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Treasury Committee

Childcare: Government Response to the Committee's Ninth Report

Fifth Special Report of Session 2017–19

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Fifth Special Report

On 25 March the Treasury Committee published its Ninth Report of Session 2017–19, *Childcare* (HC 757). The Government's response was received on 18 May 2018.

Government Response

Introduction

The House of Commons Treasury Select Committee published its report, 'Childcare', on 25 March 2018. This document sets out the government's response to the conclusions and recommendations in that report.

The government believes that helping parents with the cost of childcare is one of the best ways to help people into work, support families with the cost of living, and ensure every child has the opportunity of a high quality early education.

The government's objectives for childcare policy are two-fold. Firstly, ensuring the market delivers good quality childcare, supported by appropriate regulation, that is affordable and available to parents; allowing every child to access valuable early education which is vital to their future, particularly those from low income families. Secondly, supporting parents with the costs of childcare, particularly where it is a barrier to them entering or progressing in work, reflecting the value of work to the economy and to family life.

This government has done more than any other to help parents with the cost of childcare, spending more than ever before: around £6 billion per year by 2020. The government is currently focused on rolling out three significant new childcare measures which will extend childcare support to a wider range of parents.

Generous support under Universal Credit (UC) is rolling out now and covers 85% of childcare costs from the first hour of work. Tax-Free Childcare (TFC) is now available to all eligible families—providing fairer and better targeted support which is available to all eligible parents. And since September 2017, working parents of three- and four-year-olds have been able to access 30 hours free childcare (30 hours), supporting parents to increase their working hours.

The government welcomes the Treasury Select Committee's interest in this area and recognises many of the recommendations as supporting the government's overall objectives on childcare. The individual recommendations are addressed below.

The economic impact of childcare

1. Government's current support for childcare may improve productivity by allowing parents to re-enter the labour market at a level more consistent with their skills. However, the impact on the UK's overall productivity performance is uncertain and more research would be welcomed. (Paragraph 28)

2. The Treasury should evaluate Tax-Free Childcare and 30-hours free childcare in order to gain a better understanding of how they affect parental employment and productivity. Until such an analysis is carried out, it is impossible to determine whether the cost to the taxpayer of childcare support is outweighed by the economic benefits. (Paragraph 31)

3. The Committee notes that many parents choose to care for their young children at home, rather than returning to the labour market, and that the economic value of this activity is not measured in the national accounts. This is a legitimate choice that the Government should take care to respect in setting its objectives for childcare policy. In particular, the overriding policy objective should be to support parents who decide to return to the labour market, rather than to increase labour force participation among those who choose to stay at home to care for their children. (Paragraph 33)

Parents need to have access to affordable and good quality childcare to be able to work. By 2019–20, the government will be spending around £6 billion on childcare support through a range of interventions which will help support working parents. The currently available evidence shows that childcare support is likely to have a positive effect on both parents and children:

- half of the non-working mothers surveyed by the Department for Education (DfE) would prefer to work if they could arrange good quality, reliable and affordable childcare;[1]
- full-time care is important for mothers' employment;[2]
- full-time working mothers with employment continuity are as well paid as women with no children;[3]
- attending pre-school education in a formal setting may increase the future earnings of the children attending.[4]

The government's childcare interventions are designed considering a range of objectives, including: making it easier for parents to choose to work; helping them progress in employment; helping families with the costs of childcare; and supporting child development, for example, by preparing pre-school children for the school environment.

However, the economic impact of childcare spending is very uncertain, depending on a range of short and long-term effects, including: the impact of the system on parents' current participation and earnings; parents' and children's future participation and

1 Department for Education, Childcare and early years survey of parents 2014 to 2015 (2016)
2 IFS, Does free childcare help parents work? (2016)
3 IFS, The gender wage gap (2016)
4 IFS, The economic effects of pre-school education and quality (2014)

earnings; child development and gender equality; and how these translate into economic outputs. It is therefore not possible to provide the Committee with an estimate of the economic impact of government spending on childcare support without further evidence.

30 hours and TFC, both introduced in 2017, are designed to support parents to enter and progress in employment. It is too early to evaluate the impact of these policies but the government agrees that more research is required and will carry out evaluations of the new offers. The government expects these schemes to have a small but positive impact on maternal employment.[5]

The independent evaluation of 30 hours' early implementation and early rollout areas found that 23% of mothers and 9% of fathers had increased their working hours after receiving support through 30 hours.[6] TFC will be evaluated two years after full implementation and the first year of national roll-out of 30 hours will be evaluated through a study in a number of local authorities in England, to assess the implementation and impact of the policy.

The design of government's childcare schemes

4. The childcare element of Universal Credit plays a crucial role in supporting the lowest-paid parents into work. But requiring parents to pay for their childcare costs up front, before seeking reimbursement later, is a fundamental design flaw that undermines this objective, and should be rectified as a matter of urgency. (Paragraph 42)

5. In particular, the Government should consider how the Department for Work and Pensions could pay the childcare element of Universal Credit directly to childcare providers. Alternatively, it could continue the policy of payment in advance that exists within Working Tax Credits. (Paragraph 43)

UC is designed to support people into work and to manage their own finances, and it is working; UC claimants are four percentage points more likely to find work within six months than a matched sample of Jobseeker's Allowance claimants. UC provides more generous childcare support than was available under Tax Credits, meeting up to 85% of eligible childcare costs within a monthly cap as opposed to 70% under tax credits. DWP's internal analysis suggests that very few families reach this cap. Whereas previously only claimants working above an hours threshold were eligible for childcare support, UC provides support for all households with a firm job offer from up to a month before they start work, allowing them to focus on preparing for work while their child settles into a new routine. For families with two children this could be worth up to £13,000 per year. An additional 50,000 families are forecast to benefit from this enhanced support.

Childcare costs are assessed and paid as part of the UC overall entitlement and as such they are paid in arrears with the monthly payment. UC was designed to simplify the benefits system, bringing six benefits into a single payment, to make work pay and to replicate the world of work. Paying childcare and housing costs directly to the claimant is core to these principles.

We know that some childcare providers require payment in advance and that for UC claimants starting work or increasing their hours, some may have difficulty in paying

5 Impact assessment of Tax-Free Childcare (2017); Impact assessment of the Childcare Bill provisions (2015)
6 Frontier Economics, Evaluation of early rollout of 30 hours free childcare (2017)

these costs up front. Claimants who have accepted an offer of paid work due to start before the end of the next Assessment Period are eligible to be paid UC childcare costs. These costs can be paid during the assessment period in which they start work, and the assessment period prior to starting work. In addition, work coaches can explore whether they are eligible for a budgeting advance, this payment is interest free and repayable over 12 months.

For claimants ineligible to receive a budgeting advance, the Flexible Support Fund (FSF) may offer some assistance. This payment is non-repayable and gives decision makers discretion to decide how to help claimants in financial need to move into work, which can include help with upfront childcare costs so that they can accept offers of employment.

All claimants will have a conversation about managing their money, usually as part of their initial Work Search Interview with their work coach. During this discussion, we will assess the claimant's financial capabilities e.g. how they will manage their monthly payments and bills, determining whether there is a need for Personal Budgeting Support. Where PBS is appropriate, the work coach will contact the relevant Local Authority and makes an appointment for money advice. The PBS approach establishes a clear connection between financial responsibility and work readiness and all claimants are given a Money Advice Service leaflet and encouraged to access the support offered, either online or by phone.

6. The Government should consider removing age restrictions on childcare support for parents entering training or education. In addition, the Government should expand the courses that qualify for childcare support to include courses that individuals or companies finance themselves, rather than just those which are publicly funded, including those seeking English language training. (Paragraph 50)

There is a wide range of support available to parents engaged in formal education. Parents who are studying are able to take-up the 15 hours for disadvantaged two-year-olds and universal 15 hours for three- and four-year-olds in the same way as working parents, provided they meet the eligibility criteria for those entitlements. Parents on apprenticeships can do the same, and those who work at least 16 hours a week are eligible for tax free childcare and 30 hours as well.

The government is establishing a National Retraining Scheme to support adults across the country, and equip the workforce with the skills they will need for the new economy. The government already supports young parents who need childcare support while studying, via Care to Learn, and provides funding so that learning providers can offer Learner Support to help with childcare for those students who need it.

The Childcare Grant is available to full-time student parents in higher education, using registered or approved childcare, so that childcare costs incurred while studying do not act as an additional barrier in lower income families accessing higher education. Students with children may also be able to receive the Parents' Learning Allowance to meet course related costs, and students with adult dependants may be able to receive an Adult Dependants Grant.

7. Entitlement to 30-hours free childcare should begin as soon as a child turns three. (Paragraph 52)

Children become eligible for a free early education place from 1 September, 1 January or 1 April following their third birthday (or second birthday if the child meets the eligibility criteria for the free entitlement for two-year-olds). They remain entitled to a free place until they either start in a maintained school reception class (for many children this will be the September following their fourth birthday) or they reach compulsory school age (the beginning of the term following their fifth birthday). This ensures that all children are eligible to receive free early education and/or reception class provision for two (or three) years before they reach compulsory school age.

30 hours is a new national programme which has required a large-scale transformation of the childcare market. The government implemented the three termly deadlines because having three fixed points at which children will start taking up 30 hours places supports childcare providers with place planning and helps them to assess—and wherever possible align—their supply with demand. This also supports local authorities to meet their duty to ensure there are sufficient 30 hours places for eligible parents in their area in the term following a child turning 3. The termly approach mirrors that already in place for the 15 free hours entitlement for disadvantaged two-year-olds, and the universal entitlement for all three and four-year-olds.

Removing the deadlines at this stage would likely unsettle a market that is already adapting to large-scale transformation, with full rollout of 30 hours only starting last September. It would not be fair to local authorities or childcare providers to introduce such a significant change to 30 hours at this stage, ahead of the independent evaluation of the first year of 30 hours. It also has the potential to confuse parents, providers, and local authorities at a time when DfE and Her Majesty's Revenue and Customs (HMRC) are trying to improve understanding and the customer journey.

8. The Government should now take all necessary measures to improve awareness and take-up of Tax-Free Childcare. (Paragraph 59)

In March 2017 HMRC launched the Childcare Choices website, which brings together information on all the available forms of government childcare support for the first time. The site helps to build awareness and understanding of the full range of offers, including TFC. Since launch, the site has had more than 1.9 million unique users.

Rollout of TFC was completed in February of this year. Now that the scheme is available to all eligible parents, HMRC has further increased communications, including engagement with stakeholders and the regional, national and trade press, and social media campaigns. HMRC are also planning for a week of intensive activity ahead of the summer holidays to encourage parents to use TFC for childcare in the school holidays and a paid-for marketing campaign in the autumn to support take-up of the offer.

9. The Government should only launch websites when they are satisfied they are able to cope with the workload expected of them. If beta testing phases are necessary, Government should plan these so that problems can be resolved prior to full launch. (Paragraph 71)

The government has apologised for the problems some parents experienced last summer with the Tax-Free Childcare website and accepts that issues should be resolved prior to full launch. HMRC, and their delivery partners National Savings & Investments, have made significant improvements to the service. This has resulted in 99% of childcare service applications processed within five working days between 1 January and 31 March, up from 93% in Summer 2017.

10. At present, there are multiple sources of official guidance for different childcare policies. The Low Income Tax Reform Group has highlighted factual errors and inaccuracies in this guidance which the Government should correct. Online guidance should be supported by a specialist childcare support helpline that covers all of the major childcare schemes, with advisers who can help individuals with more complex circumstances, explaining to them what their optimum choice of schemes may be. (Paragraph 72)

11. Applications for all childcare schemes should be made through one single portal, to avoid confusion and to ensure parents are properly informed of the available options. (Paragraph 73)

12. The Government should ensure that its online childcare calculator can take account of Universal Credit entitlements. (Paragraph 74)

HMRC is continuing to work closely with the Low Income Tax Reform Group and others to improve the GOV.UK guidance and to develop more detailed guidance for parents to help them choose, and apply for, the government childcare scheme or schemes which best suit their needs. Information on all forms of government childcare support are available via the Childcare Choices website.

The childcare service helpline provides parents with dedicated advice on TFC and 30 hours free childcare. Both TFC and 30 hours can be applied for through the same portal, avoiding the need for parents to provide the same information twice. Other forms of government childcare support are targeted at different parent populations or are integrated benefits, which include non-childcare elements. Their inclusion in a single online portal would increase the length and the complexity of the parent application process.

The Childcare Choices website also links to the childcare calculator which helps parents understand what childcare support they may be entitled to. It takes account of UC by directing parents to third party benefits calculators so they can see their UC entitlement and identify if they are living in an area where UC has been rolled out. As UC is rolled out to more families, HMRC plans to enable users to input their UC entitlement into the calculator so they can make a direct comparison with other forms of childcare support.

13. The Government must set out how it intends to simplify its range of support for childcare costs, and address the complex interactions between different schemes. (Paragraph 78)

The government recognises that the existing range of support for childcare costs is complex. That is why it is simplifying the system of support available to parents by replacing the childcare voucher scheme and directly contracted childcare with TFC, which is available to many more families, in a wider range of circumstances. The eligibility criteria for TFC has been aligned with that of 30 hours and applications for the two schemes are made via the same portal on the childcare choices website.

The UC childcare offer will provide support to many households who are below the TFC earnings threshold. If a family is eligible for both UC and TFC, they can use the childcare calculator to determine which offer of support would be most beneficial to them.

14. The Government has committed to carrying out a post-legislative review of Tax-Free Childcare. The Government must include parent feedback on the user experience of accessing the scheme and the ability to use the Government's guidance to make the correct childcare choice. Once this detail emerges, the Government must make the necessary changes to address the scheme's shortcomings. (Paragraph 79)

Now that TFC is fully rolled out the government will carry out an implementation review to assess how the system is working. This will include further feedback from parents on the schemes which will be used to improve the system.

HMRC is continuously monitoring and evaluating the customer experience for those using TFC and making improvements to the customer journey as a result. Improvements to date have resulted in customer satisfaction with the childcare service gradually rising. Satisfaction with the digital service has exceeded 80% throughout March, which compares favourably with other HMRC digital services.

HMRC have taken a similar approach with the Childcare Calculator. Following customer insight, the calculator has been redesigned to allow parents to receive their results more quickly and to make the results easier to understand. Early indications show that the revised calculator is helping parents to understand what government childcare support they are entitled to and which offer is best for them.

Funding of 30-hours free childcare

15. The Government must ensure that the hourly rate paid to providers reflects their current costs. It should also ensure that the hourly rate is updated annually in line with cost increases. (Paragraph 111)

By 2019–20, the government will be spending £1 billion a year to deliver 30 hours and fund the increase in rates introduced in April 2017. The government is confident the Early Years National Funding Formula is allocating that funding fairly and transparently.

The government's increased level of investment was based on DfE's 'Review of Childcare Costs' which was described as "thorough and wide ranging" by the National Audit Office. This review factored in modelling of current and future cost pressures. The government's average hourly funding rate to authorities for three- and four-year-olds also compares very favourably with published independent research into the hourly cost of childcare. All local authorities have seen increases in their funding rates for two-year-olds.

DfE will continue to monitor delivery costs. In addition, the government is committed to continuing to support childcare providers to manage their costs and improve productivity. DfE has introduced a business sustainability package and is working with partners to make available further materials to support providers to help them deliver high quality childcare and early education.

16. The Government should explain how it is ensuring that no lower-income parents lose out as a result of its decision to fund 15-hour free childcare to all parents regardless of income, and 30-hours free childcare for parents with incomes up to £100,000. (Paragraph 113)

The national rollout of 30 hours for three and four year-olds has been successful, and DfE's recent evaluation of Early Implementation and Early Rollout found no negative impact on the existing free entitlements. This is the first year of delivering a new national programme and the government is pleased that every region has over 80% of children with a 30 hours code in a 30 hours place.

Following on from DfE's evaluations of Early Implementation and Early Rollout of 30 hours, the Department has commissioned an evaluation study in a number of local authorities across England to assess the implementation and impact of the policy in the first year of national rollout. The report will be published in September 2018. DfE also continue to monitor delivery costs and have commissioned new research to provide robust and detailed cost data of under five-year-olds from a representative sample of early years providers.

The government is committed to supporting disadvantaged children and closing the development gap. All local authorities received 7% increases in their funding rates in April 2017 to deliver the 15 hours free entitlement for disadvantaged two-year-olds. The government designed the additional 15 hours for working parents of three- and four-year-olds to reduce the cost of childcare and support parents into work or to work more hours, should they wish to do so. Early implementation and early rollout evaluation reports have shown that 30 hours made a significant difference to families' lives in early delivery with almost a quarter of mothers and almost a tenth of fathers reporting that they had increased their work hours as a result of the extended hours. This effect was notably stronger for families with relatively low incomes—lone parent families need only earn just over £6,500 and couple families just over £13,000 to be entitled to the additional hours. In addition, the childcare element of UC provides direct support with Childcare costs, with support for up to 85% of eligible costs as of April 2016.

DfE will continue to monitor the impact of 30 hours on the existing entitlements and continue to provide support to local authorities with delivery.

Tax-Free Childcare replacing childcare vouchers

17. The Government could eradicate the employer national insurance relief costs of the voucher scheme if it changed the terms of the scheme to only allow employee national insurance relief. (Paragraph 128)

18. When the Committee asked the Chief Secretary to the Treasury to provide an economic analysis of who will gain and who will lose out from the transition from vouchers to Tax-Free Childcare, she was not able to do so. The Government has also failed to provide when asked a comparison between the programme and administrative costs of the two schemes. The Committee expects the Government to provide this information in its response to this Report. (Paragraph 129)

19. The Government has committed to carrying out post-legislative scrutiny of Tax-Free Childcare. This commitment must be adhered to and should occur before the scheme closes to new applicants in October. The Government should therefore consider keeping the childcare voucher scheme open, at least until this information is available. (Paragraph 130)

20. The Government has committed to providing more help to working parents with their childcare arrangements. Some families will be worse-off under Tax-Free Childcare than they would have been with childcare vouchers. For such families, it will difficult to reconcile the Government's policy with their own personal experiences. Moreover, it has not been confirmed whether any impact assessments have been conducted to confirm the extent to which low-income households will be affected by the closure of the childcare vouchers scheme. (Paragraph 132)

The government is pleased that the Committee recognises the disadvantages of the childcare vouchers scheme in that it only supports parents whose employers provide such vouchers, does not take account of the number of children in a household, excludes self-employed parents, and favours two-parent households over single-parent households. TFC was designed to address these concerns and a number of options were considered and consulted on as part of the design of TFC.

Most childcare voucher schemes operate under salary sacrifice arrangements. When running a scheme, an employer will incur an administrative cost either directly or through using a voucher provider. These costs are generally offset by the National Insurance Contributions saving the employer makes. The government does not believe that having different employer and employee National Insurance Contributions rules is a feasible way forward. Such a treatment would make the scheme significantly more difficult and costly for employers to administer.

The estimated annual operating costs for the childcare service through which parents apply for both TFC and 30 hours was released in PQ 126730. The estimate currently stands at £35.6million in 2018/19 and £47.5 million in 2019/20. These figures demonstrate that the cost of administering TFC is significantly lower than the estimated foregone employer National Insurance Contributions of £220 million a year. This is money that does not go directly to parents to help pay for their childcare costs. It is not possible to accurately calculate the costs of administering childcare vouchers as these costs are incurred by individual employers and voucher providers, who do not share this information with the government.

The government has always been clear that TFC was being introduced to replace childcare vouchers. The decision to phase out childcare vouchers and directly contracted childcare, and replace this support with TFC, was made in 2013 and received parliamentary approval through the Childcare Payments Act 2014. To reflect concerns about the timing of the closure of childcare vouchers and the transition to Tax-Free Childcare, the government took the decision to keep childcare vouchers open for a further six months until October. This will allow more time for Tax-Free Childcare to bed in, for awareness to increase and for families to understand the support they can receive under the scheme.

Through TFC all families who are eligible can get support, regardless of who their employer is or whether they are self-employed, and support is based on the number of children in a family rather than the number of parents. TFC is targeted at a similar income population as childcare vouchers but will provide support to nearly 1 million more families compared to the number currently using vouchers.

Analysis of the impact of TFC on working parents will need to take place once the scheme has had time to bed in, parental awareness has increased, and families have had more time to understand the support they can receive under the scheme. This is why the government has committed to carry out a post-implementation review of TFC two years after it was implemented.

Parents currently using vouchers will see no change when the scheme is closed to new entrants in October—they will continue to be able to claim vouchers providing they remain with the same employer. If they move to a different employer they will no longer be eligible for vouchers but they may be eligible for TFC. Robust estimates for the number of employees that will change employer after October, and details of their characteristics and whether their employer would have offered vouchers, are not available. Therefore it is not possible to make an estimate of the number of parents who may be worse off if they are no longer able to access vouchers as a result of the transition to Tax-Free Childcare.

An impact assessment was published in March 2017[7] on the rollout of TFC and the closure of childcare vouchers to new entrants. This assessment highlights the benefits of TFC to low income parents earning close to the National Living Wage. These parents are unable to salary sacrifice and many are therefore unable to use childcare vouchers. These working parents will, subject to the other eligibility conditions, be able to use TFC to receive support. However, most low income families will access their support via the welfare system through which the government has increased the support available from 70% of childcare costs cover under Tax Credits to 85% of costs covered under UC.

7 Childcare Payments Act. Impact Assessment. Published 13 March 2017. 2014 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/652939/Tax-free_childcare_Impact_Assessment-March_2017.pdf