratio within that group of people might be reduced.

Alec Shelbrooke: Will the right hon. Gentleman forgive me? I would like to make a double intervention. May I ask him to return to the statistic he gave a few moments ago, because I missed it? He gave a statistic about how many people were investing into the child trust fund out of the total number of accounts.

Mr Hanson: I do not know whether I get extra points for a double intervention. If there are such things, I will take them as they come.

The Chair: Order. From where the Chair is sitting that was a single intervention.

Mr Hanson: The majority of parents—74%—have actively opened their child trust fund. A quarter of the accounts received extra contributions from relatives and friends.

Alec Shelbrooke: That is what I thought the right hon. Gentleman said. I would like to probe him. Which people were investing money and increasing those savings? Was that 25% from the poorest in society, or were the more affluent contributing to the Government money? Effectively, the question raised by the hon. Member for Walthamstow was how we encourage the poorest to save. If they were among the 75% who were not investing in the child trust fund, they were not saving, but simply getting a Government subsidy.

Mr Hanson: It is a valid point, and we debated it long and hard before Christmas, when we considered the Bill that abolished the child trust fund. The figures show that considerable numbers of people in middle-income and well-off families contributed to child trust funds, but an increased percentage of people from lower-income families—sadly, I do not have the figures to hand—contributed because of the co-operation and partnership with the state.

Nic Dakin: Is that not the key point? Getting individuals to save for the future is a massive challenge, and child trust funds were an innovative way of meeting it. It is a great shame that they have been withdrawn.

Mr Hanson: It is. The key point—this is where we come to the clause; we have been dealing with the background so far—is that following the decision to abolish the child trust fund, the Government announced at the end of last year that they would establish a child ISA from autumn 2011. As part of that, they have said that they want to

"provide families with a simple, transparent, accessible and competitive product to save for children who do not have a CTF…and…create the conditions for families to save more for their children than they otherwise would."

They propose that all UK-resident children under 18 who do not have a child trust fund will be eligible for junior ISAs. That includes children who were born before the start of child trust fund eligibility in September 2002, as well as people from before 6 January this year, who will be eligible for the child ISA when it commences later this year.

In making that proposal, what calculation has the Minister made of the savings the junior ISA will encourage, particularly among middle and lower-income earners? What calculations have Ministers made of how many additional savers will be created? How much new saving will be forthcoming, on top of what would have taken place anyway?

I ask that because in response to questions that my hon. Friend the Member for Nottingham East (Chris Leslie) tabled to the Chancellor of the Exchequer, the Financial Secretary to the Treasury said that the Government had estimated

"that 20% of eligible children will have a Junior ISA".

The Minister's own estimate, therefore, is that only 20% of people who are eligible for a junior ISA will take one up. Straight away, that compares with the figures I gave the hon. Member for Elmet and Rothwell, which show that 100% of children had a child trust fund. Of those child trust funds, 74% were opened by the parents, and parents contributed to 24% of them. On those statistics, 80% fewer people will have a junior ISA than had a child trust fund. There will also be less saving, because the Government's estimate for the junior ISA says that fewer people—20%—will save than contributed to the child trust fund. How does the Minister marry those figures together? What is her measure of success for the junior ISA?

Tom Blenkinsop (Middlesbrough South and East Cleveland) (Lab): As my right hon. Friend says, the whole point of the child trust fund was that it capitalised the uncapitalised and incentivised and financed people who would not necessarily have the wherewithal to start a savings programme. However, even under the Government's agenda for the junior ISA, it is not beyond the realms of conceivability that the Government could lend money for a time directly to the institutions that people want to set up a junior ISA. That would kick things off and increase the number of families who could start a savings programme for their child.

Mr Hanson: My hon. Friend makes the point that the purpose of the child fund was to incentivise people across the board to save. Lots of middle-class and well-off people saved, and more people on lower incomes saved. That is the key thing. Figures that the Minister provided in reply to parliamentary questions show that the Government expect 20% of eligible children to have a junior ISA, but 24% of parents contributed to the child trust fund. The savings ratio under the junior ISA is lower.

More importantly, the answer to the question from my hon. Friend the Member for Nottingham East said:

"The Government have made no estimates of the take-up levels of Junior ISA accounts among the income groups specified".—[*Official Report*, 26 April 2011; Vol. 527, c. 323W.]

There is not even any estimate of whether it will effectively be a tax handout to richer middle-class families. Dare I say it? Many of the people in this room qualify for that status. Some of us have children who could qualify for the junior ISA. I declare an interest, having three children, including an eight-year-old son who could qualify. A tax relief for the junior ISA would be a potential tax relief for me. I do not need that tax relief to encourage me to save.

10.45 am

Bridget Phillipson: The challenge that it is clear the Government face is how to communicate to parents what the junior ISA will mean and how parents can take it up. Many parents, even if they have the money, will be understandably concerned about the range of financial products on offer, and might distrust financial institutions. The simplicity of the child trust fund was that parents could be confident that it was a Government-backed scheme, inasmuch as the Government encouraged it. I would like to hear from the Minister what plans the Government have to encourage parents to take up the junior ISA, if they have the money to do so.

Mr Hanson: I am grateful to my hon. Friend. That is important.

Again, in the absence of the child trust fund, what assessments has the Minister made of the take-up? How many people does she expect to contribute, how much does she expect to raise, what is the likely level of tax relief and where will it be directed? Will it be directed at the incomes of families making £50,000, £60,000, £70,000 or £80,000-plus or at lower-income families? What income band does she expect to contribute to the child ISA?

Rather than a direct financial contribution under the child trust fund, clause 40 will now effectively give a tax relief to people who voluntarily contribute to the child ISA. My hon. Friend the Member for Houghton and Sunderland South made a point about the range of ISAs and providers. That is important, and we need to explore it during this debate.

Pamela Nash (Airdrie and Shotts) (Lab): Does my right hon. Friend agree that it seems likely that the 20% of children who have the ISAs will be from the richer quarters of our society? At a time when families are struggling to save with increased pressures on their incomes, the measures will only increase the gap between the poorest and richest in our society and decrease social mobility.

Mr Hanson: My hon. Friend makes a valuable point that the Minister needs to answer. What is the banding of the people likely to contribute to the child ISA? If richer people contribute to it and establish it, good luck to them; that is fine. But what mechanism exists to make the scheme help encourage savings by the poorest in society? The children of the richest in society, when they reach the age of 18, may well have had further inheritances or endowments, or might have parents who can contribute to offset university fees, help with initial rents and so on. The people whom we are trying to encourage to save in a child ISA have no disposable income and low levels of contribution. Their children at 18 will face higher levels of tuition fees—another broken promise by the Liberal Democrats—and other costs. How will they finance those costs?

We are not sure that the child ISA is the appropriate vehicle to generate the savings ratio for the age of 18, particularly at a time when the Office for Budget Responsibility, the Government's own independent forecasting agency, has said that household debt is expected to increase from £1.5 trillion in 2010 to £2.13 trillion in 2015. The Government are privatising debt to individual households while trying to cut public debt. Therefore, families, particularly those on lower incomes, will have less disposable income to put into the new ISA in the first place.

Brandon Lewis (Great Yarmouth) (Con): I am curious about how the right hon. Gentleman relates this issue to tuition fees, bearing in mind that tuition fees are paid afterwards under the new scheme and in line with earnings. They are not something that somebody would use an ISA for in the first place.

Mr Hanson: The purpose of the ISA was to meet costs that individuals face at the age of 18. The purpose of the child trust fund is the same. It is to build up a nest egg to meet costs at a particular time. Some people may wish to pay their tuition fees up front and not incur that level of debt.

Brandon Lewis: That seems to be the point. People do not need to have the ISA to pay tuition fees up front. The whole point of the new tuition fees—the reason why they are fair and the reason why students will have to pay less money annually than they did under the old scheme—is that they are paid back in arrears, afterwards and only as and when those people can afford to pay them, depending on their professional position.

Mr Hanson: We can debate this issue for a long time. There are costs related to further education that the child trust fund was intended to help people meet at a particular time, as well as other costs related to accommodation and other charges. I am very happy to debate this issue with the hon. Gentleman and I think that the public know which side they are on in relation to it.

However, the key point today is that clause 40 replaces what existed before. The Minister needs to justify to the Committee what clause 40 will do and say who will benefit from the tax handout that she is giving to help support that level of savings. Given the Government's own projection of 20% take-up, my assessment is that 80% of people are not expected to contribute to their child's future ISA. I might be wrong, but my assessment is that that 80% of people will predominantly be people from the poorer sectors of society who are experiencing a squeeze on their household incomes because of the rise in VAT—another broken promise by the Liberal Democrats—as well as the rise in tuition fees and a range of other issues. Those rises mean that those people's disposable income will be even less in future than it is now, making them less able to save money. Has the Minister focused on that issue?

Jessica Lee (Erewash) (Con): I want to raise two points. First, as we keep coming back to election promises and manifestos, can the right hon. Gentleman reassure us that in all the time he was in government he only voted on Government Bills before the House if they had been expressly in his party's election manifestos? Does his voting record reflect that, for example on issues such as the introduction of tuition fees?

Secondly, there has been reference to the importance of helping the most vulnerable children. I want to give the right hon. Gentleman an opportunity to applaud and thank the Government for introducing the savings account for looked-after children. I am sure that we all accept that they are the most vulnerable children in our society. They need that help and the savings account for them is a policy that has been welcomed by children's charities—

The Chair: Order. Too long.

Mr Hanson: I can give the hon. Lady one assurance—I can assure her that I did not ditch a manifesto promise three days after the general election, which is what her party did in relation to child trust funds. In fact, I can give her another promise. I can promise her that consideration of the issue of looked-after children, which I will come back to in a moment, was dragged out of the Government kicking and screaming, because of the objections that were raised. In a moment, I want to discuss with her the details of that scheme for looked-after children, because amendment 97 asks for details of it. The details of that scheme are still hazy and unclear. I

hope that the Minister will give me an opportunity to withdraw amendment 97 by giving us details of that scheme today and not three months after the Bill gains Royal Assent.

Alec Shelbrooke: Will the right hon. Gentleman give way?

Mr Hanson: I will give way to the hon. Gentleman, because I know that he is keen.

Alec Shelbrooke: I am most grateful to the right hon. Gentleman for giving way. To expand on the comment that he made just a moment ago, it is one thing to be unable to deliver a manifesto if one's party does not have a majority; it is slightly different to go back on a manifesto promise if one's party has a majority of 66 or 179.

However, the specific point that I want to make is that he said that the child trust fund was money to be used when children went to university, to meet the costs involved in that. Of course, he will accept that a great number of children do not go to university and they still have that trust fund available to them. What were they using it for? Surely, therefore, he welcomes the fact that we have not only gone further on tuition fees, as my hon. Friend the Member for Erewash outlined, but we have created thousands of apprenticeships. However, those apprenticeships have to be paid for somehow.

Mr Hanson: The trust fund was available for 18-year-olds to spend as they wished. Starting in 2002, when the child trust fund was launched, the first 18-year-olds would matriculate in 2020, which is nine years away. The nest egg, which would be for all parts of society and contributed to by the state and by parents, would help with the challenges that they will face then. Most importantly, it would also show partnership between the state and families in helping to support those 18-year-olds.

We can look at what those challenges are, but the fact of the matter is that the Minister's figures, given in answer to my hon. Friend the Member for Nottingham East, show that we now expect fewer people to save under the junior ISA than we expected to contribute to the child trust fund. We now expect 80% of the eligible population not to contribute to the child ISA. As the first part of the discussion, before I come on to the looked-after children, I want to ask the Minister who benefits from the proposal in clause 40. Is it just people who will be richer and better off? If it is, that will not help poorer people to meet challenges in the future. It will be a tax handout to people who will use the child ISA effectively to support tax-efficient savings for their children, when that money could have been used elsewhere.

Bridget Phillipson: Of course, the cost of university education means not only tuition fees. There are other costs attached that the child trust fund could have been used to support. We are not, however, only concerned with young people going to university, and I know that my right hon. Friend will come on to looked-after children. There is, however, one interesting case study in the Barnado's document, "On our own two feet", which focuses on this issue and gives the example of a young woman called Jo. Jo was in foster care, and, unfortunately, she was in a car accident, for which she received compensation. That compensation allowed her to buy a car, which then allowed her to move away to university. That is precisely the kind of young person whom we want to support with savings schemes. The concern, however, is that, because of the lack of detail in the Government's proposals, we are not sure that such people will be supported.

Mr Hanson: I am grateful to my hon. Friend, and I will come on to the question of looked-after children, so that I can raise that particular issue. Before I do, however, I want to end with a general point on clause 40.

The Labour party supported and introduced child trust funds. It wanted to see them develop, wanted to keep them and voted accordingly. That answers the Minister's criticism initially. They were abolished, and that is a fact of life that we, in Opposition at the moment, have to face. The Minister has to make the case today for why the proposed junior ISA is better than the child trust fund, why it is more efficient, why it will contribute to a better savings ratio, who will save and how that resource will be used by individuals to help generate a pot to help meet the challenges of 18 years hence. I need to know the details of that. As part of the discussion today, she needs to look at that issue.

I will now move on to amendment 97, which is about the detail of the

"UK-wide Government contribution-based tax-free children's savings scheme for looked after children."

The hon. Member for Erewash has touched on that, and I am grateful to the Chancellor for announcing a pot of money—some £5 million—to support looked-after children. So that the hon. Lady knows the history, we tabled amendments in the Savings Accounts and Health in Pregnancy Grant Bill Committee before Christmas to exempt looked-after children from the abolition of the child trust fund. When those amendments were voted on, they were lost with 10 votes to seven. The seven votes came from Opposition Members and the 10 votes came from Government Members, supported by the Liberal Democrats, who continued to keep—even in the face of looked-after children—to their manifesto commitment to abolish the child trust fund completely.

We also voted for that in the House of Commons. I do not have the voting figures in front of me, but I suspect that the hon. Lady voted against the provision for looked-after children when we moved a clause on the Floor of the House. When she asks whether I should be grateful to the Chancellor for bringing forward funds for looked-after children, I say to the Chancellor, "Thank you very much." However, it was after one vote in Committee, one vote on the Floor of the House, a campaign by Barnado's, Save the Children and a range of other charities, and people being dragged to make that announcement through questions to the Chancellor about what provision was being provided for looked-after children. It dawned on the Chancellor that a child ISA, which is being proposed in clause 40, is for parental contributions to a tax-free savings scheme.

Gradually, after a vote in Committee and on the Floor of the House, and after parliamentary questions and a lobbying campaign, it dawned on the Chancellor that people in respite, residential and foster care are there because they do not have parents. Either the parents do not exist or they have had parental responsibility removed because of drugs, alcohol, prison or whatever.

11 am

So the Chancellor came to the conclusion that we needed to have a looked-after children child trust fund, because ultimately he realised—he should have realised when we first raised it—that the most vulnerable in our society needed support. They fall within the definition of the

"poorest third of families and families with disabled children"

in the manifesto, which he supported, and they therefore needed to have an element of state support to help them meet the challenges of 18. Three of my children are over 18, but the one who is under 18 will have help and support from active parents and will have resources to meet the challenges of 18. The fact that a looked-after child is in care or in foster care means that their parents are either dead or have had parental responsibility removed. That is why we want a scheme for looked-after children.

In Treasury questions, the Chancellor announced:

"I can tell the House that the Department for Education will work with others to make the necessary funding available to ensure that we can provide the support that they deserve. We will work with charities and interested parties to develop detailed proposals funded by the Government, so that junior ISAs can best support these children."—[*Official Report*, 22 March 2011; Vol. 525, c. 834.]

That was on 22 March; today is 24 May. Later today, representatives of Barnardo's will have a meeting with the Department for Education. Barnardo's produced "On our own two feet", which presents the case for a savings scheme for looked-after children. The representatives e-mailed me yesterday to tell me about today's meeting. It is their first contact with the Department since 22 March, and they are meeting to develop a scheme. I want to welcome the scheme today. I tabled amendment 97 because I want, within three months of the Act being passed, details of what the scheme means for the Economic Secretary and for the Committee.

I need to know three or four key issues: how much the Government intend to contribute to the potential child ISA for looked-after children and how they intend to operate it. The Chancellor has stated that the Department for Education will deal with it. I particularly need to know whether the proposed replacement will apply in my constituency in north Wales, in the constituencies of my hon. Friends the Members for Edinburgh South and for Airdrie and Shotts in Scotland, and in the constituency of the hon. Member for East Antrim in Northern Ireland, because, as the Committee knows, the Department for Education is an England-only Department. What was, before the abolition of the child trust fund, a universal UK-wide benefit could now simply be a matter for England. I tabled questions to that effect and the Government have said that they intend it to be a UK-wide provision.

So, again, I want to know the exact details of the scheme. We want it within three months, but I am happy to withdraw amendment 97 if the Minister can provide the information today. To deal with clause 40 and to assess a future child ISA, we need to know what the issue is for children in care. That is important because about 6,000 children are taken into care each year in the UK. There is currently a care population of about 86,000 children. Figures for 31 March 2010 show that 64,400 children are in care in England; 15,288 in Scotland; 5,162 in Wales and 1,653 in Northern Ireland. At the moment, I am still hazy about how they will be able to access the child ISA and about what the arrangements are. In the report "On our own two feet" Barnardo's and others make a strong case for help and support. They call on the Government to contribute to the ISA for looked after children. Does the Minister intend to make a financial contribution within that £5 million, and if so, what it will be.

Paul Blomfield: The report to which my right hon. Friend refers includes information from a survey conducted by Action for Children, which makes the point that 85% of the looked-after children in the survey would be encouraged to save themselves if the Government paid into a savings account for them. Some 70% thought that their carers or family would be encouraged to save for the future if the Government paid in for them. Is it not the case therefore that it is crucial that the Government give us an indication of their intention?

Mr Hanson: I am grateful to my hon. Friend for those points. I will put my hands up when I know that we have had a discussion. We lost the battle in Committee and in the House of Commons over the child trust fund, but eventually, through persistence both outside and inside this House, we have won the principle that there should be a support mechanism for looked-after children to help contribute to the child ISA. In particular, I pay tribute to my right hon. Friend the Member for Wythenshawe and Sale East (Paul Goggins) who assiduously raised this issue with the charities. As my hon. Friend the Member for Sheffield Central said, we need to know when the scheme will be up and running, when it will be UK-wide and whether there will be a minimum deposit in those accounts, which is something to which the Government have not yet committed themselves. Carers, supporters and people in local authorities need that information. We want a mechanism to ensure that we generate help and support for looked-after children who, at the age of 18, will leave residential care or foster care without the parental support that most others in society have.

Action for Children and Barnardo's have a meeting today with the Department for Education. This is their first meeting with officials since the Chancellor's announcement on 22 March. They say:

"We have obviously felt quite frustrated about this slow progress."

That is not me saying that; it is them saying it to me. They go on to say:

"Like you, we are of course keen to get the scheme up and running as soon as possible, and will be pushing for accounts for looked after children to be established in autumn 2011 when Junior ISAs are expected to be made available for other children…We are pushing for a guarantee that this scheme will be UK-wide…We are pushing for a guarantee of a minimum deposit for each savings account (something not yet committed to)."

We still do not have clarity from the Government over the potential scheme for looked after children. Will the Minister give us a commitment today as to how the £5 million that the hon. Member for Erewash mentioned is to be invested in looked after children? What is the provider mechanism? What is the commitment? Who will organise this? How do people access it? What is the role of local authorities? What is the contribution and who will run the scheme? We need to have answers to those questions. If this amendment is passed, I have helpfully given the Minister three months' grace to provide that information.

Amendment 98 gives an indication of what we want to see in the broadest sense of the word. It proposes that by 30 September, the Government publish a report on children's savings accounts and saving across society, which would include the impact of Government policy. We tabled the amendment because we are conscious that since the abolition of the child trust fund, no information has been provided to show whether savings are being generated for children under the age of 18 to the same extent that they were before the abolition. At the time, we suggested that the Government carry out a review of the abolition's impact by the end of this year, but they rejected that proposal; the amendment provides another opportunity for them to consider it.

I am taking a chance here, but perhaps the Government will accept the amendment and produce a report that shows that all my fears were unjustified—that people on low incomes are still contributing and saving for their children. Perhaps their report will blow me out of the water in October this year. If they wish, they could even time the report for the Labour party conference to make a real hole in our proceedings. They can accept the amendment, look at the impact of the abolition of the child trust fund and show that the Opposition need not have worried because their fears were not real and everything is hunky-dory in the garden.

Mrs Mary Glindon (North Tyneside) (Lab): As an add-on concern in the report that my hon. Friend the Member for Sheffield Central referred to, seven out of 10 cared-for children are worried about not having enough money put aside for when they leave care. Is it not, therefore, a matter of urgency to settle this issue for their health and mental well-being?

Mr Hanson: It is. I am grateful for my hon. Friend's comments on her concerns for looked-after children in care, which is a crucial issue.

Amendment 98 says to the Minister, "Let's look at this issue in the round." I have reluctantly accepted that the Government have had their way on the abolition of the child trust fund for all sectors of society, with the possible exception—details awaited—of looked-after children. Let us have an assessment this September of what the abolition has meant in real life. Has the savings ratio fallen? Are people from different sectors of society saving? What is the level of saving? What is the contribution? What has the abolition meant in real terms?

We do not necessarily want to reinvent the wheel. I have committed today, as every Committee member has heard, that the Labour party will look at the measure at the time of the general election and make our views clear then. We simply want to know whether the abolition has had any impact on the difficulties that we face in our savings ratio and on savings generally.

We face increasing levels of household debt, the VAT rise, the squeeze on living standards and reductions in child benefit. What is the Government's long-term strategy to get people to save for their children at the age of 18? How will people build up their savings, which could be invested in growth, businesses and in manufacturing because of the savings ratio?

Bill Esterson: My right hon. Friend has returned to that crucial point several times. How do we persuade families to save for their children? My great concern is that unless a system is in place to help low-income families, in particular, given the tough economic times, they will simply have no spare cash to put into savings for their children. That is why the existing child trust fund arrangements have worked so successfully. My real concern is that the changes will help better-off families, but not those on low incomes.

Mr Hanson: I am sure that the Minister will provide figures that show that people on lower incomes did not contribute to the child trust fund. I am sure that she has such figures, because we debated this matter during the passage of the Bill. The fact, however, is that more people contributed to the child trust fund on lower incomes than will potentially contribute to the child ISA. The Government's own figures show that. Amendment 98 simply asks the Minister to produce a report to look at the implications of the abolition of child trust funds, and to look at how we generate savings for the future.

Nic Dakin: My right hon. Friend is setting out the case well. Will he reassert the importance of creating the saving habit, and challenge the Government to explain how their proposals will create that habit for lower income families?

11.15 am

Mr Hanson: I am grateful to my hon. Friend, because that is one of the key issues. He knows that in the same Act in which the Government shamelessly scrapped the child trust fund—the Savings Accounts and Health in Pregnancy Grant Act 2010—they also scrapped the proposals for the saving gateway accounts. It had pilots across the country, it helped poorer people to contribute by matching savings pound for pound and it generated a massive amount of savings. There is no mechanism now for the state to encourage people and families on lower incomes to save. At a time of squeezed incomes, that worries me.

Amendment 98 simply says to the Minister, "Let's look at this." Let us have a discussion and by the end of September a report can be produced that tells us the impact on savings across society, including the impact of Government taxation policy, which is squeezing incomes so that families cannot save for the future. I pray in evidence the fact that only this week a survey by *The Observer* said that six out of 10 families

> "say they are struggling to pay bills. Savings are pitifully low—half have less than a month's salary to fall back on—and two-thirds aren't contributing a penny to a pension."

That is the situation we face—half the population of the UK have less than a month's salary to fall back on and two-thirds are not contributing a penny to their pensions.

We can argue about whys, wheres and whatevers for the rest of the day, but with that financial background, given that we abolished the child trust fund—fair enough, it has gone—and are looking at what the saving mechanism will be, how confident is the Minister that this mechanism will be a success? How confident is she that people will contribute to it, that it will raise the resources that the Government want and that the people who need it, who benefited from the child trust fund, will benefit from the child ISA?

[Mr Hanson]

I contend that low and middle-earners are unlikely to have spare money to invest in a junior ISA and so the beneficiaries of it will be those wealthy enough to afford to take advantage of an attractive new savings product, which this will undoubtedly be. Effectively, the policy change is ditching a universal benefit and replacing it with a tax product that will most benefit the richest members of society, which is why I said that this is a very political clause. I do not object to their contributions, because they could save under the child trust fund as well, but the Minister needs to answer my key point that this will disadvantage those on low and middle incomes.

It is misleading for the Government to claim that the junior ISA is some sort of successor to the child trust fund, when it blatantly is not. It is about giving a tax break to those who can afford to put money into it; it is not a universal benefit in the way that the trust fund was. Although no distributional or regional analysis or assessment of income bands is provided, the assessment is that only 20% of children will take it up.

Stephen Barclay (North East Cambridgeshire) (Con): Does the right hon. Gentleman think that the expansion of means-tested benefits boosted a savings culture under the previous Government?

Mr Hanson: We could debate for a long time various issues that the hon. Gentleman has mentioned, but my contention, which I base on information that the Minister provided me with in parliamentary answers, is that fewer people will save under the proposed child ISA than saved under the child trust fund. The Minister must answer that charge. The Government's actions in abolishing the child trust fund and saving half a billion pounds of taxpayers' money have resulted and will result in a reduced savings culture, and the savings culture created will be in a different band of the population than was previously the case.

Stephen Barclay: Would the right hon. Gentleman like to comment on the need to change the cap from 1% on stakeholder products? Was that not in itself an admission that the previous Government had failed in its attempts to expand the savings culture?

Mr Hanson: No, I do not think that it was, but we will be ruled out of order if we discuss pensions and savings policy related to those benefits.

The Minister does not have to justify the change—we have argued about the move away from child trust funds—but to justify the benefits that are in addition to the new child ISA. She needs to outline them in detail, and give a clear explanation of how the ISA will help to generate those savings for the future. It would help in my withdrawing of the amendment if she gave the same level of detail about the contribution for looked-after children as she did under clause 40 about the child ISA—she managed to fill out several pages. The issue is not new; it was raised in Committee last October and November, and the Government committed to the child ISA at that stage. They could have worked on the looked-after children contribution then as well, and I want to hear the Minister's proposals for that today.

I am grateful that I have had the opportunity to raise these issues, and I know that my hon. Friends will wish to continue to speak to them in due course.

Bridget Phillipson: It is a pleasure to serve under your chairmanship, Mr Hood, and I am grateful for the opportunity to speak in the debate.

I should like to focus my comments on the effect that the measures will have on children in care. We all know that children in care are among the most marginalised and disadvantaged people in our society, and face significant disadvantages in life. It is incredibly important, therefore, that we press the Government, with the amendment, to give much firmer details of what the scheme will do and what support will be offered to young people in care. Action for Children and Barnardo's have published an interesting report on the subject, entitled "On our own two feet: The case for a savings account for looked after children." It is only through the work of those organisations that the Government have been forced to reconsider their proposals for the scheme.

We are talking not about handouts to these disadvantaged young people, but about providing support to allow care leavers to flourish and become independent when they reach the age of 18, and I would have thought that Members from all parties would support that. The savings accounts would provide a financial asset, enabling young people to receive the additional support they need. In the absence of a parent, whether through a care order or difficult circumstances that have arisen, the state will act as a corporate parent to provide young people with the security and stability that they need, and it is therefore crucial that the Government make it clear what the proposals will do. Will they be UK-wide? How will the money be used? There are a number of areas in which questions need to be answered by the Minister. Many of those young people end up homeless, and any support in reserve would be of massive benefit in enabling them to go on and live fulfilling lives.

I have seen at first hand the challenges that many young care leavers face. The organisation that I used to work for ran an accommodation project for young women aged 16 to 18, who were homeless as a result of abuse. Many of them were care leavers who had left the care system at 16, and who would have benefited from any changes that had brought about further support to enable them to flourish. Many of them had experienced trauma and abuse, often at the hands of people who should have been caring for them—often their parents. Whether it was physical, sexual or emotional abuse, it was often perpetrated by the people who should have cared about them most in the world, and should have acted in their best interests. That is traumatic enough in itself, and it is important that we provide care leavers with the greatest possible support to help them to face all the difficulties that leaving the care system brings.

Care leavers and young people in the care system already face significant disadvantage, from finding themselves homeless or under-attaining in school for example, and they are far more likely to end up as NEETS—people not in employment, education or training. That failure to overcome serious disadvantage in their lives will increase the costs to the state in the long run, either through additional benefits, or through additional pressures on the NHS or on council services

such as housing. The unfortunate reality is that many young people who leave care end up in prison because of the difficulties that they face throughout their lives. All of that brings huge costs to the state, and we want to avoid that.

I do not for one moment suggest that having a savings scheme that supports such young people will solve all those problems, but I want to hear from the Government what assessment has been made.

11.25 am

The Chair adjourned the Committee without Question put (Standing Order No. 88 and Order of the House, 16 May).

Adjourned till this day at half-past One o-clock.