PARLIAMENTARY DEBATES

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GENERAL COMMITTEES

Public Bill Committee

CHILDCARE PAYMENTS BILL

Third Sitting

Thursday 16 October 2014

(Morning)

CONTENTS

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Monday 20 October 2014

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: †JIM SHERIDAN, MRS ANNE MAIN

† Barwell, Gavin *(Lord Commissioner of Her Majesty's Treasury)*
† Cunningham, Alex *(Stockton North)* (Lab)
† Dakin, Nic *(Scunthorpe)* (Lab)
Elphicke, Charlie *(Dover)* (Con)
Evans, Chris *(Islwyn)* (Lab/Co-op)
† Flello, Robert *(Stoke-on-Trent South)* (Lab)
Glass, Pat *(North West Durham)* (Lab)
Gummer, Ben *(Ipswich)* (Con)
† Heath, Mr David *(Somerton and Frome)* (LD)
† Jenrick, Robert *(Newark)* (Con)
† Jones, Andrew *(Harrogate and Knaresborough)* (Con)
† McKinnell, Catherine *(Newcastle upon Tyne North)* (Lab)
† Macleod, Mary *(Brentford and Isleworth)* (Con)
† Miller, Maria *(Basingstoke)* (Con)
† Patel, Priti *(Exchequer Secretary to the Treasury)*
† Powell, Lucy *(Manchester Central)* (Lab/Co-op)
Russell, Sir Bob *(Colchester)* (LD)
† Smith, Chloe *(Norwich North)* (Con)
Wilson, Sammy *(East Antrim)* (DUP)

David Slater, *Committee Clerk*

† attended the Committee

Witnesses

Samantha Mann, Senior Policy and Research Officer, Chartered Institute of Payroll Professionals

Charles Cotton, Performance and Reward Adviser, Chartered Institute of Personnel and Development

Dr Kitty Stewart, London School of Economics and Political Science

Public Bill Committee

Thursday 16 October 2014

(Morning)

[Jim Sheridan *in the Chair*]

Childcare Payments Bill

11.30 am

The Committee deliberated in private.

Examination of Witnesses

Samantha Mann and Charles Cotton gave evidence.

11.32 am

Q144 The Chair: Good morning, colleagues. Our first witnesses this morning are from the Chartered Institute of Payroll Professionals and the Chartered Institute of Personnel and Development. We have until 12.30 pm for this session. Will the witnesses introduce themselves?

Charles Cotton: I am Charles Cotton.

Samantha Mann: I am Samantha Mann.

Q145 The Chair: Where are you from, Charles?

Charles Cotton: I am from the Chartered Institute of Personnel and Development.

Mary Macleod (Brentford and Isleworth) (Con): Do I need to declare that I am a member of the CIPD?

The Chair: That would be helpful. I hope it has been noted.

Catherine McKinnell (Newcastle upon Tyne North) (Lab): Do you mind if we refer to you by your first names?

Samantha Mann: Please do.

Q146 Catherine McKinnell: Will you each outline your thoughts on the current voucher system and the Bill in general terms?

Samantha Mann: I will focus on the child care vouchers in exchange for salary sacrifice because that is the scheme with which most of our members will be familiar. I was involved when the scheme was first introduced about 10 years ago. It is fair to say that a high percentage of our members currently operate those schemes, and they are comfortable with them. They are comfortable with salary sacrifice. Employer-supported child care and child care vouchers widened the opportunities for employers to consider salary sacrifice, whereas previously they would not have done so.

Looking ahead to tax-free child care, there will be quite a transition for our members to get to grips with because there is a significant difference; they are going from any form of employer involvement to no employer involvement. The one thing that has been clear in the consultation documents so far is that there is no mandatory role for the employer in tax-free child care, for there is no mandatory role for any employer in child care at the moment.

HMRC tells us that 5% of employers operate employer-supported child care schemes at present, and they have a slight financial gain from that due to the national insurance disregard. We are getting positive results in the surveys that we have run with our members so far, with employers thinking that they might want to continue being involved in helping their employees to process the payments from their pay into child care accounts. I think that as we go along and as more information comes out about it, we are going to see fewer rather than more employers actually wanting to be involved in supporting their employees in this way.

Charles Cotton: I would like to support a lot of what Samantha has said. While around one in 20 employers currently offers child care vouchers, among our members it is about six in 10. A lot of our organisations are providing them as part of a flexible working package to help parents get into work, stay in work and return to work. One of the things that appeals to them about the new arrangement is that it could encourage more people with caring responsibilities into the labour market, potentially from disadvantaged groups. What many of our employers that already supply employer-supported child care will probably do as we start to transition is keep with the voucher arrangements for existing employees until they are no longer eligible, and then move over to the new scheme.

A lot depends on how many winners and losers there are in an organisation. It may be that everybody will be better off under tax-free child care so it is important that we have information to communicate to our employees, so we can let them know that there is a change and to say, "In these circumstances you may be better off going to the new regime", or, "Under these circumstances you may be better off sticking with child care vouchers."

Q147 Catherine McKinnell: Thank you. Just to follow up on a couple of points that you raised, are you aware of any members of your organisations that are already looking at winding up the voucher schemes in anticipation that their employees may prefer to use a new scheme? Have you had a sense of that from your members yet?

Charles Cotton: Talking to my members, we have not come across any organisations that have talked about that, but we have done a consultation and some organisations think they potentially might. We have found that some organisations are going out to their employees and saying, "The system is changing. You may be better off under the child care voucher arrangement. We offer child care vouchers—join now while you can." I am sure that, once things start to become clearer and we move towards the autumn 2015 deadline, many organisations will be in a better position to see whether they carry on or close those schemes. Even if they decide to go with tax-free child care, many of them may still offer the ability to take money from the payroll into the accounts.

Q148 Catherine McKinnell: What about the converse of that? Have you seen members actually taking steps to join the scheme in anticipation of its being better for some of their staff—and therefore they need to join before the deadline?

Charles Cotton: From our perspective, it is organisations that already offer the child care vouchers communicating to existing employees.

Samantha Mann: We have no statistical evidence that they are going one way or the other, but anecdotally, when we have talked with members over the summer at our national forums about this process, one of the calls was for more clear guidance on the introduction. When is "autumn 2015"? What does that mean? Also, what will the transition mean for their employees?

We know that employees with children under five will be covered from the go-live date of child care payments and tax-free child care; what we do not know is when autumn 2015 will kick in. We know that there is going to be a staggered approach in year one for children up to 12, but we do not know how that will stagger. Potentially, that gives us a situation where, from autumn 2015, a certain group of employees might be caught in a position where they can apply for neither employer-supported child care nor tax-free child care, because they are caught in the staggered approach.

There are still those question marks over the go-live date—what that will mean—so our members are asking us for information. We, in turn, are asking Her Majesty's Revenue and Customs for information. Those issues are quite key, because they will help our employers to decide whether they want to go all out and really promote employer-supported child care for employees who will benefit from staying in such schemes from autumn 2015, or—the converse—whether to scale back and just go, "We'll just let it die a natural death."

It appears that tax-free child care is to replace employer-supported child care. There is a big question mark as to whether there will ever be an end date to the tax reliefs and national insurance disregards that exist. It would be useful to have a heads-up if that is going to be the case, because that could make a big difference. If employers big up their employer-supported child care membership in the next year, and then, two Budgets down the line, a Chancellor says, "We're doing away with the tax relief and the NI disregards," those employers will have undertaken a lot of work for no benefit, at a time when they have enough on, and when there is no mandatory requirement—this is quite simply to support their employees, to help them to work.

Q149 Catherine McKinnell: Just to follow up on a point you made, Samantha, about employer involvement and engagement in the scheme, there is the benefit you mentioned in terms of NI disregards. But, more generally, the new proposed tax-free scheme—I hesitate to call it that, because it is not that—will ultimately do away with that employer engagement. What do you feel the implications will be for not only employers, but staff in organisations where the link is removed?

Samantha Mann: We know from experience that, where employees struggle with work-related benefits—essentially, the child care payments will be a work-related benefit, because they will be only for working parents—and they are struggling to gain information and an understanding of the system, they will turn to their employer, either through their payroll department or their human resources department, depending on how the employer is set up. So—sorry, I have forgotten your question.

Q150 Catherine McKinnell: What is the potential implication of removing the link: going from the employer providing the support to it becoming separate from the employer?

Samantha Mann: Absolutely—sorry. Removing that link means that all the employee has is an online account and whatever online guidance they can access to help them through the myriad complexities that are child care benefits. It has to be said at this point that our specialism is not the benefits available to working parents. However, I believe from hearing anecdotally from experts that it is a minefield—an extremely complex area.

We know that if an employee puts in an eligibility claim, and it is accepted, that will automatically stop the universal credit or working tax credit that they might have—we know that because the legislation and regulations tell us that. But an employee might not know that, and they might not fully understand it. If we move from employer-supported child care to child care payments, employees potentially lose the valuable support that they will be getting from Charles's members.

Q151 Catherine McKinnell: Charles, from the employer's perspective, do you have any thoughts about the potential implications?

Charles Cotton: I suppose that, looking at our members, there is a link, but only one in 20 organisations provides child care vouchers at the moment, so you could argue that there is not really a link anyway—it is only among certain organisations where there is.

As we move to the new arrangements, I think that organisations will still try to engage with individuals around the area of flexible working. Tax-free child care is only one part of what the Government are trying to do to encourage a flexible work force. Similarly, child care vouchers are only part of what employers are doing to offer flexibility in their reward packages to employees, to encourage more people to go into work and to return to work.

Q152 Mr David Heath (Somerton and Frome) (LD): It would be possible, would it not, for the employer to be making a contribution into the child care account as part of the reward package?

Charles Cotton: Yes.

Q153 Mr Heath: Is it your view that that would be a likely course for some employers?

Charles Cotton: Potentially for some.

Mr Heath: Samantha is shaking her head.

Charles Cotton: That is an option, but we have not surveyed our members. Perhaps in a few years' time when it is brought in, one of the questions that will be asked of our members is: are you contributing to the child care accounts of your employees? But we have not got any idea whether they are looking at doing that.

Samantha Mann: We have surveyed our members on whether they will consider continuing to support their employees with tax-free child care by way of making a deduction from their net pay and paying that over into an account. At the moment, statistically, quite a high percentage of our members who currently offer employer-supported child care are saying yes, they will do that, although that obviously requires processes in itself. We are still waiting for more information to come out, so I suspect that those statistics will change.

For an employer actively to provide an additional top-up to a child care account, there would be taxable implications to that, which would create a cost implication for the employer where there is not one now. Although we have not actually asked our members whether they would consider doing that, based on anecdotal evidence I would suspect not. At the moment, they are putting together rewards packages that take advantage of existing tax benefits or NI disregards. There will not be any with child care payments, so I think that that is unlikely.

Q154 Mr Heath: If the Treasury looked at this and found a way in which it could be done that was either tax-neutral or advantageous, that would, presumably, tip the balance.

Samantha Mann: Based on the 5% of employers who currently do it, yes, I would say that it is a real expectation that a small number would.

Q155 Mr Heath: How about employer-provided nursery arrangements—workplace nurseries? How do you see that working within the context of the Bill?

Charles Cotton: Among our members, I think about one in 20 have onsite crèches and nurseries. I cannot see that there would be, from these proposals, either an incentive to expand that provision or an incentive to reduce it. It is only among the larger organisations that typically have people close together.

Q156 Mr Heath: But there is an injection of cash into it, and 20% of the funding will now come from Government rather than 100% coming from the employer.

Charles Cotton: Yes. I suppose that there are different parts of the pie. The funding could be there, but it depends on the organisation. If it cannot expand the crèche, there are limitations on the number of people it can offer these places to. Just because you have increased the funding does not necessarily mean that the supply can respond. It may respond over time, but not necessarily in the medium term.

Q157 Lucy Powell (Manchester Central) (Lab/Co-op): In our other oral and written evidence, one of the criticisms of the tax-free scheme, as opposed to the employer-supported child care vouchers, has been that it will remove from the equation the employer's relationship with employees. Can I just probe a bit further on whether you think that is an issue?

I am thinking not just in terms of a mum returning to work, where an employer would sit down and have a conversation with her, but in terms of a dad, for example, whose employer might not even know that he was having a child or his circumstances were changing, but they would become aware of that because he was getting child care vouchers. That would start a different kind of conversation. Do you think that there will be a loss of involvement among employers, or not, because of this change?

Samantha Mann: I will agree with whatever Charles says on this, but you raise an interesting point. If I can just slightly divert, for fear of sounding like a politician—sorry.

Robert Flello (Stoke-on-Trent South) (Lab): And that's a bad thing? *[Laughter.]*

Samantha Mann: I just wanted to get a point in. You have talked about parents returning to work. One of the things that I noticed when going through the Bill and the regulations was that with parents who are on some form of parental leave, which will undoubtedly include shared parental leave from next year, the child who they are on parental leave for is not included; they do not appear to be included anywhere within the Bill or the regulations. We found that to be quite harsh. I cannot believe that—

Lucy Powell: I did not notice that.

Samantha Mann: Well, I reread it twice and I have asked the question. I have to say that law is not my specialism, but as I have read the Bill that seems to be the case, and I would like to think that that would be amended as the Bill goes through.

As for whether or not there will be a loss, this is Charles's specialism rather than a payroll professional's specialism. From a payroll perspective, only where an employee is struggling, either with accessing tax-free child care or with accessing working tax credits through universal credit because there is a clash, or if there is a clash with other child care benefits that they might be getting in myriad other ways—if that causes them an issue that will impact on the employer, because they will come to the employer for financial support in the form of an advance.

Conversely, if the employee gets into trouble claiming tax-free child care when they should not be claiming it—they are not eligible—and therefore there is a repayment to be made, potentially that could impact on the employer, because the repayment might be collected through the tax code. So, from a payroll perspective, those would be the issues, but it would be more of an administrative burden from that perspective.

Charles Cotton: I agree with Samantha. Many of our larger organisations have reward packages that are quite sophisticated, so there are lots of touch points with employees around benefit selection and payroll, so they can get streams of information about the situation of their employees. Other organisations are creating flexible reward packages, so individuals can select those benefits that best suit their needs. Among smaller organisations, you would not necessarily have those formal touch points, but if you are in a small organisation you probably are quite aware of the individual circumstances of your work force.

Q158 Lucy Powell: Building on that, the main beneficiaries, other than the families themselves, of Government subsidies of child care, of which this Bill is another extension, are businesses. Do you think businesses play a sufficient role in that context, and do you think that this Bill will take some of that role away? I suppose that is the point I am making. In my view, we do not hear enough from business about the benefits to their businesses of having available, affordable, good-quality child care, or about businesses really stepping up to take part in that debate and helping to meet that in some way.

Charles Cotton: Larger organisations have a longer time frame. They recognise that the world of work and the work force are changing. The average employee is ageing. Many employees have child care commitments—many of them have elder care commitments—so it is important to have flexible working arrangements. It is not only about what the Government can do to encourage them; it is also about what employees themselves can do.

I would imagine that micro and small organisations that just focus on the day-to-day, month-to-month or year-to-year might not see the immediate link between what they are trying to do and the importance of having low-cost, quality and convenient child care arrangements in their area.

Q159 Nic Dakin (Scunthorpe) (Lab): Can I go back to the issue that you raised about how parental leave works? Do you think that sufficient provision is being made for women on both unpaid and paid maternity leave in the arrangements as you see them working?

Samantha Mann: It certainly does not appear to be now, based on my reading of how the Bill is written. It seems specifically to exclude any child care that would be required for a child who is not the cause of the need for parental leave. For example, a worker having her first child will not have existing employer-supported child care, so she will go off on maternity leave. The law allows for her to have 10 keeping-in-touch days, and increasingly those are being used. That is working very well, and of course with shared parental leave there will be more keeping-in-touch days for both parents.

That mother on maternity leave will want to take advantage of good child care and of any child care top-up schemes that exist. As things are written, I do not believe that she would be able to, or that the father would in a shared parental leave situation. As I said, with my limited understanding of how the law is written, I would say it does not provide for them at all.

Q160 Nic Dakin: You would hope that the opportunity would be taken to address that?

Samantha Mann: Yes. Obviously, a parent who already has a family started might already be part of an employer-supported child care scheme or might be receiving child care vouchers through a salary sacrifice scheme. As things stand, they will continue to receive that through the period of their leave, because it is a non-cash benefit. Again, there will be quite a disparity between what currently exists in employment law under salary sacrifice arrangements and what will exist under the Bill as written. It does not appear to support that new parent situation.

Q161 Nic Dakin: Thank you. Charles, have you got anything to add?

Charles Cotton: I have not got anything substantial to add.

Q162 Nic Dakin: Can I ask, then, about the relationship between universal credit and tax-free child care? How realistic do you think it is for parents to switch between tax credits—and, in future, universal credit—on the one hand and a tax-free child care scheme on the other, according to what is in their best interests? From your technical point of view on this, are there any issues that we should be alert to?

Samantha Mann: I would imagine there are a myriad, but from a technical perspective, as I said earlier, this is not my expertise. Again, from how I read the regulations as written, if a successful eligibility submission is made, from that point universal credits or the child care element of working tax credits would stop. That is my understanding. That is very black and white, and I am concerned that given the Government's increased digital agenda, it has the potential to be too black and white, and therefore to cause short-term problems for employees who are trying to fund child care so they can go back to work. However, any more than that I could not say.

Charles Cotton: I have not got much to add, but from what Samantha's research and mine showed, one of the concerns was around people whose earnings fluctuate quite significantly. You have got a three-month assessment period, so they might have to keep going through that assessment regime, which again could cause strains and issues, with people always having to refer to their HR departments to say, "If you give me extra money, it could have an effect on my amount of universal credit, and perhaps tax-free child care as well."

Q163 Nic Dakin: So it could create problems for that employer-employee relationship?

Samantha Mann: It certainly has that potential. I had not considered it from that angle until just now, but yes, it does. The one thing I have picked up through discussions with people who know the subject very well is that it is an extremely complex area. Specialists earn a lot of money understanding the area.

For the average Joe Bloggs employer—we are not talking about a large employer with substantial resources in a position to support its employees through every step of the parental process, but about the smaller employers that the Government are encouraging to grow—taking on just the first employee gives a massive wodge of legislation to comply with. Technically, the employer does not have to deal with the provision at all; if they do not have to deal with it, a small employer might choose not to. That would be a shame, but their priorities would be very different from those of a large employer that is well-staffed and able to delegate the management of those priorities.

I think that a smaller employer would struggle and probably just say, "No, I'm not interested." They struggle to pay and understand the fact that they have to deal with the many sorts of paid parental leave that exist, so I think that the idea that they would willingly go into supporting their worker in this way, over and above a friendly chat, would be difficult for them.

Q164 Catherine McKinnell: I want to go back to some of the more practical issues. Do you have any particular thoughts on the current proposal for NS&I to be the sole provider of the new scheme? I understand that that will remove a lot of your members' involvement in terms of the new scheme, but what are your thoughts on having a single provider rather than the multiple providers of the current system?

Samantha Mann: Our earlier survey suggested that our members believe that security would be important for employees. In the early stages they were not really clear on whether it was going to be an account or vouchers, but when we surveyed on account provision, the security of funds was important. Although we did not set out to have a preference on who the account provider is, the fact that NS&I is a Government-backed agency adds an element of security for the individual employee. That is important for the employer because the employee can place the money into that account, secure in the knowledge—touch wood—that it will still be there when they need to pay for their child care.

What was more important to our members was the fact that there was a single provider, rather than multiple providers. One challenge that employers, particularly payroll providers, are currently facing is the myriad of different pension accounts that they could have to deal with when it comes to automatic enrolment obligations. If they were going to support employees by making deductions from net pay and paying into accounts, the last thing that payroll provider members—not employer members—wanted to be thinking about was having to deal with several different account providers. They wanted to deal with only one, so the response we got on that was overwhelming.

Charles Cotton: I would mirror that. Most of our members wanted either one or a few. There were concerns that a large number of account providers would mean that there were issues around ensuring that the right data was being transferred in the correct format, or around what would happen if people decided to move from one account provider to another. Also, the employee could say, "I could go to account provider B, C or D—which one should I go for?", which would mean our members were moving into the realms of advice. Although we are agnostic about who provides the accounts, most of our members would prefer there to be as few providers as possible.

Q165 Catherine McKinnell: To clarify, my understanding is that employers would generally contract with only one voucher provider.

Charles Cotton: Yes.

Samantha Mann: But with child care payments, it is the employee who selects the accounts. The employer does not have a role in that; they will simply make a payment. If you were to have multiple accounts, it would be less likely, not more likely, to encourage employers.

Q166 Catherine McKinnell: So it is not so much a concern about the current voucher scheme as a concern about how the tax-free scheme could potentially cause complications?

Samantha Mann: Exactly. As things stand, and as Charles mentioned earlier, under the current voucher scheme employers put together flexible benefits packages. So they choose the voucher provider, not the employee, and they offer that as one of the many rewards that the employee can use.

Q167 Catherine McKinnell: You suggested in some of your comments that there is a bit of uncertainty out there because there is no clear information about exactly how the new scheme may work, although there is a vague timetable for autumn 2015. We have taken evidence from NS&I that one of the issues with undertaking the development at this stage is that there is a legal dispute about who should be providing the service. The dispute is causing a delay to the development, and possibly the dissemination, of information about how the scheme will work. What are your members' thoughts and potential anxieties on that? What do they feel about their inability to plan for the future?

Samantha Mann: At the moment, based on what little they know, our members are open to providing support under the new scheme. Anecdotally, the one thing our members are calling for is clear guidance to help them plan. The larger employers are well resourced and well staffed with professionals who are in a position to know their craft and to talk employees through the possible advantages and disadvantages of different schemes without being seen to give financial advice, which is obviously not within their remit. They are simply calling for clear guidance that clearly sets out for the individual employee and their adviser exactly what the benefits are of each scheme.

The child care payments, for example, cover children only up to the age of 12, or disabled children up to the age of 16, whereas employer-supported child care has different age regimes. There are quite a lot of complexities. You then add to that mix the complex benefits that currently exist. If an employee goes down the child care payments route, they potentially lose out on working tax credit support or universal credit support. Equally, there is an impact if they are part of employer-supported child care.

All of those complexities currently exist, so it is about making it clear what guidance does exist. Regardless of how child care payments will be administered, either through one account or multiple accounts, the basics will not change. The basic top-ups and the eligibility will not change; only the account that it goes into could potentially change. It is about making sure that that guidance is out there. The guidance must be clearly written, recognising the different audiences that exist. Employees will need to read it, and I note that there is already a small amount of guidance out there for employees. Employers need to read it, too. We were talking outside earlier about how making a comparison between employers is a little like making a comparison between a blackbird's egg and an ostrich's egg. They both have a shell, but apart from that there is a huge difference. It is the same employers; there is no set piece of guidance.

Then, of course, the media need to know about it, and professional technical writers need to know about it so that they can advise employers. Employers have a lot to deal with when it comes to payroll and HR issues. At the moment, they have got it pretty full-on with other issues, and so thinking about employer-supported child care and about child care payments is less of a priority for them. When we put a survey under them and ask them to complete that survey, they will respond to it—bless them—but it is not a priority for them to be thinking about just yet.

It is about providing that information so that technical writers can give it to employers and build it into training courses. An individual who is going on a course now to understand expenses and benefits in kind, which will include employer-supported child care, needs to have that incorporated into the course so that they understand the implications of making those decisions in future. What account the money goes into in the end is a minor thing when it comes to administration, as long as there are not multiple ones.

Catherine McKinnell: Are there more Members who wish to come in? I could continue.

The Chair: There is one more to come in.

Q168 Mr Heath: I have a question. You may not know the answer to this, because it is a slightly technical question. Do you have any feel, under the present scheme, for where the main benefits are coming in terms of pay ranges and pay percentiles—at what level is employer-supported child care providing the maximum benefit? Do you have a view, looking at the Bill, as to whether the new scheme will provide the maximum benefit at a higher pay level, a lower pay level or about the same level as the previous one?

Charles Cotton: We have not carried out any research among our members to see which earning groups have taken up the child care vouchers more and how that might change under tax-free child care.

Turning to the second question, we have not carried out any research. However, looking at the purpose of the new scheme, the idea is to reach out to a wider range of individuals than would necessarily have been able to participate in the previous scheme. Obviously, we are very supportive of groups such as the self-employed being able to access this benefit. Again, 95% of organisations provide child care vouchers anyway, so we hope that this will potentially lead to all employees of all organisations being supported if they have children. I do not know whether you have any research, Samantha.

Samantha Mann: No, we have not carried out specific research on this question. As employer-supported child care stands, an employee cannot sacrifice their pay below the national minimum wage that prevails for their age group, so any employee who is currently in receipt of the national minimum wage is excluded from employer-supported child care. The advantage of child care payments is that the deduction would be coming from net pay—take-home pay—and therefore the group of employees who are currently excluded from employer-supported child care would be included.

You ask which group we perceive will take advantage of this. Although I stress that we have not carried out a survey on this, I suspect that it is more likely to be the higher paid, quite simply because of cash-flow issues. They are more likely to have the cash flow to enable them to put money into an account, to process the top-up and then to pay the child care. As I say, that is just a finger-in-the-air feel; it is not based on any statistical evidence.

The Chair: Are there any more questions? I thank the witnesses on behalf of the Committee for sharing their expertise with us. I am sure that the Committee will benefit from it during further deliberations.

Examination of Witness

Dr Kitty Stewart gave evidence.

12.15 pm

Q169 The Chair: Just for the record, can I ask you to introduce yourself for the Committee and for *Hansard*?

Dr Stewart: I am Dr Kitty Stewart. I am associate professor in the social policy department at the London School of Economics.

Lucy Powell: Are you okay with us calling you Kitty for the purposes of this Committee?

Dr Stewart: Absolutely fine.

Q170 Lucy Powell: Thanks very much for coming. You said in your written submission that you had some concerns about the design of the Bill. By way of introduction, could you talk to us about some of those concerns, and then perhaps about some of the benefits of the Bill if you want to?

Dr Stewart: Okay, sure. First, in terms of the benefits, I can see that, on the surface, it is nice and clear; it is easy for parents to understand. The idea that other family members can pay into the system and have those payments topped up is attractive. On the surface, the 20% across the board idea is nice and easy to get across, and it is neat that that is the tax-free element you get.

However, when you look at it and think about the implications of it, it is a poorly designed policy—even if you think about it just in the narrow terms of saying we are going to use demand-side subsidies to try to improve the affordability of child care without worrying about quality, for example. I am a strong believer in the idea that we should do much more to integrate our policies to improve affordability and quality. I am disappointed that we are going to put more public money in without thinking more tightly about quality.

More specifically on the design, I have two concerns. The first is that the way it works out is not very progressive; it is channelling more money to the people in the top half of the distribution. That could easily be changed just by changing the design. If you are giving a 20% flat-rate subsidy, that sounds kind of fair, but it is a 20% rate up to quite a high maximum—£10,000—so you only get the full benefit of £2,000 if you are able to spend £10,000 on child care. We know that, for many families, that is way beyond what they are able to do; they are maybe juggling a bit of formal care with grandparents and so on, and they are not going to be able to take the full benefit. For example, in the existing employer scheme, if a basic rate taxpayer spent £2,913 on child care, they would benefit by £930 a year.

To get that £930 under the new scheme, they would need to spend £4,650. So this is going to leave families who are currently paying for fewer hours, and maybe paying for lower quality because that is what they can afford, in a worse situation, while channelling money to people right at the top of the distribution, who can afford to spend £10,000. That is my first concern.

It would be very easy to shift that. All you need to do is to have a higher subsidy up to a lower cap. The existing scheme is, effectively, 38% subsidy, because it is tax and national insurance, and it goes up to a lower cap. You could have 40% or 50%, but you could say, "We're only going to fund the first"—

Lucy Powell: £6,000?

Dr Stewart: Yes, up to £6,000. You could adjust that very easily.

My second concern is really about these demand-side subsidies in general. I think these are going to do exactly the same thing. We are not confident that this is not just going to lead to price inflation in child care fees. Parents have more money in their pockets, and child care providers can charge more. We do not know even that that extra money is going to go into quality; it could go into profits—we don't know. Again, that is something you could adjust for. One way to do that would be to introduce some sort of cap on fees. Some countries do that; Norway, for example.

I think it would be less draconian if you made the subsidy a maximum per hour rather than on the total. So instead of being able to just go and spend up to £10,000 on however many hours it is, you would work out what a reasonable hourly fee was and say, "You can only spend this on a certain number of hours, and it is only going to be up to £7 an hour", or whatever it is. The Netherlands does that, and Australia does that for part of its system and is shifting to do it for the whole system for precisely this reason; they are worried that the subsidies that they have are just boosting inflation. In the Netherlands, that seems to keep a cap on fees. It is like a soft cap; instead of telling providers they can only charge £7, you say that you will only subsidise the first £7. That means providers have to think hard about whether they want to say to parents "We are going to spend more because it is higher-quality, but you are going to have to pay for the whole of that yourself."

Q171 Lucy Powell: Okay, that's great. Can I just probe you a bit further on a couple of those points? We have heard some other evidence that suggests that price inflation is a strong possibility given that we would be pumping demand without addressing supply issues. I know you have done a lot of work internationally on these types of model, so could you expand on what evidence there is that the kind of model that the Bill will bring in is very likely to lead to price inflation? Over what kind of period do you think that the effects of the Bill would be negated, if at all, through prices going up?

Dr Stewart: I think it is very hard to say.

Lucy Powell: The time frame?

Dr Stewart: Yes. Some evidence that we have seen, certainly for the UK, suggests that as you see the working tax credit become more generous, you see the fees going up. I have not seen any robust evidence, because it is difficult to do because you have no counterfactual about what would have happened to the child care fees. There are more studies in Australia, but they certainly suggest exactly the same thing; as the subsidy goes up part of it, maybe not all of it, is offset by fee inflation. I can give you some references.

Q172 Lucy Powell: You gave some examples of international comparators that have schemes that stop that from happening. You said in your opening about this being a missed opportunity to put alongside the extra subsidy some more caveats around increasing quality. Where should we be going with public subsidies? How might that work? How might we amend the Bill to bring that into effect?

Dr Stewart: I think there are two sorts of thing that we could be doing, and one is maybe en route to the other one. We could be much stricter with child care providers. We have a system where we have private and public providers, and I do not think we are going to move away from that, but we could be making much higher demands of our child care providers. Perhaps not immediately, but we could be saying that in five years' time we are going to be much tougher about the sort of qualification requirements you need to have. That is really important.

In some countries, for example Norway, where private providers are part of the system, if they want to receive public subsidies they have to open their books and have them inspected. They are allowed to make reasonable profits, but there are restrictions. If they are spending much less on staff than other public providers, there are questions asked about whether their profits are reasonable. We have the whole Ofsted framework, and at the moment we do not consider inspecting anything like that, but I think that if we are giving providers public money, then we could be making more requirements on staff qualifications. Part of that might be looking at profits and putting some sort of restrictions in place on those. Currently, what we are asking is very, very limited. We are quite tough on ratios, but the qualification requirements are really very low. When we look at other countries, it is kind of shocking that they are so low and that we are happily putting public money into settings that really are not necessarily giving good provision for children—some of them, although I know there is a huge variety.

The other, more immediate thing would be to link funding more directly to qualifications, and that is harder to do with demand-side subsidies. I have thought a bit about it. With supply-side subsidies it is easier to link the money more directly to the qualification levels. It is no good just telling providers, "Right, you've got to have a teacher." You need to provide them with some incentive and the ability to do that. I think the funding system—actually, I think this is true for the free entitlement funding as well—does not currently do that. So if a provider wants to improve quality and take an extra graduate on, they have no way to do that within the flat-rate funding system. The only way they can do that is by passing that cost on to the parents.

I think we should be designing the system so that you do not just get a flat rate, but you get a bit more if you are providing higher quality. I feel that there would need to be a separate pot, actually. I cannot quite see how—doing it with demand-side subsidies is messy. I think you would then need to say, "Here's your money—your 20%—and then here's another pot that you can draw on, if you are going to take someone on"—like the graduate leader fund used to do, actually. It is not so different from things that we have had.

Q173 Lucy Powell: Just to link up some of those points, what is the international evidence on the model that the Bill brings in, which is a totally demand-side subsidy, with no strings attached? What is the evidence about what that would do to the supply of places and to quality, if anything?

Dr Stewart: I think it is probably better at increasing the supply of places than doing anything about quality. The whole idea is that it is like a child care market and that quality will kind of bid up in a market, so you do not need to worry about quality, because parents will want that and they will go out and look for it and they have a choice. In practice, we do not see that. The Netherlands has experimented with a very market-based system. You do not see a market leading to quality being bidded up.

I suppose it is a funny kind of market. Often parents do not have much choice. You have just got a couple of places in your local area, and you often cannot observe quality effectively as a parent—there is an Ofsted report every four years and you go on a visit. It is hard to know, really, what is going on. Also, you do not pull your child out of a setting once they are there, so it is not a market where people swap around. Things have to be quite bad before you will take your child out.

Those are probably reasons why, in this case, the market does not seem an effective way of guaranteeing quality. Whenever we see quality improvements, it is because Governments have regulated and said, "This is what you have to do." That is when you get qualifications improving, and other forms of quality. I think you can have a market, but if you are worried about quality, which I think we all should be, it needs to be a very regulated market, and we need to assume that it is Government regulation that is driving quality.

Q174 Lucy Powell: Personally, I do not think of child care as a market, in the same way as the market for lots of other services and goods, because there are very local markets and in some areas there is no market at all. You might not even have a nursery, let alone a choice of nurseries, or there might be little choice, so it is quite hard to run a market system on that basis.

Dr Stewart: Yes, I agree.

Q175 Mr Heath: Can I challenge you on a couple of points, so that I understand exactly what you are saying? First, on the maximum limit of £10,000, I perfectly understand what you are saying about the fact that not everybody can afford £10,000. However, when we talked to providers in previous sessions, they said that, actually, this cap barely covers the going rate in some parts of the country, particularly in central London. So if we were to reduce the upper cap in the way you suggested, we would deprive a lot of people who can just afford to have provision in London with the assistance of this scheme. We would basically be saying, "You can't have it. We're not going to provide anything for you. You will not be able to buy provision in London without a deep incursion into your own pockets." That, to me, is not helping moderately paid families very well. I am challenging you to say, is that not a flaw if we are already at that £10,000 level? That is not the case in some parts of the country; in Somerset, we will not be paying that sort of amount, if we can get a nursery at all, but in London, people are.

Dr Stewart: I suppose it does depend. If you think that what is driving differences in what parents spend is things entirely beyond their control to do with regional differences, then you are right: it makes sense to say, "Let's give the money to the ones who are being forced to spend more." You are right that, presumably, an element of what is happening is about that, but I would argue that a larger part of what is driving differences in what parents spend is their ability to spend more.

Q176 Mr Heath: Have you evidence to support that? We heard evidence the other way round from the providers.

Dr Stewart: I can certainly provide evidence that higher-income parents spend more on child care—*[Interruption.]*

Mr Heath: My colleague Lucy Powell is saying we did not. We had a clear statement from the providers that the going rate in London was £10,000.

Dr Stewart: But that is a slightly different question. That is the going rate, but many low-income parents who do not have £10,000 will be using a childminder rather than a high-end nursery, they will be using part-time hours and they will be using their neighbour or their mother to cover the extra half of the week.

Q177 Mr Heath: That does not alter the fact that there are people who would, under this scheme, be able to just afford the £10,000, but if you bring the cap down to £6,000, they would not be able to afford it.

Dr Stewart: I am not saying that you just bring the cap down. I agree—I am not sure that that would help. You would need to bring the cap down and increase the percentage of the subsidy. We have a 20% flat-rate subsidy up to £10,000. If you have a 40% flat-rate subsidy up to a lower cap, you are making sure that the lower earners are also covered.

Q178 Mr Heath: You have not convinced me yet, because the top-up amount from the pocket would still be bigger in your model than in the other model, but thank you.

Dr Stewart: I'm not quite sure that is true, but I will go away and think about it.

Q179 Mr Heath: Can I deal with the other area I want to understand—cost inflation and whether a soft cap is effective? Can I put it to you that we have this in the provision of elderly care, where the local authority sum is way below what it actually costs to provide the service? It is a national scandal that that is the case, but, nevertheless, that is the case. The effect is to increase fees for anyone who is not totally provided for by the local authority. Far from capping, the arrangements have actually increased the cost to those

[Mr Heath]

who are paying from their own pockets, so somebody who is just over the threshold for a total local authority reimbursement loses out. Would the same not apply in this instance?

Dr Stewart: I think we would want to work the cap out. If the cap was at a ridiculously low level, it would have no effect at all, so it might be to do with where we set the cap. In Australia, they are working out what a reasonable cost per hour of child care would be. Actually, this would be an area where you could have regional variations, so you could say, "In London, the cap's higher, so we'll subsidise up to £10 per hour" or whatever it is. That could be a way of building in differences by region. Certainly, the evidence from the Netherlands and Australia is that, as long as the cost is at a reasonable level, you can provide a decent service. In the Netherlands, about three quarters of providers are using it—it is their fee—and then you have some higher-end providers who are prepared to say, "No, we are going to provide more. We provide an organic lunch," or whatever it is. However, what they are providing is much more explicit and transparent.

Mr Heath: I think the organic lunch is going to decide it. Thank you.

Q180 Catherine McKinnell: One element of the child care payments scheme that differs from the current voucher scheme is the per-child element. What are your thoughts on that? You have proposed a number of ways in which the scheme could be made more progressive; how would that fit with the per-child element? You were talking about a potential cap per hour—would that be per hour per child, or per hour in terms of the total spend that an individual worker would incur? Also, how does it compare internationally? You mentioned Denmark; have other countries gone down the road of looking at it per child rather than as a household spend on child care?

Dr Stewart: That is a good question. You could do it either way. I think that the per-child aspect is a nice element of the Bill. Lots of countries do not do it this way at all; they do it through supply-side subsidies direct to providers and then through income-related fees. I think the Netherlands and Australia have really good models of demand-side subsidies.

Q181 Catherine McKinnell: And do they do it per child?

Dr Stewart: I am trying to think. I do not think that they do—no, it is definitely per child in the Netherlands, and it is a much more generous subsidy as well.

Q182 Catherine McKinnell: One of the benefits you mentioned was the simplicity, but when it comes to the per-child element in certain settings, it potentially gets much more complicated. We took evidence from the nannies' association, and it is obviously not clear at all how the funding would be allocated to a nanny who looked after three or four children with slightly varying child care requirements.

Going back to your comments on quality, the nannies expressed particular concerns that, although Ofsted registration will be encouraged as a requirement for the receipt of funding, that will not actually do anything to improve quality. What are your thoughts on how you would go about improving quality in that setting and also for childminders, where they are required to Ofsted-register but there are concerns that that will not reflect any improvement in quality?

Dr Stewart: I have not thought very much about nannies, but certainly for childminders there is a good model from New Zealand, where a childminder will be linked in to the equivalent of a children's centre type of thing, and they have what they call a home educator—like an early-years teacher. That person oversees a group of childminders and is responsible for bringing them together and ensuring that they are getting support in that way, but they also visit at home in between, so that it is not just an Ofsted visit every four years. I would like to see level 3 qualifications for childminders—that could be a requirement—but I also think that there are ways to link childminders to other qualified professionals to provide them with support.

Q183 Catherine McKinnell: I want to touch quickly on the administrative side of things, although that may not be an area that you have looked at. One benefit of the current voucher scheme is that the employer takes on quite a lot of responsibility for administering the scheme—obviously, the parent has to engage in the process to some extent as well.

The measures in the Bill switch that responsibility entirely on to the parents. Concerns have been expressed that parents will potentially be without any support from the employer because employers are no longer engaged with the scheme. What are your thoughts on that? Also, what are your thoughts on the three-monthly enrolment requirement that is being discussed? That might not be your area of interest.

Dr Stewart: Not really, no. I do not think I have anything useful to say on that.

Q184 Nic Dakin: Can I come back to the exchange you had earlier with David Heath, so that I can clarify it for myself? We had evidence from Julian Foster of the Child Care Vouchers Association earlier this week. He said:

> "The average child care spend, according to the Department for Education's own statistics, is just over £5,000 a year."—[*Official Report, Childcare Payments Public Bill Committee,* 14 October 2014; c. 32; Q32.]

My understanding was in respect of an argument for a differential response. A higher threshold of response with people claiming only up to, say, that amount, would allow those people to access support at a quantum similar to the amount for people claiming beyond that amount, up to £10,000. Have I got that right, or have I misunderstood?

Dr Stewart: Yes, I think so. I guess I was saying that if you want to keep it really simple and flat rate, raise the percentage higher for everybody but have the cap lower, so that you get support only for the first x thousand pounds, where x is much lower than 10. I think you are saying a slightly more sophisticated thing, which is that you would have a higher percentage for people on lower incomes. You might pay 50% or 60% up to a certain amount and then you would pay only 20% above that. Is that right?

Nic Dakin: Possibly, yes.

Dr Stewart: By varying that percentage, you are obviously going to be much more progressive. There is a big leap from universal credit, where people can get 85%, suddenly down to 20% for everybody. In the Netherlands, it varies from the lowest earners, who pay 3% of the total cost, to the highest earners, who pay 66% or 67%. They are more generous to everybody, but they have a sloping scale rather than a flat rate. Of course, you start to move away from simplicity, but in terms of reaching the people who I think will be most affected and who need it most, the system is more effective.

Q185 Nic Dakin: Okay; that is very helpful. You mentioned universal credit and tax credits. How do you see this working for people who are moving between universal credit on the one hand and tax-free child care on the other? Do we need to think a bit more carefully or is it going to work fine?

Dr Stewart: I think it is going to be messy and confusing for parents. It would be ideal to have one system for everybody. Of course, there are going to be people in this grey area—"Which one should I apply for?"—who are moving from one to another, and that is an unnecessary stress and difficulty. Universal credit is universal so no one is going to want to take the child care element out of it, but I think it would be preferable to have a scheme that applied to everybody.

I am a big believer in the universal. I know that I am arguing against giving all this money to people at the top of the income distribution, but in general I am a big believer in universal policies, because for intrinsic reasons I think that we should be providing support for all children, but also because, instrumentally, it is good to get away from a divide between what the poor people get and what other people get.

The interesting thing about this combination is that we are giving all this money to the top. We have the costs of a universal-ish policy, but are not even having the benefits, because we are still dividing people into, "This is what you get if you are a poor person on universal credit and this is for everybody else."

Q186 Nic Dakin: And if we carry on with two systems, is there a way of making that easier for people?

Dr Stewart: Presumably, yes, but that is probably not my area.

Nic Dakin: Thank you.

Q187 Robert Jenrick (Newark) (Con): Can I take you back briefly to the exchange with my colleague David Heath? He referred to the evidence from a previous witness, Katie O'Donovan from Mumsnet, on the question of whether better-off people generally have more expensive child care than the rest of us. She had looked at the evidence and could not find that other than in the case of the very highest category of earners, who might be able to afford their own nannies and so on. In the case of middle-income people, the same kind of child care was generally found across the board. On the issue of whether you should differentiate, she said:

"If people are paying for a full-time nursery place in London, or in about 25 local authorities that the Family and Childcare Trust looked at, then they are paying £10,000 a year"—[*Official Report, Childcare Payments Public Bill Committee,* 14 October 2014; c. 45; Q91.]

We did research in my own constituency of Newark in the east midlands, where the average is lower, but it is still £7,800. It is by no means a wealthy area. Do you not worry that your suggestions today cut out a key group of people who are not top earners but are essentially middle earners? When you refer to the top of the income distribution, you really mean the second half of the income distribution. Those are key people who we want to get back into the workplace, because they have a lot to contribute and will potentially pay a lot of tax to the Treasury later in their careers.

Dr Stewart: It is an important point. This is about spreading that money. I am very annoyed at my co-author because we are supposed to be writing a paper exactly on this, so I will go back to her and say, "Where are our tables?" If she has them, I will send them to you. Those tables tell us what people spend on child care across the income distribution. That would provide some light rather than heat.

It is a mistake to think that just because the cost of a full-time place is x, that is what people are paying. I know that there are people who cannot afford a full-time place and so are going for a half-time one. Let us assume that we are going to leave the pot as it is. All you are doing is spreading the money out; it is a bit like free entitlement, in essence. The free entitlement gives everyone 15 hours free. You are not discriminating against the richer people because you are only giving them 15 hours; you are ensuring that everyone gets their first 15 hours free.

If you assume that people who work part time or who use less formal child care are on lower incomes, you are giving everyone that starting point. If they then want more, they pay for more. To really make a difference for the middle-income earners you are talking about, we need to put more money into the pot. If this is our fixed pot, spreading it out so that everyone is able to access a certain number of hours at the lower rate has to be a fairer way of doing it.

Q188 Lucy Powell: What you are talking about is very attractive, precisely because it will still include a hefty subsidy for the vast majority of what we might describe as middle England. For example, someone might spend £10,000 a year on a full-time nursery place—that might be the case if you were in middle England and had one child. It would certainly become very prohibitive if you had two children and were spending £20,000 to get the full subsidy.

Under this scheme, you would get the maximum subsidy of £2,000 a year. However, under your proposal of 40% or 50% of £6,000 a year, you would still pretty much get £2,000 a year, if not more. The people that my colleagues are talking about would get exactly the same benefit that you are describing. You would presumably have to take something off the people claiming £10,000 a year—

Dr Stewart: If you were going to keep the pot the same.

Q189 Lucy Powell: It would probably not be that much less, would it?

Dr Stewart: You would have to do the maths, but I think it would be much fairer. The only people I am worried about are those that Mr Heath mentioned. There is an issue if you are living in a very high-cost area. That is why I like my hourly subsidy idea, because it would be a very easy way to work out the regional hourly cost and adjust it.

Q190 Lucy Powell: Yes, and you would have to look at that. We have to be careful about exactly what we mean when we ask, "Do rich people have more expensive child care?" because there are two definitions of that. I spend £54 a day on the nursery for my daughter, but most people in my constituency spend £28 a day on child care because that is what they can afford. You can do two different things: spend a higher hourly rate or use more.

Dr Stewart: Yes, and people on higher incomes are able to do both.

Q191 Lucy Powell: Yes, exactly.

The Chair: All that is left is to thank you for coming along and sharing your views with us. I am sure they will be food for thought for some of us.

Dr Stewart: Thanks very much.

Ordered, That further consideration be now adjourned. —*(Gavin Barwell.)*

12.50 pm

Adjourned till this day at Two o'clock.