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GENERAL COMMITTEES

Public Bill Committee

CHILDCARE PAYMENTS BILL

Sixth Sitting

Tuesday 21 October 2014

(Afternoon)

CONTENTS

CLAUSES 9 to 13 agreed to.

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The Committee consisted of the following Members:

Chairs: JIM SHERIDAN, †MRS ANNE MAIN

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

Public Bill Committee

Tuesday 21 October 2014

(Afternoon)

[MRS ANNE MAIN *in the Chair*]

Childcare Payments Bill

2 pm

The Chair: Before we start, there have been some complaints about the temperature of the room, so we are going to try to alter it to make it less drafty for those Members sitting by the windows.

Clause 9

THE PERSON AND HIS OR HER PARTNER MUST BE IN
QUALIFYING PAID WORK

Alex Cunningham (Stockton North) (Lab): I beg to move amendment 16, in clause 9, page 5, line 28, at end insert—

() A person is in qualifying paid work if the person has accepted an offer of work on or before the day on which the declaration of eligibility is made and the work is expected to start within 28 days of that day.”

It is a pleasure to server under your chairmanship, Mrs Main. I will speak briefly to amendment 16. As the Committee will be aware, the provisions in clause 9 relate to qualifying paid work. The Bill states that parents will not be eligible for the scheme until seven days before the start of employment, although I am pleased to read in the Minster’s letter to the Chairs of the Committee her commitment to lengthen that period to 14 days—my hon. Friend the Member for Manchester Central alluded to that earlier in the day.

As anyone who has ever had to search for a child care place will testify, identifying a suitable place is often highly time consuming and involves a careful scouring of local options. It is not uncommon for places to need to be secured many weeks in advance with a sizable deposit of an advanced payment covering several weeks of child care paid up front, all before the person even starts work. Therefore, while broadening the catchment of the scheme, the newly planned 14-day limit will continue to mean that many parents will still not benefit from the 20% top-up when they pay a deposit and any up-front fees to a child care provider. With current child care costs, that amounts to a significant additional burden for families. As I read it, if they have made the payment more than 14 days before their start date, they will lose the benefit entirely. A cash example might be someone paying £800 some three working weeks ahead of starting a new job and losing the £200 top-up simply because of the regime that they have to cope with.

While I was happy that the Minster had expressed her willingness to extend the seven-day period, I have to question whether the move goes far enough to help hard-pressed families and to encourage parents to re-enter the labour market. I repeat that I welcome the Minister’s

initial thought to extend the period from seven to 14 days, but I still have reservations that that will inevitably result in many families not being eligible for the top-up and much of the cost incurred up front when they plan to re-enter the work market. Indeed, I worry that there is in fact a continued disincentive for families to plan forwardly in that way.

Increasing the limit to 28 days would both align the scheme with universal credit and ensure the scheme is as beneficial, convenient and straightforward for parents as possible. I welcome hearing what work the Minister has undertaken in this area to determine the 14-day figure. I would also be interested to learn what analysis has been carried out to assess the extra cost associated with extending the period further to 28 days. On the face of things, I can see potential benefits to extending the seven-day period beyond that which has already been outlined. However, I look forward to hearing from the Minister to better understand exactly why she decided on 14 days and will not consider extending it further.

The Exchequer Secretary to the Treasury (Priti Patel): Good afternoon, Mrs Main, it is a pleasure to serve under your chairmanship. Clause 9 sets up the fourth eligibility condition, which is that the person and their partner, if they have one, must be in qualifying work when they make their declaration of eligibility. The purpose of that condition is self-evident as the purpose of the scheme is to give parents, as we have discussed, the support they need to go out to work. It follows that the conditions of eligibility should include the requirement that such parents are genuinely working. That is fundamental to the design of the scheme. For those purposes, qualifying paid work includes both employment and self-employment.

As I explained in my remarks regarding clause 1, the availability of Government support to self-employed parents represents a significant improvement to existing schemes. It is worth stating again that less than 5% of employers currently offer employer-supported child care. That leaves more than half of all employees, not to mention those who are self-employed, unable to access any support with their child care. Opening up the new scheme is paramount and I am sure the Committee welcomes the change that has been brought forward.

It is, of course, necessary to define what we mean by qualifying paid work to ensure that support is appropriately targeted. The definition will be set out in the regulations, which members of the Committee have seen in draft. Broadly speaking, someone will be treated as being in qualifying paid work when they and their partner, if they have one, are in paid work—employment, self-employment or both—and expect in the forthcoming entitlement period to receive at least what someone who works eight hours a week would earn at the prevailing rate of the national minimum wage. At the current rate of the minimum wage, a parent would need to expect to earn £52 a week on average to meet that condition. I am sure members of the Committee will agree that that threshold is low enough, and we discussed it earlier.

The rules have been designed to have the flexibility to cater for those with non-standard working patterns. If someone divides their working week between two separate paid employments, or is both an employee and self-employed, they will be eligible for the scheme if their expected total income from all sources reaches the

minimum limit. That will ensure that a parent's full work activities are properly taken into account when determining whether they are eligible for support. It will also mean that those who work part time will be able to qualify on the basis that they generally have income around the minimum threshold.

The reference to expected income is crucial, particularly for those who are self-employed or on uncertain contracts of employment. A parent will meet the condition provided they have a genuine expectation that their income will exceed the specified level.

The hon. Member for Stockton North asked about accessing child care costs and changing the relevant period from seven to 14 days. As I said on previous clauses, this process is very much about dialogue. We have listened to stakeholders and parents. As I said when we spoke about disabled children, we need to try to get the right balance between supporting parents on their return to work and ensuring that the scheme is genuinely targeted at working families.

On the issue of 14 days versus 28 days, stakeholders pointed out to us that, in some instances, allowing access to the scheme only seven days before parents start work is restrictive, and the hon. Gentleman highlighted some of the practical issues that arise. All parents in the room have been there themselves, and they know how challenging it is to find the time to find the right child care provider. However, stakeholders and parents broadly welcomed extending the period to 14 days.

A limit of 14 days sets the right balance between giving parents enough time to set up an account and make payments in advance of starting work and ensuring that the scheme is genuinely about supporting working families, which is the principle of the Bill. When we speak to stakeholders, they all clearly push for the best possible outcome for those they represent, and their representations are based on their membership and the organisations they represent. In the discussions we have had, 14 days has appeared to be the right balance.

Finally, I should point out that, as I have said on previous clauses, once the scheme is up and running, we will review its workings and practical implications. Naturally, if stakeholders have any views on the 14-day limit, we will want to hear back from them.

The condition set out in clause 9 makes it clear that the scheme is properly targeted to support working families. On the amendment, we have had discussion with stakeholders, and they felt that 14 days struck the right balance. I therefore ask the hon. Gentleman to withdraw the amendment, and I hope that the clause will stand part of the Bill.

The Chair: Given that the Minister has spoken to clause stand part, would any other Members like to speak to clause stand part now? No? In that case, I call Alex Cunningham.

Alex Cunningham: I am grateful to the Minister for her explanation. As she said, this is a matter of dialogue. I particularly welcome her commitment to review how the scheme is operating and to consult with parents and stakeholders. On that basis, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 9 ordered to stand part of the Bill.

Clause 10

THE INCOME OF THE PERSON AND HIS OR HER PARTNER
MUST NOT EXCEED LIMIT

Catherine McKinnell (Newcastle upon Tyne North) (Lab): I beg to move amendment 4, in clause 10, page 6, line 24, at end insert—

“(6) The Chancellor of the Exchequer shall, within three months of the passing of this Act undertake a review of the impact of the income requirements introduced under this section.

(7) The report referred to in subsection (6) must in particular consider—

- (a) the appropriateness of the limit specified in regulations under section 10;
- (b) the estimated average value of top-up per child;
- (c) the proportion of parents paying for childcare who are expected to be beneficiaries; and
- (d) a distributional analysis of the beneficiaries.

(8) The Chancellor of the Exchequer must publish the report of the review and lay the report before the House of Commons.”

It is a pleasure to serve under your chairmanship this afternoon, Mrs Main.

Clause 10 sets out the fifth eligibility condition of this group of clauses. It provides for regulations that set the maximum income limit, over which parents will become ineligible for child care. Regulation 15 of the draft Childcare Payments (Eligibility) Regulations 2015 provides that persons not expecting to pay the additional rate of income tax—that is, not earning more than £150,000 a year—will be eligible for the scheme, meaning that households with a joint income of £300,000 a year could be eligible for tax support for child care costs. That is the point on which the Opposition would like to focus.

With amendment 4, we are seeking to probe the Government on the reasoning behind the income limit and the effect of that limit on who benefits most from the Bill. The question that must be asked is this: will the Bill really help those parents who need the support the most? Last week, the Committee heard concerns from a number of witnesses about the way in which the benefits of top-up payments will be spread across the income distribution. Indeed, along with other Opposition Members, I have raised the issue with Ministers through written questions and on Second Reading. We have been asking for the full facts and figures on who exactly will be better off under the new scheme and whether any particular income groups will benefit. So far, the Government have not been forthcoming with the information, so we have tabled the amendment 4.

The Resolution Foundation is the only group that seems to have published any detailed work on the Bill's distributional effects. According to Vidhya Alakeson, who gave evidence last week, the Resolution Foundation's analysis suggests that 80% of the families who will benefit from the top-up payments are in the top 40% of the income distribution, and even the remaining 20% will go to those in the middle of the distribution scale. Those stark figures form the basis of the amendment. If we accept that the two key aims of the Bill are to support parents with the costs of child care and to help more parents to get back into work by making work an

[Catherine McKinnell]

economically viable option, the Resolution Foundation figures raise serious questions about whether those aims will be achieved.

We should bear in mind the Resolution Foundation's work when we think about the 2013 report by the Government's advisory group on child poverty, Alan Milburn's Social Mobility and Child Poverty Commission. That report recommended that the Government address the concerns I have just outlined. It warned that the original proposals on child care payments would subsidise the better-off and create a two-tier system. In January 2014, the commission recommended that the Government introduce a lower cap of £120,000 on the joint income of dual earner families, with the money saved to be transferred to working families on low incomes. Will the Minister address that issue and explain what consideration the Government have given to the commission's recommendations?

When she gave evidence last week, Alison Garnham from the Child Poverty Action Group told us that she believes that most of the funding for the scheme will go to the top 60% of earners. Katie O'Donovan, the head of communications and partnership at Mumsnet, also gave evidence last week. She has previously criticised the Government's decision to open up child care subsidies to high-income parents with household incomes of up to £300,000. In August 2013, she said that

"there is concern that single-parent households might lose out whilst some very high earning two-parent households will benefit. A couple could earn £300,000 a year and still benefit. That doesn't seem sensible and is inconsistent with other cuts, such as those to child benefit and to childcare tax credit."

2.15 pm

Following the March 2014 announcement of the changes to the scheme, Citizens Advice welcomed the changes to the universal credit provisions in particular, but made it clear that the Government could still do much more to support those on the lowest incomes, rather than

"giving additional help to high earners".

The Institute for Public Policy Research, which also gave evidence to the Committee, has previously suggested that top-up payments will be

"skewed towards benefiting higher income families",

while still not necessarily securing lower costs for parents or the Government.

The Committee also heard from Kitty Stewart, from the London School of Economics, who drew comparisons between employer-supported child care and top-up payments. She explained that, under employer-supported vouchers,

"if a basic rate taxpayer spent £2,913 on child care, they would benefit by £930 a year."—[*Official Report, Childcare Payments Public Bill Committee*, 16 October 2014; c. 86, Q170.]

To get the same support from the new top-up payments, that parent would need to spend £4,650 on child care. That is quite a staggering difference.

Lucy Powell (Manchester Central) (Lab/Co-op): Did my hon. Friend see the information that Kitty Stewart subsequently sent to the Committee, which showed that

lower earners spend a lot less on child care than the highest earners? That point was starkly made in her evidence.

Catherine McKinnell: Yes, and a lot of the evidence we received pointed to these questions being raised with and hopefully at least considered by the Government, if not responded to. We need to ensure that this additional tax expenditure achieves the maximum possible. The Government's own stated aim is to ensure that it makes a difference to parents for whom, at the moment, it simply does not add up for both of them work. Families on lower incomes—particularly those just above the universal credit income distribution—need to be supported with their child care costs.

Many organisations seem to agree that the majority of the benefit from top-up payments will go to those on higher incomes. However, the Government have so far remained silent on the matter. They have not yet published their own analysis, which we can only presume was undertaken when they devised the policy, and they have yet to set out the facts. Many questions have been raised about whether public money being spent on top-up payments could, in fact, be better spent on other schemes that target those on the lowest incomes, who most need the help. Some witnesses proposed lowering the income cap—which, in itself, would presumably save the Government money—and matching that with an increase in the rate of top-up payment for those on the lowest incomes. What consideration has been given to those proposals? They would not require extra expenditure by the Government but would perhaps require the current envelope of funding to be distributed in a different way.

Other witnesses mentioned extending the free entitlement offer, as the Opposition have committed to do. That is another example of something that could support families on lower incomes much more effectively. The Minister told the Committee in last Thursday's evidence session that the Government plan to carry out a standard post-implementation review two years down the line. Amendment 4 asks for that work to be undertaken now. It asks the Government to look properly at the distributional impact of top-up payments and to publish that information for the benefit of the Committee, the House and the public.

Nic Dakin (Scunthorpe) (Lab): I am pleased to serve under your chairing, Mrs Main.

The case for distributional analysis is even stronger than it was before in the light of the evidence given to us last week. Therefore, my hon. Friend is making a strong point, to which I am sure the Minister will want to respond carefully.

Catherine McKinnell: I thank my hon. Friend. I agree that distributional analysis is key in relation to the new expenditure on child care costs, and I am sure that the Government have considered the issues raised. At this stage it would be helpful if the Minister were to share some of that thinking with the Committee, so that we may all have a clearer view of the distribution of impact.

The review suggested in the amendment would be intended to answer a number of questions. For example, what kind of income groups will benefit most? What will be the income of the average beneficiary of a

top-up payment? Will the money disproportionately benefit high-earning parents, and therefore not contribute to the vital aim of ensuring that more parents, particularly women, are enabled to get into work when they might otherwise not be able to afford to do so? Will the Minister set out for the Committee whether her Department has carried out any analysis of the distributional impact? If not, is it something that the Department will look at before the scheme is rolled out, instead of waiting until two years after the roll-out to see whether the impact has been as great as the Government might hope?

Another key aim of the Bill is to enable more parents either to work longer hours or to get back into work. As witnesses have told us, however, there appears to be little evidence to suggest that offering top-up payments to families on incomes of up to £300,000 will have an impact on increasing labour market participation. When the Minister responds, perhaps she will be helpful and set out the Government's justification for setting the maximum limit at £150,000 per year, or a combined household income of £300,000 per year. I appreciate that there might be a good explanation—perhaps simplicity—but will the Minister clarify the thinking behind the limits?

The bottom line is that since the scheme was announced in March this year, it has remained completely unclear to average working parents with average expenditure on child care costs how much they can expect to receive under the new scheme. Under the employer voucher scheme, parents know that they can expect to receive a set amount per week depending on their income. That support does not depend on the amount that they spend on their child care and, arguably, it is therefore far more reliable for parents to plan for the future. In contrast, we still do not know what the average top-up payment will be, which is why the amendment calls for the Government to make it clear exactly what they expect it to be. That is better than stating that if people spend £10,000 a year on child care, they will save x amount of money, which according to independent estimates is clearly not the average.

The amendment is intended to get answers to a number of questions about the effectiveness and targeting of the support, about which stakeholders and Committee members have expressed a number of concerns. I urge the Government to respond to the issues that I have raised or, failing that, to do the analysis needed to help Committee members and the House better to understand the impact of the Bill on work incentives and on helping the families who need help the most.

Priti Patel: Amendment 4 would amend clause 10 to require a review of the new scheme within three months of the Bill receiving Royal Assent. That would cover the impact of the upper income limit, the average value of top-up per child, the proportion of parents paying for child care who are expected to be beneficiaries, and distributional analysis.

It may be helpful if I remind hon. Members that the scheme will ensure that, for the first time, parents can be certain that support will be available as they move into work or increase their income. The new scheme is much more fairly targeted than the current employer-supported child care system. All working families who meet the eligibility criteria will be able to apply, whereas employer-supported child care does not work that way—parents

get the opportunity only if the employer chooses to offer it. As was made clear by witnesses at the evidence sessions, only one in 20 employers make such an offer, leaving more than 50% of employees, and all self-employed parents, unable to access that support with their child care costs. Tax-free child care will therefore distribute benefits far wider than the previous scheme. Importantly, it will ensure that all working families will be able to access support with their child care costs.

On the points made by the hon. Member for Newcastle upon Tyne North, which also came out during last week's evidence sessions, predominantly from the Resolution Foundation, I reiterate that the overall system of support, including tax-free child care, will remain focused on those on lower incomes. Families in receipt of tax credits already receive more generous support with child care costs. Under universal credit, support is being extended to cover up to 85% of child care costs, regardless of the number of hours worked. The scheme is not at all about helping the wealthy; it is about ensuring that all families can qualify for support with their child care costs, subject to meeting the eligibility criteria. It is valid to point out that many households and people are struggling with the high costs of child care, and that the problem is not limited to low earners.

Aligning the scheme with the established additional rate parameter will also make it simpler for parents to understand and easier to administer, building on parents' awareness of their tax status and the rate of tax that they pay and making it straightforward for them to assess their eligibility for the scheme. I spoke this morning about the purpose of making the scheme simple and clear for all eligible families and parents.

On the distributional analysis of tax-free child care, such analysis alone does not capture the full picture, because it misses the point about the wider overall system of child care support, which remains focused on those on lower incomes. As I have already said, those on tax credits already receive more generous support. In addition, there have been other changes regarding personal income tax thresholds. Capturing distributional analysis right now therefore does not give the full picture of the level of child care support.

Officials are discussing with colleagues across Government the possibility of considering the matter in more detail and of carrying out distributional analysis of all Government child care support. Much child care support is outside the Treasury's remit and lies with the Department for Education, and many of the schemes that exist have been touched on in the Committee.

Nic Dakin: I very much welcome the Minister's comments about a wholesale look at the matter, including distributional effect.

I want to ask about the group of parents who are just above universal credit access, and will therefore fall into the support set out in the Bill. Does the Minister have any concerns about that group getting fair access to support?

Priti Patel: No, but I thank the hon. Gentleman for his comment.

Returning to the scheme's objective and how it is designed, it is absolutely about ensuring that those who are eligible meet the criteria and have access to the

[Priti Patel]

scheme. It is not about people falling through. It is not like previous schemes, under which people have missed out or missed opportunities for reasons such as complexity or the need to reporting changes in their circumstances. As I emphasised this morning, the Bill is not about that. Under universal credit, the support is there regardless of the hours worked.

2.30 pm

Supporting hard-working families to secure a better future for their children is the purpose of the Bill and the objective of the Government's child care plans and policies.

Catherine McKinnell: I did not want to interrupt the Minister, but I got a sense that she was about to wrap up her comments. Before she does so, will she comment on the queries about the upper income limit, which has been set at £150,000 for an individual earner or £300,000 for the household? That was a key concern that was raised by a number of stakeholders during evidence sessions.

Priti Patel: I reiterate my earlier point: the scheme is targeted at those on low incomes. As for supporting families on the higher incomes that the hon. Lady highlights, we took the decision to align the scheme with the established additional rate parameter, to make it simple and straightforward. It is about raising awareness of the scheme and making it simple when people access it, as well as not complicating it from a tax point of view. We are also trying to keep it straightforward for parents to assess their eligibility for the scheme. However, I emphasise that the focus is on those on lower incomes. We have announced that families eligible for universal credit will benefit from additional support at 85% rather than 70%, in addition to other measures—outside the Treasury's remit, but supported by the Department for Education—on extended free early-years provision for two-year-olds for those on lower incomes.

Catherine McKinnell: I appreciate the Minister's explanation about simplicity. However, given the concerns that have been raised, what consideration have the Government given to alternative formats? For example, one suggestion was to increase the amount available for those on the basic tax rate and taper it for those on the higher tax rate. Other alternatives have also been put forward. Have the Government considered those, or have they not even considered integrating them into the Bill?

Priti Patel: It is fair to say that all aspects have been looked at and deliberated upon in the development and design of the Bill. In my view, we are doing the right thing by setting the upper limit at the income band for the additional rate. It is fair to say that previous schemes have not had that upper earning level. The scheme will be reviewed in two years, as has been clearly stated. Part of our objective is to make it simple and straightforward for families and parents to access the scheme within the current tax parameters. We have focused the right and

proper amount of provision on those on low incomes. I assure the hon. Lady that the issues have been considered sufficiently.

As I emphasised earlier, the new scheme is about providing hard-working families with the necessary support for their child care costs, within the wider overall child care offering that the Government are providing to help every working family across the United Kingdom. Evaluating the scheme is important, and, as I set out in our evidence session last week and have touched on today, we are planning the standard post-implementation review at the two-year mark after full implementation. That will set out the benefits of the scheme and what it has delivered. We take the view that that is an appropriate period for such a review; by that stage the scheme will have bedded down and we will have had more engagement with eligible parents, more contact and more feedback. Producing a report three months after Royal Assent that looked at distribution analysis alone and excluded all other child care support measures would not be appropriate. I therefore ask the hon. Lady to withdraw her amendment.

Catherine McKinnell: I am partially reassured by the Minister's comments, particularly in relation to the fact that the Government will look at the distributional impact of the Government's child care offer across the board. That is an important piece of information to put out there. I assume that if the Government are confident that they are distributing support fairly, some transparency around that would be welcomed, both by the Government and, obviously, by stakeholders and Opposition Members. At this stage we will not press the amendment to a vote, but we will look to hold the Government to account for their promises that information will become publicly available in due course. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 10 ordered to stand part of the Bill.

Clause 11

NEITHER THE PERSON NOR HIS OR HER PARTNER MAY
BE CLAIMING UNIVERSAL CREDIT.

Lucy Powell: I beg to move amendment 6, in clause 11, page 7, line 1, after “may—”, insert—

“(a) repeal this section, or”

This amendment would allow the Government to bring forward regulations to allow the possibility for top-up payments to be further aligned with Universal Credit.

The Chair: With this it will be convenient to discuss the following:

Amendment 5, in clause 11, page 7, line 6, at end insert—

“(7) This section shall not come into force except as specified in paragraph (a) below.

- (a) The Chancellor of the Exchequer shall bring the section into force by order within six months of the passing of this Act.
- (b) a statutory instrument containing an order under paragraph (a) shall be accompanied by a report which details—
 - (i) the impact of delays to the rollout of Universal Credit on low-income families with children expecting to receive top-up payments, including a timetable for the rollout of this support;

- (ii) the impact of this section on the take-up of Government childcare support schemes;
- (iii) the impact of the eligibility criteria under this section on the complexity of interactions between Government childcare support schemes; and
- (iv) what guidance will be provided to parents to raise awareness, understanding, and simplify those interactions.”

Amendment 7, in clause 69, page 44, line 27, at end insert—

“(0) regulations repealing section 11.”

This amendment is consequential on amendment 6.

Amendment 15, in clause 74, page 46, line 17, at end insert—

‘(1A) Sections 11, 12 and 16 come into force as set out in those sections.’

This amendment is consequential on amendments 5, 8 and 12.

Clause stand part.

Lucy Powell: It is a pleasure to serve under your chairmanship, Mrs Main. I would like to discuss these amendments together as, obviously, they have been grouped. The amendments allow us to explore the interaction of universal credit and tax credits with the tax-free child care scheme that is proposed. Given the complexity of the issue and the number of representations that we heard last week and over the past few months, I apologise in advance for the length of some of my comments. However, it is very important that we have this discussion about the relationship with universal credit and tax credits and about the purpose of the Bill, because at the heart of the Bill is a desire to help make work pay and to support parents looking to go back to work or to increase the hours they work. Parents need to know under which system they will be better off, and under which system they will get the most support to return to work. They also need to know whether returning to work or increasing their hours under either or both systems will actually result in their being better off in the first place.

This is not a static situation for most families, because it is not only about their earnings or their income. It is also to do with the number of children people have, because that can influence how much support they receive under both schemes. It can also relate to the other benefits that they receive, and under the Bill it will also relate to their actual expenditure on child care. All of these variables come into play, and this can be a very complex space for parents. I want to expand on some of these issues in my comments.

Mr David Heath (Somerton and Frome) (LD): Welcome to this afternoon’s sitting, Mrs Main.

I am most grateful to the hon. Member for Manchester Central. She is making a very important point, on which she will now expand, about the interplay between universal credit and these provisions. This does need looking at constantly, especially as universal credit evolves.

I have one real problem with what the hon. Lady has proposed here, and that is amendment 6. That gives the power to repeal primary legislation by means of secondary legislation. I do not think that that is right in principle, because this is a very complex matter. If we have to revisit it we should do so in primary legislation, because that will have knock-on effects on the very complex structure which is universal credit.

Lucy Powell: I thank the hon. Gentleman for his intervention. As I shall explain, the purpose of amendment 6 is actually to leave the door open for a smoother interaction between these two systems. I will explain later why that is. Rather than us all needing to come back here at some later stage to amend this legislation, it leaves the door open for that possibility later on. Perhaps the hon. Gentleman will bear with me, and we can debate that as I move forward with my comments.

By way of background, as we heard from many people last week, our child care system is already fiendishly complicated for parents. It built up over time, and the last Labour Government, too, bear our responsibility for that. There are now numerous options for accessing support for child care. Citizens Advice got to the nub of the matter in its evidence, particularly about the impact of those different systems on a parent’s ability to figure out whether they are better off in work. It stated:

“Life is very complicated and there is a plethora of child care support out there, and it is very complex. The smoother you can make that journey between schemes, the easier it will be for people to move on in work”.—[*Official Report, Childcare Payments Public Bill Committee*, 14 October 2014; c. 59, Q121.]

For the purposes of everybody in the Committee, I will set out some of the support that we have. There is 15 hours’ free early education for the 40% most disadvantaged two-year-olds; 15 hours’ free early education for all three and four-year-olds; tax credit help if families work more than 24 hours or a lone parent works more than 16 hours; employer-supported child care vouchers; and now the tax-free scheme set out in the Bill. Interaction between all those entitlements and demand-side funding schemes will make the situation even more complex for parents to understand.

A critical point is how the new tax-free scheme will interact with tax credits and, eventually, universal credit. For people in the middle, who may go in and out of these schemes, it could be especially mind-boggling. That is why we wanted to discuss these and work out how we can best address some of the issues involved.

The point was underlined in the evidence from Working Families, which runs a helpline for working parents. Sarah Jackson said:

“The difficulty about moving between the two systems is that it is enormously complicated. It is not really as simple as saying, ‘Would you be better off on universal credit or would you be better off using tax-free child care?’ What parents really want to think about is the number of hours that they want to work to be with their children.

The kind of calls that we get are from people saying, ‘I would quite like to change my working hours’—

but those people do not know what to do. She went on:

“I spoke to the advisors who said that today they had a call from someone whose family income is £40,000. She is not currently claiming any help from tax credits at all and her weekly child care costs are such that she probably could.”

She continued:

“It is an issue now between tax credits and vouchers, but it is going to be more complicated between the new system and universal credit...My benefits advisers are saying it is probably a 40 minute conversation to really unpick it for people”.—[*Official Report, Childcare Payments Public Bill Committee*, 14 October 2014; c. 41-42, Q87.]

[Lucy Powell]

That is how complicated the system is for those who want to come in and out of it and want to work out whether they will be better off.

Critical to that discussion, for the people on middle incomes that we are talking about, is how we can ensure that we are making work pay. That is how we can get the most benefit in the maternal employment rates that my hon. Friend the Member for Newcastle upon Tyne North was discussing earlier. We heard in evidence that the real impact on those rates comes from those whose family income is less than £60,000 a year. Many of those people are in the interface between universal credit and tax-free child care.

Last week, we had a lengthy exchange about the generosity of the various schemes. In particular, there were questions from the hon. Member for Dover, who is otherwise engaged right now. [Interruption.] No, I am sure he is listening intently to my comments. We discussed the fact that under tax credits, families can now have up to 70% of their child care costs supported, and that the Government propose, alongside the tax-free scheme, to increase that to 85% under universal credit. I welcome that. However, it might benefit of everyone on the Committee to understand that to receive that full 85% subsidy, a family will normally need income of less than £10,000 a year. A family whose household income is up to about £41,000 a year could receive a proportion of that help, and then the proportion will taper off from £10,000 right through to the £41,000-ish mark. A family with a household income of about £41,000 a year, and therefore at the top of that threshold, might get only a few per cent. That is why the interaction is so important. For the vast majority of middle-income families with a household income of between £25,000 and £45,000 a year, it can be complicated to work out whether they would be better off with universal credit, tax credits or the 20% flat-rate subsidy under tax-free child care. It is important that we set out that context.

2.45 pm

As Alison Garnham pointed out in oral evidence last week:

“In fact, for most people on tax credits currently who claim the child care element, their average payment to help with child care costs is £55 a week, so people tend to self-manage and claim relatively small amounts.”—[*Official Report, Childcare Payments Public Bill Committee*, 14 October 2014; c. 66, Q134.]

I looked at analysis of the distribution of tax credits, and the child care component in particular, and found that less than 6% of families claim more than £150 a week, which is at the top end of what is possible.

When we have debates such as this, it is important to point out that it is not the case that someone who was getting universal credit would get 85% support on one day and then, if they tipped over the scale, get 20% support under tax-free child care the next day. The vast majority of families will get a decreasing percentage of support depending on not just their income but how many children they have, the amount they pay for child care and so on. From all the evidence we heard, we know that it is families in the middle income bracket for whom the decisions on the number of hours they work, and whether they go back to work, absolutely depend on child care costs. Those in the higher percentiles of

the income distribution and those in the lowest percentiles, with incomes of less than £10,000 a year, would receive the majority of their child care costs back.

I am sorry for sticking for a while on that point of context, but, given last week’s debate, it is important to see this measure in context. At its heart, it is about how we can ensure that we increase maternal employment rates and get people back to work.

I turn to the amendments and what they are intended to do. Amendment 5 asks the Government to examine the complexities that will be created between this scheme and universal credit. It asks them to consider how confusing it will be, how they will make things as simple as possible for all parents, and what tools they will provide to allow parents to understand under which scheme they will be better off. It also allows us to discuss how detrimental the delays to universal credit will be to parents who will benefit under that scheme but will have to wait for years for that benefit.

The Minister reassured us about better off calculators, and we heard evidence from many of the relevant organisations on how we can communicate about them. She, like me, will get a large case load from people who are unsure about whether they would be better off in or out of work, or increasing or decreasing their hours.

Universal credit so far is not fit for purpose. It is behind schedule, and we still have no idea how some of the passported benefits, such as free school meals and free prescriptions, will be integrated into it. Although the new child care support in universal credit, which will increase from 70% to 85% of costs, is to be welcomed, many families will not get that until two years after the tax-free scheme comes into play. If universal credit experiences further delays, it could be longer than that.

There are a number of differences between how the universal credit and tax-free child care systems work. I will say more about that later on, but, in particular, under universal credit people will be able to claim only for the child care costs of two children, whereas under the tax-free scheme they will be able to claim for an infinite number of children. That is an important point.

Catherine McKinnell: I am sure that my hon. Friend is aware that we are not talking about a small number of people. Estimates are that 4.4 million families with children on universal credit could be waiting for the support until 2017 or beyond, which is three times as many as will benefit from the top-up payment. The issues that she is setting out are clearly vital for the Government to focus on.

Lucy Powell: Absolutely; they are critical.

Amendment 6 would allow the Government to introduce regulations to allow for the possibility of top-up payments to be aligned more with universal credit. The amendment will allow us to discuss further some of the issues raised by the Children’s Society and Citizens Advice, among others, about the differing designs of the two schemes, how they will work in practice for parents and why some of the better designed aspects of tax-free child care could be extended to those on universal credit or those moving between the schemes.

During the evidence sessions, there was some interest on both sides of the Committee in the possibility that in future the Government might want to combine top-up

payments with universal credit, so that universal credit claimants receive a lower subsidy from universal credit, but are entitled to top-up payments through the tax-free scheme. In total, it would equate to the same level of support, but with the two schemes better aligned. That is what the hon. Member for Somerset and Frome was asking about.

Mr Heath: I must school the Committee on the name of my constituency: Somerton and Frome. No one ever gets both components right at the same time.

My problem with the hon. Lady's proposal is that if that were to be the case—if there were a need to align the two schemes better—we would need to have primary legislation in order to change universal credit. We could not have universal credit carrying on as it does and the measure we are discussing simply being repealed. I have difficulty with secondary legislation being used to repeal primary legislation, in particular when primary legislation would be needed in any case for the changes to universal credit. Both things could be done in the same primary legislative vehicle; a Minister does not need to be given the capacity to have secondary legislation to repeal primary legislation, which I think is wrong in principle.

Lucy Powell: I thank the hon. Member for Somerton and Frome—

Mr Heath: Well done!

Lucy Powell: I have been to Frome, so I know how to say it.

I appreciate the point that the hon. Gentleman is making. It gets to the nub of some of the issues. It is hard to see the schemes in complete isolation. I am proposing a possible way to align the schemes more in the middle. As he rightly indicates, any change to universal credit means consideration. I am arguing that, by bringing in a scheme above and beyond universal credit, but applying to many people who are included under universal credit, those people might find themselves in tax-free child care. That might change quickly, however, and they might suddenly get the free entitlement, in the following term or whatever, so the child care costs decrease.

The situation is fluid for families, which is why we have tabled the amendment, to probe some of the issues. As the legislation stands, it does not allow for alignment of the schemes. If Ministers or other Government Members wish to make other suggestions that would achieve that better, we are more than happy to consider them.

The amendment is not about hindering the roll-out of tax-free child care, which proceeds as designed, but would allow for provision of tax-free child care or for child care accounts for households in receipt of universal credit or tax credits, if that were deemed desirable by the Government after further consideration and investigation. It would take out the strict criterion in the Bill that excludes universal credit recipients from holding child care accounts.

To reiterate, the interaction of tax-free child care and universal credit is complicated and the complexity is likely to lead to confusion and poor financial and workplace decisions. As we heard from the Child Poverty

Action Group, families tend to err on the side of caution, so if they feel there is a possibility that they will be worse off, they will make decisions to not go back to work. The Bill does not allow for any consideration of that interaction and those issues and the amendment is designed to allow us to consider them in the future.

Some of the issues around the complexity between universal credit and tax-free child care are that, for example, the amount payable under tax-free child care is not means-tested, yet universal credit is. As I said earlier, universal credit is limited to two children, yet tax-free child care is for—what phrase did I use? [HON. MEMBERS: “Infinite.”] An infinite number of children—something I wouldn't recommend. As the mother of three children, I think that is probably enough for most, but each to their own.

Which system is right for people will depend on lots of different factors and is difficult, if not impossible, to work out, notwithstanding whatever measures the Government are putting in place to help with this better-off calculator. A better-off-calculator can help a person with the static information on that day, but as I said earlier, it cannot consider that a few months later one of their children will qualify for the free hours. That, again, would change their circumstances, as would one of their children going to school a few months after that and so on. Even without income changes, the changes in a child's age can change whether a person is better off in one scheme or the other.

A number of concerns were also raised about the help with child care costs through universal credit compared with tax-free child care. I would like further consideration of some of the benefits of the tax-free child care scheme to be extended to those on universal credit, for example to address the payment in arrears problem that was discussed at great length in the evidence sessions last week. For households in receipt of tax-free payments into their child care account, it is an advanced top-up of what the parent pays in, whereas universal credit payments for child care costs are paid in arrears. Parents are usually required to pay child care providers one month in advance so many claimants are likely to have to borrow that money. Further payments and further loans are then necessary in the following months.

Child care costs are often higher in school holidays than they are at other times of the year and that can be difficult for families to manage. A family might be better off claiming tax-free child care in the school holidays, but be better off under universal credit for the rest of the year. I was grateful for the clarification in oral evidence last week that families will be able to switch more than twice if their circumstances change and they will not be penalised, which was not clear previously. I should be grateful for further clarification about what those changes in circumstances would be. Would a school holiday, for example, be one such change?

Catherine McKinnell: My hon. Friend is setting out as clearly as one can a complicated system that will become increasingly so. I appreciate that amendment 6, which she is discussing, relates specifically to universal credit, but many of the arguments could equally apply to the deliberations that families will have to undertake about whether to come out of the voucher scheme, if they are currently in it. They might be better off under

[Catherine McKinnell]

the new top-up scheme in the summer holidays and want ultimately to revert back to the voucher scheme, but will not be able to.

Lucy Powell: Absolutely. My hon. Friend gives another example of the complex array of support out there for families, which can be tricky. The reason this is so important for middle-income families on £25,000 to £45,000 is that this is where child care costs are most relevant to decisions on the number of hours worked or going back to work at all. This is where we can therefore have the biggest impact on maternal employment rates.

3 pm

Payment in arrears can be the single biggest factor for a parent in deciding whether to go back to work, since otherwise they have to find the money up front for child care. They would eventually get that money back, although they might not get it back in terms of the loan repayment for another three years, until they leave the nursery and get their deposit back. That concern was backed up by the evidence from the Children's Society, which said:

“We are really worried about the message that that sends to the lowest income households—that the first thing you need to do when moving into work and taking on child care is to get into debt. We do not think that is going to help, either in terms of supporting the children in those households to get the best outcomes or in terms of increasing parental employment.”—[*Official Report, Childcare Payments Public Bill Committee*, 14 October 2014; c. 62-3, Q127.]

We heard in the evidence sessions that one solution—it might not be the best solution but it is the only one that anyone has offered at this stage—is to allow those on universal credit or in receipt of tax credits to pay money into a child care account, without getting any more support than they would otherwise be entitled to. That might help the parity of treatment, in terms of how resources are given back to families in receipt of tax-free child care and those on universal credit. As we heard from my hon. Friend the Member for Newcastle upon Tyne North, another possibility is looking at the distribution of this support and lowering the cap while increasing the amount that can be claimed. Decisions about going back to work might then be a lot clearer for some middle-income families.

Finally, I remind the Committee why this debate is so important. It is worth remembering the words of Ellen Broomé from the Family and Childcare Trust, who said:

“The reason why it is so important to get this interaction between universal credit or tax credits and the new system right is that it determines people's working patterns. We want to see encouragement of people, enabling them to go back to work, stay in work or take on more work if that would help their families. Some of the interactions that we are talking about, and some of the functionality of the scheme in itself, would hinder that. It would not enable parents to have the clarity of what kind of support would be available and, therefore, what type of work they would be able to do. That is why it is important to get this addressed.”—[*Official Report, Childcare Payments Public Bill Committee*, 14 October 2014; c. 58, Q118.]

Will the Minister discuss with colleagues in the Department for Work and Pensions and the Department for Education how those interactions will work and enable the Committee to better understand them? Does

she think that child care accounts could be an important budgeting tool for households in receipt of universal credit or tax credits? We have been talking about the establishment of those accounts, rather than any additional funds to families, but does she know how much it would cost to enable that? With child care payments in universal credit paid in arrears, how can we ensure that parents are able to pay their child care costs when they first move back into work? Does she agree that this enabling provision to extend the scope of tax-free child care and child care accounts without further primary legislation would be a sensible step to ensure that the scheme can develop over time?

Priti Patel: Clause 11 sets out the sixth condition of eligibility, which is that the person and their partner, if they have one, cannot be claiming universal credit. The clause provides that when a person makes a declaration of eligibility under the scheme, they must not be due any award and must not have made a claim to receive universal credit that would be payable during the entitlement period. In effect, the clause prevents anyone from receiving support under this scheme and universal credit at the same time.

The Government are committed to fairness and supporting those who want to work hard but who are struggling with the costs of child care. We are already spending more than £1 billion a year on child care support through the tax credits system, and we will extend that spending under universal credit. We are investing an additional £400 million in child care so that, from 2016, working families on universal credit can claim 85% of their child care costs. We are also investing a further £200 million so that parents can access child care support, regardless of the number of hours worked.

A parent with two children who spends £10,000 a year on each child's care may receive a maximum of £4,000 under tax-free child care, whereas under universal credit, a parent with two or more children could receive support for child care costs up to a maximum of £13,000 a year. The new scheme will ensure that Government support is available to working families as they move off universal credit, and it is appropriate that the scheme is not available to those who are claiming universal credit.

Amendment 5 would require the Government to report on a number of diverse topics, including the roll-out of universal credit, the complexity of interactions between the Government child care support schemes, and the guidance that will be provided to parents to raise awareness and understanding of those interactions and the scheme itself.

The introduction of universal credit is a once-in-a-generation reform, and we are working carefully and responsibly to get it right. It has been more than a year since universal credit was first rolled out, and strong progress has been made on this groundbreaking reform. Universal credit is now available to single and couple claimants in more than 50 jobcentres in England, Wales and Scotland, and it will be available in nearly 100 jobcentres by Christmas.

Universal credit is expanding to families this autumn, and to all remaining jobcentres and local authorities from early next year, which is a significant acceleration in one of the Government's biggest welfare reforms.

That is a sign of the policy's progress. Universal credit will continue to be implemented carefully in a safe and secure way, which remains the right approach. We should not forget that families can continue to benefit from tax credits, but we are also committed to rolling out the new scheme as quickly as possible, which means that where universal credit is introduced, working families can choose the scheme that best suits their needs.

Parents who are eligible for universal credit will be able to opt out and claim support under the new scheme if they wish. If their circumstances change, they will be able to move back into universal credit, and that will not be restricted. Such a flexible approach means that parents can receive the support that they think best suits their circumstances and needs. We will be supporting parents to make those important decisions.

In last week's evidence sessions, and in Committee today, we discussed the tools, methodology and communications that will be available. We will be launching online support tools, including a calculator and clear guidance. As I have already announced, draft guidance has been published well ahead of the scheme's launch, which shows our commitment. I re-emphasise the collaboration with stakeholders, parents, child care providers and other users so that we can gain their feedback and ensure that the guidance is tailored to their needs.

Lucy Powell: Will the Minister further clarify the point on changes in circumstances and families flipping between the two systems? What constitutes a change in circumstance? How small could such a change be? Could it be a school holiday, a small income change, or entitlement to free hours? How prescriptive will it be?

Priti Patel: If I may, I would like to finish my point about the engagement and communication plans.

We are building up our communications campaigns and plans to ensure that parents are aware of what support is available in the right and proper way. We have already touched on the evaluation scheme, which is an important part of that. It will be the appropriate time for a review. The scheme will have to bed down so that we can make the appropriate decisions and the full evaluation will allow us to reflect on how it is working.

The hon. Lady spoke about aligning the rules and definitions for tax-free child care with existing schemes. It is fair to point out that tax-free child care and universal credit are different types of scheme. They have been developed to provide support and financial assistance, but for totally different purposes. It is inevitable that there will be differences between the schemes, how they have been constructed and how payments are made. It is important that we produce the right guidance to engage parents and communicate how the scheme will work and best suit their circumstances.

I cannot define changing circumstances at this stage because we are working with parents on that. It is important that we work with parents to get things right, which is why we published the draft guidance. We need to hear their views and to know from them and particularly from other users what constitutes a change for them, and how they can feed that into the system. In terms of a change in circumstances that will be recognised for a person moving from tax-free child care to universal credit or tax credits, the scheme is being designed so

that parents can start to claim tax credits or universal credit as soon as they experience a change in their circumstances. It is going to be very personal. We cannot be prescriptive, because anything can happen to people's personal circumstances: life events, losing a job, moving house—anything. As changes occur, we will work with parents through publishing the draft guidance to see how we can address those changes and ensure that, as they occur, parents can move on without having to wait until the end of their entitlement period. That way, no one will fall through the gaps.

The hon. Lady spoke about universal credit as a payment system. As we know, it is paid in arrears, month to month, reflecting very different personal and financial circumstances. Importantly, it helps with budgeting a monthly income, as well as enabling ease of transition for the household when it comes to starting or returning to work.

The hon. Lady also mentioned complexity in the system, as she did when we took evidence last week. Naturally, I disagree, partly because I have already seen some of the schematics and walk-through processes, and I am obviously working with officials and parents to ensure that we get it right. We come back to the importance of providing information and support to enable parents to make an informed choice about which scheme will work for them. Alongside wider guidance and information, I have mentioned that there will be an online calculator for parents so that they can work out their financial situation for themselves.

HMRC and the Government Digital Service will of course be working with stakeholders. I can give the Committee a very strong commitment that we will not be doing this in isolation. This is not about officials working away with a scheme that they think might work; there is dialogue and consultation. We must ensure that it is easy to use and meets the needs of the majority of families. We must make things user-friendly and accessible for parents and ensure that we develop the right scheme and get it right. Giving them input and having a dialogue with them is absolutely crucial.

3.15 pm

The effect of amendments 6 and 7 would be that parents would be able to get support under the new scheme and universal credit at the same time. I do not want to cover the points that I made before, but families in receipt of universal credit will already receive good, generous support for their child care costs, as is right. Child care support is offered to parents on universal credit as part of the wider welfare system designed by the Department for Work and Pensions to ensure that we make work pay for those who need support the most. Up to 300,000 more people are likely to be in work as a result of universal credit, and we expect that a significant proportion of those will be households with children, but it is not right for a parent to receive tax-free child care in addition to universal credit when support is already there. I mentioned that 85% support for their child care costs will be provided from April 2016.

I am aware from the evidence sessions that some of the Committee may think that this is complex, but I have addressed that point. We are working with stakeholders and families. It is our objective and my mission to ensure that the scheme is easy for parents to use, and I

re-emphasise that our focus remains on those on lower incomes. The introduction of the scheme gives parents confidence that as they increase their income and move off universal credit, they will continue to receive Government support towards their child care costs. That is an important provision in the Bill, and it is a commitment from the Government. I therefore ask the hon. Lady not to press the amendments, and I commend the clause to the Committee.

Lucy Powell: I thank the Minister for her contribution. I absolutely recognise her commitment to ensuring that the better off calculator and similar communications relating to the scheme are available. I hope that she can do so. Some of our wider concerns may not relate to her Department, so that is a slightly trickier point, but I want to push further on enabling the possibility that in future, somebody receiving universal credit could receive child care credit. The amendment would not enable that right now, but it would enable that option to be taken later without primary legislation having to be amended. That is important, so although I will be happy not to press amendments 5 and 7, I will not withdraw amendment 6.

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 9.

Division No. 2]

AYES

Cunningham, Alex	Glass, Pat
Dakin, Nic	McKinnell, Catherine
Evans, Chris	Powell, Lucy
Flello, Robert	

NOES

Barwell, Gavin	Macleod, Mary
Elphicke, Charlie	Miller, rh Maria
Gummer, Ben	Patel, Priti
Jenrick, Robert	Smith, Chloe
Jones, Andrew	

Question accordingly negatived.

Clause 11 ordered to stand part of the Bill.

Clause 12

THE PERSON AND HIS OR HER PARTNER MUST NOT BE IN
A RELEVANT CHILDCARE SCHEME

Catherine McKinnell: I beg to move amendment 8, in clause 12, page 7, line 43, at end insert—

‘(7) The section shall not come into force except as specified in paragraph (a) below.

- (a) the Chancellor of the Exchequer shall bring the section into force by order within six months of the passing of this Act.
- (b) a statutory instrument containing an order under paragraph (a) shall be accompanied by a report which details—
 - (i) a comparative analysis of the beneficiaries of top-up payments versus other relevant childcare schemes;
 - (ii) what additional package of measures will be enacted to raise awareness and understanding of the comparative benefits of relevant childcare schemes; and

- (iii) what information will be provided to persons to enable them to make informed decisions about which scheme will be most beneficial to them.’

Clause 12 covers the seventh eligibility condition, providing that a person or their partner cannot be in another relevant child care scheme, including employer-supported child care, universal credit or directly contracted child care. That ties in with clauses 62 and 63, which provide for the restricting of the employer-supported child care scheme to new entrants. We will come to those clauses later, but it might be helpful to remind the Committee to bear them in mind while discussing clause 12 and our amendment, because implications flow from the later clauses.

Clause 12, along with clause 11, which we debated at length, will effectively force parents to make a choice between various schemes—they may be eligible for all three. My hon. Friend the Member for Manchester Central set out at some length the enormous potential for complications if families edge in and out of eligibility or if their circumstances fluctuate over time. The addition of top-up payments will present another option for parents when choosing which form of Government support for the cost of child care is most appropriate.

There are various factors to consider, including the intricacies of the schemes and how they will apply to a parent or care-giver, and what the tangible benefit will be to a parent or care-giver. I guess the fundamental question that parents will ask themselves is which scheme will make them better off. Many parents will face that critical choice next year, so how will the Government ensure that parents are properly equipped to make it? What information will be provided to parents to ensure that that decision is as straightforward as possible for them? Is it even possible to make it a straightforward choice?

That is the context of amendment 8, which calls on the Government to provide a comparative analysis of the two schemes—we know that that would be useful to parents—and to explain what additional measures they will introduce to raise parents’ awareness of the choice they will face. It also asks the Government what information they will provide, once parents are aware of the importance of that choice, to help them to make it. Those are our key questions.

We had some useful discussions during the witness sessions last week, when we managed to get to the nub of some of the issues. In the final evidence session, we discussed them at length with the Minister and officials. We know that the Government intend to design and introduce an online tool to help parents with that choice. The scheme’s director in HMRC suggested that it is already working with the Government Digital Service on what she described it as

“a really easy to use online calculator.”—[*Official Report, Childcare Payments Public Bill Committee*, 16 October 2014; c. 116, Q232.]

She made it clear that it will be not only for parents deciding between top-up payments and universal credit, but for parents having to decide whether to move off employer-supported child care and opt for other child care schemes or top-up payments.

As we know from previous examples, such as HMRC’s child care indicator, which compared employer-supported child care support with tax credits, such tools are not

always simple to use or effective, in spite of HMRC's best efforts. Last week, we heard from the Low Incomes Tax Reform Group about its concern that a calculator could be impossible to create, particularly one that would manage to cover all scenarios. That said, its written evidence also made some recommendations about what a successful tool would need to be able to do, namely, give parents projections of how they would fare under each scheme if their circumstances were to change. That has to be the key.

As I have mentioned, the issue with clause 12 is that parents will need to make an active choice between one scheme or another. However, once parents have chosen to step away from employer-supported child care, or not to take it up while it is still available to them because they know that top-up payments are on the horizon instead, they will not be able to reverse their choice. In other words, there is no going back for parents if or when their circumstances change, whether because they are spending less on child care, having another child or changing employer.

In spite of Government commitments to make transitions between schemes as simple and as smooth as possible, parents on top-up payments will not be able to return to employer-supported child care if their circumstances change. As a result of clauses 62 and 63, which we will consider later, employer-supported child care will no longer be available to new applicants after some point in autumn 2015.

Maria Miller (Basingstoke) (Con): I have a small point to make. Circumstances do change, but must we not be careful not to make a good and extremely well thought through plan more complex than it needs to be to take account of a very small number of situations in which circumstances might change? Surely parents would like a simpler system, rather than having more complexity built in.

Catherine McKinnell: I understand the right hon. Lady's point, which is the point that we are making in amendment 8. The system is already complex, including for those who will be transitioning between universal credit and the top-up payment system. Those on child care vouchers will need to decide whether to keep the vouchers or to transition to the new system. Circumstances change, but that is outwith many parents' control. The issue that we are debating, however, is the information made available to parents to help them make that choice. As much as the Government hope to simplify the system with their new scheme, there are complexities in the system already that the new proposals will do nothing to simplify. They will add an extra level of complexity for parents during the transition period when they need to make the decision about what arrangement is better for them.

In an ideal world, the whole system would be simplified, but in reality it will get increasingly complex, so the information available to parents about which choice is better for them is key. Surveys are suggesting that parents are not being properly informed—the worry is that they will not be in future either—about the changes that due to take effect or how they should go about making the decisions on whether to transition from one form of child care support to another.

The Childcare Voucher Providers Association conducted a survey of more than 23,000 parents in June 2014, and some of the findings about parents' awareness and the need for more information were particularly interesting. The survey found that two thirds of parents believed that they had been insufficiently informed about the new scheme, or about whether they would be better off continuing to claim the employer-supported child care vouchers or transitioning to the new scheme in autumn 2015; and that 7% said that they would definitely move to top-up payments, while 67% said that they required more information. Almost a third said that they would remain on employer-supported child care. That survey suggests that some parents think they might be better off staying on employer-supported child care, but also that parents need more information before they can make that decision.

We heard some interesting and valuable evidence from payroll and human resources practitioners last week. Charles Cotton from the Chartered Institute of Personnel and Development said:

"A lot depends on how many winners and losers there are in an organisation...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.'"—[*Official Report, Childcare Payments Public Bill Committee*, 16 October 2014; c. 76, Q146.]

He went on to suggest that the clear message from his organisation's members over the summer was that they as employers needed more information and clear guidance on the introduction, so that they could plan ahead and start providing meaningful advice to their employees to help them make the all-important decision on which scheme to choose.

3.30 pm

Robert Ffello (Stoke-on-Trent South) (Lab): Has my hon. Friend given thought to the situation where an employer, acting in good faith, gives some advice to an employee to switch from one scheme to another, and that employee finds that they are worse off and goes back to the employer and says, "You gave me advice. You might have been acting in good faith, but you have cost me money"?

Catherine McKinnell: My hon. Friend outlines a nightmare scenario for employers. I suspect that they might be nervous about giving advice to their employees for that reason, especially given the complexity of the situation and the changing circumstances. For example, they might advise an employee to go one way, then the employee's child might suddenly reach school age, and their entitlement for two children would reduce to one, meaning that it would have been better to stay on the voucher scheme. They might then feel frustration with their employer.

That scenario reiterates the point we are making: the Government's role in this is vital. Employers will be nervous about giving advice to their employees, and they will very much depend on the Government being able to provide meaningful information, advice and tools to help employees make decisions. I suspect that employers will be keen to direct employees in the direction of Government-provided information sources, rather

[Catherine McKinnell]

than ending up in the nightmare scenario of being held responsible for a reduction in child care support. I do not think that any employer would wish to be left in that situation.

Samantha Mann of the Chartered Institute of Payroll Professionals pointed out that information, as well as being provided to employers, needs to be communicated to the media and to professional technical writers, so that they can build it into training courses and advise employers. Have the Minister and her Department factored such requirements into the Government's communications strategy? Will she say a bit more about that and provide a bit more detail on how exactly the information will be communicated to employers and individuals, who will ultimately be the ones to take the decisions?

There have been various strands of work to attempt to understand the circumstances in which parents will be better off under each scheme. Obviously, such calculations depend on a whole range of changeable factors, but often the work has concluded that some parents will find themselves better off staying on the employer-supported child care scheme unless their child care expenditure is relatively high. Officials have suggested that work is under way on a better off calculator. Presumably the Government have some idea of which scheme different parents will be better off under. What exactly will the better off calculator involve? Will the tool understand and take account of the nuances between the two schemes and how the differences could benefit some parents as opposed to others?

The consultation response included a fairly crude table comparing the two schemes, which suggested that parents will be better off under top-up payments because there is the potential to receive £2,000 in support. On the face of it, that is more than employer-supported child care currently provides. However, that is clearly a rather blunt comparison, and it is pretty useless given the intricacies and nuances of the two schemes, not to mention myriad differences in parents' circumstances. Can the Minister reassure the Committee that the online tool that is being developed will be far more sophisticated than that, and therefore far more useful to parents?

Some of the witnesses who gave evidence last week urged the Government to be a bit more up-front and transparent about the realities of the new scheme. There is no point in the Government painting an image of all parents being better off and benefiting to the tune of £2,000 per child, when in reality the majority of parents who will focus keenly on the decision tool to decide whether or not they can work will not receive anywhere near that amount of top-up payment—it is likely to be at a much lower level.

In the previous debate on clause 11, we discussed serious concerns about the complexities of and interactions among the various schemes, and how parents' decisions will be affected. Later clauses in the Bill restrict new entrants to the employer-supported child care scheme so that only those parents who are on the scheme by a certain date next year—I believe that that has not been made clear—will be able to stay on it. The stakes are therefore very high for those currently on the employer-supported child care scheme. Should they come off it and opt for top-up payments? There will be no going back for those parents once they have made that decision,

so the key question that the Minister must answer to reassure the Committee is this: how is she going to ensure that parents understand the complexities and the significance of their decision? How will parents be helped to make up their minds? I hope the Minister can reassure us so that we do not have to push the amendment to a vote.

Priti Patel: I am delighted to discuss clause 12 because it gives me the opportunity to alleviate the gloom and pessimism that has come from the Opposition, and to be positive about how the Government are going to communicate tax-free child care.

Clause 12 sets out the seventh of the eligibility conditions for the scheme, as has been well documented already and as is clear in the Bill. As I said earlier, the new scheme represents a vast improvement on employer-supported child care. By definition, the current scheme is not available to anyone who is self-employed, whereas the new scheme will, for the first time, be available to the employed and the self-employed alike. An even greater flaw in employer-supported child care is that its availability depends on whether employers offer the scheme to their employees. As I have already highlighted, HMRC estimates that less than 5% of employers currently make the scheme available to their employees. People are missing out, but the Bill will do something about it.

On the other hand, the availability of the new scheme to those in employment will no longer be a matter of luck. Instead, provided that they meet the eligibility conditions, anyone can receive support. It is hopefully self-evident that the new scheme marks a massive improvement on what it will replace. As we have said previously, it is only right that a parent should not be able to access Government support twice.

Catherine McKinnell: The Minister's language goes to the heart of the problem. The Government continue to make blanket statements that parents will be better off under the new scheme, and that it is a better scheme all round. That sends out misleading messages to the lucky people who are currently on the employer-supported child care scheme who will have to make a very difficult decision about whether to switch to the new scheme or stay with their current provision.

Priti Patel: I disagree with the hon. Lady. The point about tax-free child care is that it opens up the scope for other families to access child care support. We should all welcome that. That is not about rhetoric or language because it is a fact. That is the Government's mission, not only with the Bill, but through the other measures that we have undertaken and that the Committee has touched on in our discussions about previous clauses.

Maria Miller: Am I right in saying that 95% of employers do not offer employer-supported child care, which excludes more than half of employees from support? Indeed, it excludes all self-employed parents.

Priti Patel: My right hon. Friend is absolutely right. That is where the new scheme is groundbreaking compared with the previous schemes that are in the marketplace. Those schemes are restricted, but the new one is about providing support for many more working parents and households, and that should be welcomed.

Catherine McKinnell: The Opposition do not oppose what she is saying about opening up eligibility to additional parents and to self-employed workers; that is all to be welcomed. The point of amendment 8 is to ensure that those who are currently on employer-supported child care schemes are given the information they need to support them in deciding whether to take the new scheme or not. The Minister's comments should be focused on that, as that is where the concern lies.

Priti Patel: I will come to those points, but I want to emphasise that the scheme is very positive and is about making child care support more available to families, parents and households who do not currently have access to it.

To ensure that employers and parents are aware of tax-free child care and familiar with the changes to the current arrangements well in advance of its introduction, we intend to communicate it to them using a wide variety of channels. I emphasise again that the scheme is not being designed by officials in isolation; they are working with parents, stakeholders and employers. It is right and proper that we do that to get it right. We are planning to advertise the scheme online, as has been discussed, and to target parents through the range of communications means that are out there—not just digital, but print communications too. Many of the stakeholders that we have engaged with, and those that the hon. Lady has referred to, have a positive role to play in communicating with and engaging parents. We welcome that.

It is fair to say that while we are taking the Bill through Committee, we are almost speculating about what the methodology will be. We aim to ramp up all communications in the spring of 2015 to support the introduction of an online tool that will allow parents to check their entitlement under tax-free child care. As I mentioned in the discussion on clause 11, we have just published draft guidance on the scheme. The aim is to develop the guidance so that it is clear, and so that it is easy for consumers and parents to familiarise themselves with tax-free child care.

For parents who are already in the existing scheme, we want to give them the choice of whether to stay in it or move on to the new scheme. We will publish detailed guidance and an easy-to-understand tool to support them in that decision making. Through that tool, parents will be able to understand their personal details and circumstances so that they can make the choice—it is important that parents make that choice themselves. The two schemes are obviously different, but through that tool in particular, and through communications, it is important that we do the right thing and provide all the necessary information to support parents and help them make an informed choice about the type of schemes that are available and how they can go about making their decision.

As I have said—I will not labour the point again—the new scheme will address many of the failings of the existing scheme. We are keen on, and committed to, ensuring that we do our utmost to secure the communications, deal with the facts and engage with parents so that they can make an informed choice. On that basis, I ask the hon. Lady to withdraw the amendment.

3.45 pm

Catherine McKinnell: I thank the Minister for her response, and I hope that she takes on board the complexity that she has potentially introduced for those who are currently in receipt of employer-supported child care, and who will need to make the difficult decision about transitioning on to the new scheme. I appreciate that the Government and HMRC do not yet have all the details of how they will go about getting the information out there and ensuring that parents feel confident about making the choices that they need to make, but I am reassured that we have put our concerns on record and communicated to the Minister and her officials how vital it is that that information is available to parents. We hope that it will be sufficiently sophisticated to help parents make those difficult decisions. We appreciate her reassurance that the issues have been taken on board, so I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 12 ordered to stand part of the Bill.

Clause 13

NEITHER THE PERSON NOR HIS OR HER PARTNER MAY
BE RECEIVING OTHER CHILDCARE SUPPORT

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

Catherine McKinnell: Clause 13 sets out the eighth condition for eligibility, stipulating that to qualify, a person, and their partner if applicable, must not be receiving other types of child care support. The explanatory note gives the example of the child care grant as one such other type of child care support that parents will not be able to receive if they want to take up top-up payments. The child care grant supports parents in full-time education courses with up to 85% off their child care costs. However, the explanatory notes state that support schemes in which child care support goes directly to the child care provider will not render parents ineligible for top-up payments. Free early years provision is one such example.

The explanatory notes suggest that no other form of Government child care support can currently be claimed by parents when they make their declaration of eligibility, and the clause makes a similar reference. Given that there is some complexity involved, it would be helpful if the Minister could set out exactly what forms of Government child care support will render parents ineligible as a result of the clause. It would be helpful to Committee members to be fully aware of what support the clause excludes, and it would be certainly be helpful to parents. I hope that she can clarify whether a list will be issued, for example, to ensure that there is clear guidance to parents.

On a more general note, what kind of guidance, whether written or electronic, does the Minister plan to provide so that parents know exactly what is and is not allowed and do not unintentionally fall foul of the eligibility criteria for the scheme? The introduction of top-up payments, although we all welcome the additional funding and the expansion of support to a wider variety of working parents, adds complexity in its interaction with other available Government-supported schemes.

[*Catherine McKinnell*]

We have discussed that at great length, but it would be helpful to have clarity about other forms of Government support. Some reassurance from the Minister in that respect would be helpful.

Priti Patel: Clause 13 sets out the final eligibility condition, which is that the person and their partner, if they have one, must not be receiving certain other forms of Government child care support on the date when they make a declaration of eligibility. I reassure Committee members that parents will remain eligible for support under the scheme if they access a free child care place as part of their 15 hours a week provision of funded early education for three and four-year-olds, and for two-year-olds from lower-income households. Eligible parents will be able to use the scheme to help pay for any child care that they need in addition to their free entitlement.

It is only right that when a person or their partner receives financial help with the costs of child care from another Government provision or scheme, such as the child care grant, they should not be entitled to further support. That is just one example. There are numerous other schemes run by the Department of Health and

the Department for Business, Innovation and Skills, such as the bursary child care allowance. It is fair to say that the guidance that we have discussed in previous clauses is about clarification and information. It is not at all about parents falling foul; it is about the due diligence required when it comes to the eligibility criteria.

The onus is, of course, on the Government to ensure that we are communicating effectively and providing the right guidance and information to highlight what schemes would come under the “other child care support” provision. I hope that Committee members will agree that the clause is fair and necessary, and that it will allow parents to access the child care support that best suits their circumstances. As I have said, it is part of the information side of the Bill and concerns what communications we send out to parents. I therefore commend the clause to the Committee.

Question put and agreed to.

Clause 13 accordingly ordered to stand part of the Bill.

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

3.51 pm

Adjourned till Thursday 23 October at half-past Eleven o'clock.