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Treasury Committee

Childcare

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Report, together with formal minutes relating to the report

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The Treasury Committee

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Introduction

1. In the summer of 2017 the Government launched two new childcare schemes: “30-hours free childcare”, and “Tax-Free Childcare”.

2. The Treasury Committee launched its Childcare inquiry in order to assess:

- The role that high-quality, accessible, flexible and affordable childcare can play in supporting labour productivity and the wider economy.
- The process by which childcare schemes are delivered and the quality of childcare interfaces (such as the Childcare Service Website) and their previous failures.
- The overall package of Government schemes that aim to make childcare affordable; how the individual schemes interact with each other; and whether they have delivered an adequate provision of affordable childcare that facilitates parental employment.

3. As part of its inquiry, the Committee took evidence from the Rt Hon. Elizabeth Truss MP, Chief Secretary to the Treasury; Beth Russell, Director General, Tax and Welfare, HM Treasury; and Nick Lodge, Director General, Transformation, HMRC, on 31 January. The Committee also received over 100 written submissions, many from parents of nursery-age children.

4. This report sets out the Committee’s conclusions on the implementation and effectiveness of the new childcare schemes; what more should be done to improve the Government’s childcare offer; and how well the Government’s childcare schemes address the stated overarching policy aims of: “delivering an efficient childcare market, which is getting good value for money, high-quality and affordable for parents, helping with child development, and helping parents into work, particularly focused on the lowest-income parents”.[1]

1 Q4

1 The economic impact of childcare

Impact of childcare policy on productivity

5. Productivity growth in the UK has been weak since the 2008 financial crisis. The Office for National Statistics estimates that productivity—measured by output per hour—is approximately one fifth below an extrapolation of its pre-crisis trend.[2]

6. A key objective of the Government's childcare policy is to improve productivity by increasing labour force participation among the parents of younger children.[3] The most common definition of productivity is the level of output per hour worked. While bringing more parents into the labour market will increase economic output, it will only raise productivity if their output per hour is higher than that of the existing workforce.

7. While an increase in parental labour force participation may not automatically increase productivity, it could have a positive impact on other economic indicators, including GDP per capita. It would also increase the tax base and tax receipts.

8. The Committee asked Elizabeth Truss, Chief Secretary to the Treasury, to explain how she thought increasing Government-funded childcare would contribute to improvements in productivity. She pointed to both the shorter-term impact of allowing parents to stay in the labour market and retain their skills and higher rates of pay, and a longer-term impact arising from improvements in child development. The Chief Secretary to the Treasury elaborated on the benefits to productivity of avoiding protracted periods out of the labour market:

> If a parent is not able to go out to work when they want to and there is a gap in their CV, all the evidence is that they would tend to miss out on career opportunities as a result. That means that we have a lot of parents, particularly women on the so-called "mummy track", doing work that is potentially less skilled than those women are capable of. We have schemes like the returners scheme to help people get back into high-skilled jobs but, ultimately, we are losing skills to the UK economy that could be contributing to higher productivity. That is the central issue for productivity I am concerned about. It is not so much the individual's productivity at the time of going back to work; the gap that is created is a problem.[4]
>
> […] For women, hourly wages on return to employment are £2 lower for every year out of work, which indicates what we are losing. That is an Institute for Fiscal Studies (IFS) figure. The gender wage gap is stable until the arrival of the first child and then it gradually rises over the next 12 years, up to 33 per cent. […] the sheer time of being out of work is a factor that is a problem for productivity.[5]

2 Office for Budget Responsibility, *Economic and fiscal outlook*, Cm 9530, November 2017, Para 1.16
3 Q2
4 Q18
5 Q19

9. When asked whether the Treasury had quantified the impact on productivity from childcare-related career breaks, Beth Russell, Director General, Tax and Welfare, HM Treasury, stated that: "if you have the same levels of men and women participating in the economy, it could increase GDP by 10 per cent by 2030, which was an OECD estimate".[6] However, the Chief Secretary to the Treasury explained that not all parents want to work, "of non-working mothers, 50 per cent would ideally like to go to work".[7]

10. When the Committee asked for further clarification as to what the impact would be, taking into consideration that 50 per cent of women that are not working do not want to enter the labour market, the Chief Secretary to the Treasury stated that the Treasury did not have a specific figure.[8] Beth Russell added that it was not easy to perform an analysis that isolated the impact of childcare interventions from other factors that determined labour force participation:

> At the moment, we do not have the underpinning data. Actually, even international and academic studies are quite patchy in this area. There are some things from the OECD, and the IFS has done some work about the 15-hours, but it has not been comprehensive enough for us to be able to make concrete assumptions on the basis of it.[9]

11. The Chief Secretary to the Treasury expanded on this:

> There are countries with fairly low childcare support that actually have very high parental participation and there are, conversely, other countries where that is not the case. […] This is something we need to get better at evaluating, as we are doing it, but the historical evaluations in the UK have certainly not been clear. As I have said, there has been a positive increase in maternal employment since 2010. I would imagine that the policies we have been putting in place have had an impact, but exactly how much of it is due to that impact is hard to definitively answer.[10]

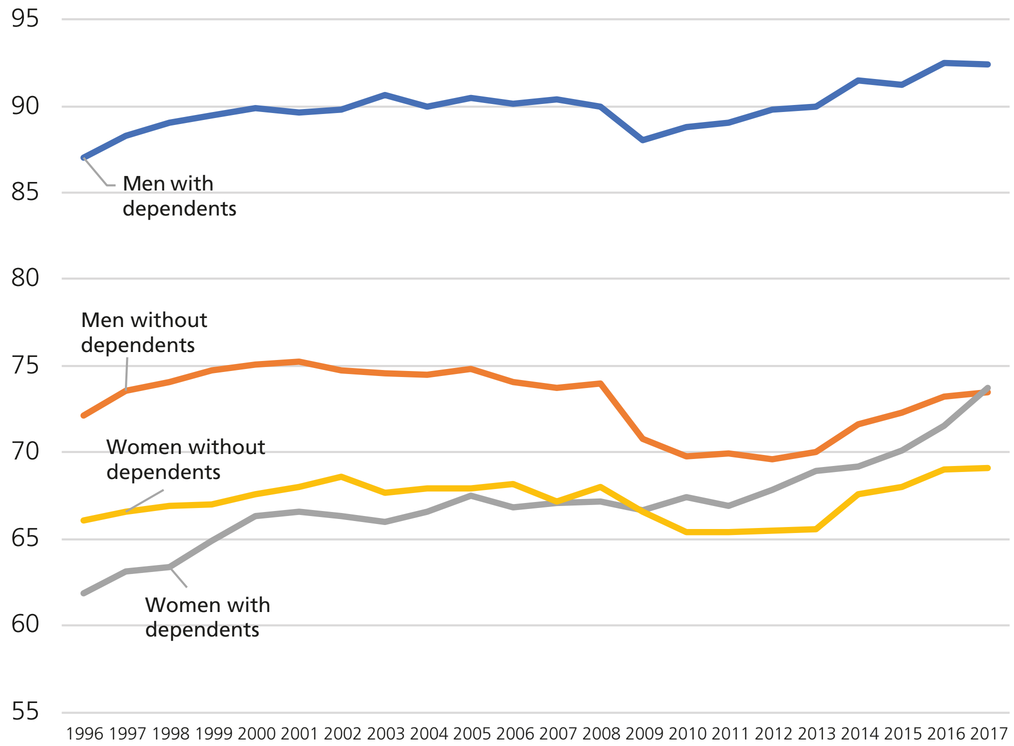
12. The Government's own economic impact assessment of tax-free childcare states that there could be an impact on productivity in certain circumstances:

> Access to affordable, high-quality childcare can help improve productivity in the workforce by reducing absenteeism and problems with timekeeping associated with childcare emergencies. Tax-Free Childcare will increase take-up of childcare from those parents who choose to move back into work or increase their hours.[11]

6 Q11
7 Q11
8 Q13
9 Q14
10 Q14
11 HM Revenue and Customs, *Tax-Free Childcare impact assessment* (March 2017)

Does childcare support increase employment rates?

Chart 1: Employment rates of men and women (aged 16 to 64) with and without dependent children, April to June 1996 to April to June 2017, England



Source: Labour Force Survey, Office for National Statistics

13. A key policy aim of the Government's childcare schemes is to help parents into work, thereby raising employment rates. It is through this channel that publicly-funded support for childcare is expected to generate the clearest economic impact. The Chief Secretary to the Treasury told the Committee that parental employment rates have been increasing since childcare schemes were introduced but that "it is often quite hard to track the precise reasons".[12]

14. Beth Russell added that the Treasury has looked at the international evidence available, and that it had shown:

> A small but material impact from a lot of these childcare interventions on the labour market. As the Chief Secretary to the Treasury said, it is one of a number of different factors. There are lots of factors that influence parents' decisions about how to look after their children.[13]

15. In a letter to the Committee, the Chief Secretary to the Treasury explained that various studies had found "a positive effect of reduced childcare costs on female labour market participation. However, the size of estimates vary significantly, in part because other factors such as the overall labour market, societal influences, and specific policy design appear to affect outcomes. […] However, the size of the effect found varies considerably between studies"[14]

12 Q2
13 Q3
14 HM Treasury (CHI0107)

16. Studies from the UK include a 2014 report by the IFS "The impact of free, universal pre-school education on maternal labour supply", which found that:

> The increased proportion of children in England who could access free part-time early education by around 50 percentage points between 2000 and 2008, led to a rise in the employment rate of mothers whose youngest child is 3 years old of around 3 percentage points, equivalent to about 12,000 more mothers in work.[15]

17. The IFS updated this research in 2016 in its report "Does free childcare help parents work?", which found "no evidence that the work patterns of mothers with younger children, or those of fathers, were affected […] as their children moved from being entitled to a free part-time nursery place (offering 15 hours of free childcare per week) to a full-time place at primary school (which effectively offers parents 30–35 hours of free childcare per week)".[16]

18. The Government's impact assessment of Tax-Free Childcare does not forecast large changes in employment rates:

> We expect that Tax-Free Childcare will have a small but positive impact on maternal employment, through encouraging mothers to either return to work or work more hours.[17]

19. Research carried out over a number of years studying the impact of pre-school childcare on the working patterns of parents in England by a team of academics from the University of Essex, the University of Warwick and the IFS, submitted to the Committee, stated that the impact of providing 15-hours free childcare had not led to a significant impact on the working patterns of parents. The researchers found that:

> Being offered free part-time childcare did little to help more parents to work, at least during the first year of entitlement, and that increasing the number of hours of free childcare available from around 15 per week to around 30–35 per week—as children moved from part-time nursery into full-time school—only allowed a relatively small number of mothers whose youngest child was beginning full-time school to enter work. We found no evidence that the work patterns of mothers with other, younger children, or those of fathers, were affected.[18]

20. The explanation for the small increase in employment was that many parents who wanted to be in work were already in work, and that being given more hours of free childcare simply saved them money:

> Some parents did use the free entitlement to take up more childcare, enabling them to move into work (or increase their hours of work), but many working parents were already buying more hours of childcare than

15 Institute for Fiscal Studies, *The impact of free, universal pre-school education on maternal labour supply* (October 2014)
16 Institute for Fiscal Studies, *Does free childcare help parents work?* (December 2016)
17 HM Revenue and Customs, *Tax-Free Childcare impact assessment* (March 2017)
18 University of Essex and other universities (CHI0081)

> the part-time entitlement provides in order to allow them to work; for these parents, more free childcare simply means they spend less on childcare themselves.[19]

21. As 30-hours free childcare is a relatively new scheme that was only rolled out in September 2017, there is not yet a substantial evidence base upon which to draw conclusions. The Essex, Warwick and IFS submission states that the additional 15 hours is unlikely to have a significant impact on parental employment:

> The main impact of the policy is to make full-time childcare cheaper. This might therefore make work more financially rewarding for parents, and this may increase the number of hours that parents will work, or increase the number of parents wanting to work. But there are also reasons why the policy might have only a small effect. For example, if those parents closest to the labour market went back to work when their child was offered free part-time childcare, then the impact of an additional 15 hours of childcare could be smaller than the first 15 hours (because the parents who remain out of work might be those with strong preferences for not doing paid work while they have pre-school children, or those who are less able to find work).[20]

Gender pay gap

22. In addition to increasing employment rates, economic activity and potentially productivity, the Chief Secretary to the Treasury told the Committee that the Government's childcare support could reduce the gender pay gap. She said:

> The gender wage gap is stable until the arrival of the first child and then it gradually rises over the next 12 years, up to 33 per cent. 44 per cent of women working part-time said they had downgraded occupations to do so.[21]

23. The IFS report "Wage progression and the gender wage gap: the causal impact of hours of work", reaches similar conclusions:

> there is […] a gradual but continual rise in the wage gap [after the birth of the first child] and, by the time the first child is aged 20, women's hourly wages are about a third below men's. The gradual nature of the increase in the gender wage gap after the arrival of children is similar to the gradual accumulation of differences in labour market experience. A big difference in employment rates between men and women opens up upon arrival of the first child and is highly persistent. By the time their first child is aged 20, women have on average been in paid work for three years less than men and have spent ten years less in full-time paid work (defined here as more than 25 hours per week).[22]

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19 University of Essex and other universities (CHI0081)

20 University of Essex and other universities (CHI0081)

21 Q19

22 Institute for Fiscal Studies, *Wage progression and the gender wage gap: the causal impact of hours of work* (February 2018)

24. In written evidence, the Family and Childcare Trust stated that greater support for childcare has the potential to reduce the pay gap that occurs as a result of women having children:

> Women are stuck in jobs which pay below what they could earn, and which do not make the best possible use of their skills. This can have a long-term effect on women's financial well-being as it can reduce their earnings throughout their career and reduced pension contributions can also impact their retirement. Improving access to childcare will provide parents—and mothers in particular—with real choices about how to balance work and care.[23]

Alternative policies to increase supply of parents in the labour market

25. The Government's objective of helping parents into work is being delivered primarily through schemes that provide financial support for the costs of childcare. But the Committee received evidence highlighting other, non-financial, factors that influence parents' decisions about returning to work. These include:

- Family-unfriendly workplace culture and poor management practices.
- Poor part-time opportunities and lack of flexibility /time off for parents.
- Lack of suitable jobs or a high level of competition for term-time jobs locally.
- Poor availability of training through lifelong learning [to provide] opportunities and support.
- Lack of incentives for employers to take on older returners after they've been out of work caring for family.
- Lack of support for parental care at key times, such as school holidays.[24]

The economic contribution of stay-at-home parents

26. The Committee received a large number of submissions stating that the Government's childcare policy ignored those parents who chose to stay at home and look after their children themselves. Many submissions questioned why a childcare worker in the formal economy should be counted as a contributing towards overall economic activity, while a stay-at-home parent is not. Many of these submissions stated that the Government's objective of ensuring high-quality early-years childcare would be supported by paying stay-at-home parents an hourly wage.

27. The Office for National Statistics has reported that the total value of childcare provided at home was worth £320 billion in 2014, and notes that, in line with international standards for the production of national accounts, this is not included in GDP.[25] Were the Government to pay stay-at-home parents an hourly rate, part of this at-home childcare provision would be brought into the formal economy.

23 CH10075
24 A M Lewis (CHI0099)
25 Office for National Statistics, *Household Satellite Accounts: Compendium: Executive summary for household satellite account* (April 2016)

28. **The 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.**

29. **However, to the extent that it increases the employment rate of parents, the Government's support for childcare will increase GDP, GDP per capita, the tax base and tax receipts. It is also likely to help to reduce the gender pay gap.**

30. **15 and 30-hours free childcare and Tax-Free Childcare aim to help parents into work. Research suggests that these interventions have only had a small impact on parental employment.**

31. **The Treasury has made little effort to calculate the economic impact of the Government's childcare interventions. 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.**

32. **Based on the evidence available, the biggest impact of the Government's childcare schemes may be to make childcare more affordable to those that receive support, rather than bring parents back into the work place.**

33. **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 over-riding 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.**

2 The design of Government's childcare schemes

Summary of Government childcare schemes and aims

34. The Government runs a number of schemes that reduce the cost of childcare in parallel, some of which can be claimed at the same time as each other, whilst others cannot. The table below sets out a brief description of each scheme and their eligibility criteria.

Table 1: Summary of childcare policies:

Scheme entitlement	Eligibility
Childcare vouchers – Parents can take up to £55 a week of their wages as childcare vouchers, on which they do not pay income tax or National Insurance.	The employer must offer a childcare vouchers scheme. From 6 April 2018 (extended by a further six months to October in a statement to the House of Commons on 14 March[26]) childcare voucher schemes will close to new applicants. Existing recipients will keep their entitlement if they joined a scheme and get their first voucher by 5 April 2018 (extended by a further six months), as long as theystay with the same employer and their employer continues to run the scheme and they do not take an unpaid career break of longer than a year.
Tax-Free Childcare – Up to £500 every 3 months (£2,000 a year) for each child to help with the costs of childcare. If eligible, the government pays £2 for every £8 a parent pays for childcare provision via an online account.	Parent and their partner (if they have one) must be: • In work or getting parental leave, sick leave or annual leave • Each earning at least the National Minimum Wage or Living Wage for 16 hours a week
30-hours free childcare (1,140 hours per year) for 3 to 4-year-olds	Parent and their partner (if they have one) must be: • In work or getting parental leave, sick leave or annual leave • Each earning at least the National Minimum Wage or Living Wage for 16 hours a week • Not earning more than £100,000 per year.
15-hours free childcare (570 hours per year) for 3 to 4-year-olds	All children

26 HC Deb, 13 March 2018, col 802

Scheme entitlement	Eligibility
As part of Universal Credit up to 85 per cent of childcare costs, up to a maximum of £175 per week for one child or £300 per week for two or more children	Parent must be: • Eligible for Universal Credit • Working
Child Tax Credits	Dependent on number of children and income
As part of Working Tax Credits parents can claim extra amount to help cover the costs of approved childcare, up to 70 per cent of childcare costs up to the same thresholds as for Universal Credit with additional funding for households on housing or council tax benefits.	Parent must • Work a certain number of hours a week • Get paid for the work they do (or expect to) • Have an income below a certain level
15-hours free childcare (570 hours per week) for 2-year-olds	Parent must be entitled to one of the following benefits: • Income Support • Income-based Jobseeker's Allowance (JSA) • Income-related Employment and Support Allowance (ESA) • Universal Credit—if parent and their partner are on a low income from work (this usually means a combined income of less than £15,400 a year after tax) • Tax credits and you have an annual income of under £16,190 before tax • The guaranteed element of State Pension Credit • The Working Tax Credit 4-week run on (the payment a parent receives when they stop qualifying for Working Tax Credit)
Support for parents in education: 1) Weekly payments through Care to Learn 2) Discretionary Learner Support to pay for childcare 3) Childcare Grant to pay for childcare costs for children under 15 or under 17 if they have special needs	 1) Under 20 at the start of a publicly-funded course, 2) If a parent is 20 or over and in further education. 3) If a parent is in full-time education

This table is a summary of the policies and not all detail, exemptions and eligibility criteria have been listed. Full details of each scheme can be found at www.gov.uk/help-with-childcare-costs

35. The Committee asked the Chief Secretary to the Treasury, to set out the aims of these schemes. She divided them into three groups. The purpose of the 15 and 30-hours entitlement was:

> Child development […] We know that there is an 18-month gap in terms of vocabulary between those on the lowest and highest incomes by age five. Closing down that gap is really important in terms of social mobility and getting better outcomes later on […] When a child is in full-time education it is a driver for parents returning to work, particularly when the youngest child goes into that full-time education.[27]

36. The purpose of Tax-Free Childcare was to make sure that "middle and higher-income families, up to a maximum income of £100,000, have that bit of extra help in being able to pay for their childcare."[28]

37. The purpose of the Universal Credit and Working Tax Credit childcare elements were to "help people on low income into work and to make it affordable for those people to work".[29]

38. Further to these aims, the Chief Secretary to the Treasury stated:

> First of all, we are trying to have an efficient childcare market, which is getting good value for money, high-quality and affordable for parents. Secondly, we are making sure that we are helping with child development, which we know is very important for the futures of those young children. Finally, we are helping parents into work, particularly focused on the lowest-income parents and how we can help them into work.[30]

Conflict between policy objectives

39. The Committee received evidence that the stated aims of overall childcare policy was not always clearly articulated, and that individual schemes could sometimes come into conflict. The National Day Nurseries Association (NDNA) summarised the situation as follows:

> The emphasis of the Government's childcare agenda appears to regularly switch back and forth between an emphasis on maximising parental employment and addressing social mobility. NDNA believes this sends conflicting messages to the sector and that both agenda are important and have the potential to complement each other.[31]

40. The British Association for Early Childhood Education stated that the policies of providing high-quality education for children, on the one hand, and supporting adults to return to work on the other, can come into conflict:

> Young children benefit most from frequent short sessions of education while working parents need childcare to fit around working patterns that may include long days and/or irregular hours. Also, the economic drivers around parental working may create pressures to drive down the cost of childcare, whereas the gains to be had from early education (personal,

27 Q4
28 Q4
29 Q4
30 Q4
31 National Day Nurseries Association (CHI0095)

> social and economic) have been demonstrated to come from high-quality provision which may cost more up front, but is a sound long term investment across the life course.[32]

Universal credit, tax credits, and the Government's policy objectives

41. The Family and Childcare Trust explain how under the Universal Credit childcare element, parents have to pay childcare costs up front, something they did not have to do under Working Tax Credits, that may prevent parents from taking full advantage of the scheme:

> Parents looking to start work can find that upfront childcare costs make this difficult or impossible. Childcare providers commonly ask for fees to be in advance as well as asking for a deposit or retainer, but parents are likely to be paid earnings and benefits in arrears, making it hard to manage these upfront costs. [Within] Universal Credit, [there is] no clear pathway for parents to access support to meet upfront childcare costs when they move into paid work. The new Tax-Free Childcare system can help parents to manage this fluctuation as parents can 'bank' money in their account during term time and draw on it during the school holidays. Under Universal Credit, however, support is paid in arrears, so parents will not receive any additional support for their costs until after they have been incurred and often also have to have been paid.[33]

42. **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.**

43. **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.**

Gaps in the Government's childcare schemes

Access to childcare support while in training

44. Parents in training or education are entitled to certain help with childcare costs. In particular:

- A childcare grant worth up to 85 per cent of childcare costs up to a maximum of £175 per week for one child or £300 per week for two or more children is available to parents on a full-time higher education course who are also eligible for student finance.

- Parents aged under 20 studying on a publicly-funded course can claim up to £160 per week towards childcare costs (£175 per week in London).

32 Early Education (CHI0054)
33 Family and Childcare Trust (CHI0075)

- Apprentices get the same access to 30-hours free childcare as other workers, provided they meet the earnings threshold. They also have access to the childcare element of Universal Credit if they meet the relevant eligibility criteria.
- Along with all other parents, those in education or training have access to the 15-hours entitlement.

45. Parents aged 20 who wish to take on training can only seek support if they are on a further education course and are facing financial hardship, and the childcare costs are a barrier to the parent's participation in the course.

46. The Committee received evidence from London Councils highlighting certain circumstances where parents are not eligible for Tax-Free Childcare or 30-hours free childcare as a result of taking on training:

> The fact that the free entitlement is not open to parents on […] training schemes means that the opportunity of supporting many long-term unemployed parents into work has been missed. Many parents, especially single parents, are unable to undertake the training necessary to acquire a job, or a high-quality job, due to the prohibitive costs of childcare. […] The Government has recognised the importance of training for this group by allowing them to claim benefits while training for a year-long period. However, childcare costs still remain a barrier to enabling parents with young children to undertake this training.[34]

47. The Family and Childcare Trust also criticised the poor availability of support for parents wishing to undertake education or training:

> Reasonably generous provision is available for student parents under the end age of 20, and for full-time university undergraduates, but outside of these groups support is very limited. Students are reliant on the Further Education Discretionary Learner Support Fund and the Advanced Learner Loan Bursary Fund, both of which are locally administered by a college, with no guarantee of eligibility or how much you will get, and usually no possibility of determining whether childcare will be available before applying for a place. […]
>
> The Flexible Support Fund is available through the benefits system and can be used to help with childcare costs in training, but this is very limited. In 2012–13, the scheme spent less than £1.5m on childcare support for people in training[35]—the equivalent of part-time childcare for a year for just 250 children. Since April 2017, single parents with a youngest child aged three or over have been expected to actively seek work in order to be eligible for benefits. Government have recognised that training can play an important role in the journey into work for this group and they can undertake training for up to a year if this will improve their job prospects. However, they may struggle to find and afford childcare that enables them to undertake this

34 London Councils (CHI0093)

35 House of Commons Library, *Jobcentre Plus Flexible Support Fund* (October 2016)

> training. Extending the 30 hours provision to parents undertaking training would enable more parents to build their skills and then enter high-quality work.[36]

48. In a letter to the Committee, the Chief Secretary to the Treasury stated that the Government was considering how its National Retraining Scheme would interact with childcare support:

> At Autumn Budget, the Chancellor announced a National Retraining Partnership (NRS), chaired by the Secretary of State for Education, with the CBI and TUC to set the direction of the National Retraining Scheme, and this work is underway. The Government will consider the implications of the NRS on families with caring responsibilities and parents' role in family life.[37]

49. **The rapidly-changing nature of work makes it ever more important that Government encourages lifelong learning and promotes the acquisition of new skills. As it stands, however, most parents considering entering training or education would be deterred by an absence of proper support for childcare costs. Many parents may need to retrain in order to return to work after having children. Failing to extend childcare to parents who need to take on such retraining is therefore short sighted.**

50. **As part of its efforts to address the UK's weak productivity performance through the launch of the National Retraining Scheme, 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.**

Support for those not yet in employment

51. London Councils highlighted circumstances where 30-hours free childcare does not assist parents entering the labour market:

> Children who become eligible for the 30-hour entitlement in the middle of term are not funded by the Department for Education (DfE) to start receiving their additional 15-hours until the beginning of the following term. This means that a parent who is offered a job in January cannot get a funded place for their child until the Summer term. Some families will be able to afford to fund their child for the first few months in early years provision, but the parents who are in the most need of free childcare, and are thus dependent on it in order to take on a job, will not be able to plug this gap. It is unlikely that potential employers will agree to wait until the next term before taking on the new employee, especially for lower-paid, lower-skilled jobs.[38]

36 Family and Childcare Trust (CHI0075)
37 HM Treasury (CHI0107)
38 London Councils (CHI0093)

52. **Entitlement to 30-hours free childcare should begin as soon as a child turns three. There is no justification for delaying entitlement, which unreasonably disadvantages parents of children who happen to have been born early in an academic term.**

3 Identified problems within childcare policy implementation

Tax-Free Childcare low level of take up

53. Tax-Free Childcare is a relatively new scheme and there is therefore little evidence base at present to assess its contribution towards the Government's policy objectives. However, the impact assessment identifies six indicators of success:

i) Parent take-up

ii) Positive parent experience

iii) Positive childcare provider experience

iv) Positive reputation of Tax-Free Childcare

v) Minimise error and fraud with Tax-Free Childcare

vi) Efficient service providing good value for money

54. The uptake of Tax-Free Childcare has not been as high as the Government had initially forecast. In its November Economic and Fiscal Outlook, the Office for Budget Responsibility (OBR) revised down its forecast for spending on Tax-Free Childcare by 90 per cent, stating that it had forecast a caseload of 415,000 tax-free accounts by October 2017, but in practise only 30,000 had been opened.[39] Initially the OBR had forecast childcare expenditure of £800 million in 2017–18, but instead the forecast in November was for spending of £37 million.[40]

55. HMRC's 2017–18 supplementary estimate[41] memorandum[42] stated that the estimated budget for Tax-Free Childcare had been reduced from £383 million down to £37 million, a reduction of 90 per cent due to "low-take up"[43].

56. The Committee has received evidence highlighting complexities, potential inconsistencies, and difficulties accessing the scheme, which may explain why the take-up has been much lower than initially expected:

Lack of awareness and perception of costs

57. The Government's Childcare and Early Years Survey of Parents carried out in April 2017 found that 79 per cent of parents were unaware of Tax-Free Childcare. The report explained that:

39 Office for Budget Responsibility, Economic and fiscal outlook, Cm 9530, November 2017, para 4.124
40 Office for Budget Responsibility, Economic and fiscal outlook, Cm 9530, November 2017, para A.22
41 A supplementary estimate is a document that provides an in-year update to a department's budget.
42 A supplementary estimate memorandum is a document that explains the changes made within a department's supplementary estimate.
43 HMRC 2017–18 Supplementary Estimate Memorandum, March 2018.

> Among families with a child aged under 4 on 31 August 2017 or with a disabled child aged up to 14, only 1 per cent claimed to have applied for a Tax-Free Childcare account, with a further 3 per cent saying they had not applied because it was not yet available to them.[44]

58. The Low Income Tax Reform Group (LITRG) suggested that low up-take of Tax-Free Childcare was partly explained by lack of advertising and publicity for the scheme. The NDNA noted that there was a lack of awareness among providers, as well as parents:

> Many childcare providers (across all types of settings) have not registered for Tax-Free Childcare meaning many parents may not be able to make use of funding to pay for places in their first choice setting. […] NDNA is concerned about the lack of an effective Government communications strategy targeted at providers and parents, for Tax-Free Childcare. It is often left to non-government organisations such as NDNA to promote the scheme.[45]

59. **With a take-up rate 90 per cent lower than initially expected, Tax-Free Childcare is a clearly under-performing scheme. The Committee received evidence that low take-up can be explained by low awareness among parents of the scheme's existence. It also received evidence that take-up may also be affected by the fact that some parents may prefer to remain on childcare vouchers scheme. The failure to publicise the scheme properly—a cornerstone of the Government's childcare policy—is regrettable. The Government should now take all necessary measures to improve awareness and take-up of the scheme.**

The childcare services website and inadequate guidance tools

60. There are a number of Government and Government-sponsored websites that parents may come across as they seek information about the childcare support on offer. The Government's childcare website through which Tax-Free Childcare and 30-hours free childcare are accessed, was beset with a number of IT failures during summer 2017. The Committee received a large volume of correspondence regarding the website's failures, and wrote to Jon Thompson, First Permanent Secretary of HMRC, asking him to set out what had gone wrong. In his response, he disclosed that:[46]

- Between 21 April 2017 and 6 August 2017, a period of 107 days, the website was down for 160 hours.
- On every occasion, the website was down for at least 30 minutes.
- At one point the website was down for 15 hours in a row, and that day had been down for a total of 17 hours.
- The website experienced a breakdown on 15 separate days during May, and broke down on five consecutive days.

44 Department for Education, *Childcare and Early Years Survey of Parents in England 2017* (December 2017)
45 National Day Nurseries Association (CHI0095)
46 HM Revenue and Customs, *Correspondence from the Chief Executive and Permanent Secretary of HMRC relating to HMRC's Childcare Service website* (17 August 2017)

- As at 17 August there were 10,257 applications that were more than four weeks old.
- Five per cent of users experienced screens showing "technical difficulties" during their application.

61. In a Westminster Hall debate, John Glen, the Economic Secretary to the Treasury, advised that when online access cannot be secured, the childcare service helpline can be called. In an answer to a written parliamentary question[47], the Government confirmed that the helpline had received some 769,015 calls from parents. In an answer to a later written parliamentary question, the Government stated that it was not possible to ascertain precisely how many of these callers were able to subsequently complete their Tax-Free Childcare application.[48]

62. The NDNA submitted evidence to the Committee stating that it had been contacted by dozens of nurseries complaining that:

> Parents don't understand the system, that they are unable to register or reconfirm and that this is causing them huge stress. 79 per cent of nurseries told NDNA they had spent time helping families apply for Tax-Free Childcare and 30-hours registration. 14 per cent had spent more than five hours each week supporting parents.[49]

63. There were also website issues for childcare providers. The NDNA stated:

> A third of nurseries struggled to register. One nursery took over a year to register, so their parents were unable to use Tax-Free Childcare to pay for their childcare. Other settings have taken many months to register. […] Some local authority areas had difficulties with their online provider portals and a further few were complaining of late payments.[50]

64. In addition to the problems associated with the HMRC website, the Committee has received submissions from members of the public stating that the number of different websites and points of contact for parents seeking guidance is confusing for parents. One individual wrote:

> The overly complicated system of having three bodies running the scheme [HMRC, NS&I and ATOS] is contributing to [the] difficulties and, in turn, impacting take up. The bureaucracy that this complex set up creates causes unnecessary inconvenience and stress to users. Customer services staff appear unable to undertake the simplest of tasks—such as viewing users' accounts to identify missed top-ups—because they are on a different system from other parts of the service. This leads to situations where users are requested to send screen shots of their own accounts to provide evidence of technical issues and owed funds. On 7 February, the Tax-Free Childcare

47 PQ124116, 22 January 2018
48 PQ 127803, 8 February 2018
49 National Day Nurseries Association (CHI0095)
50 National Day Nurseries Association (CHI0095)

> customer services team said to me 'we do not have access to view your online account as they are owned by NS&I and they manage the front-end accounts.[51]

65. The Committee also received evidence about the difficulties parents face in ensuring that personal contributions to childcare accounts—when combined with the Government's 'tax-free top-up'—are equal to the provider's fees, stating:

> There is no calculator tool provided to help users work out what amount should be paid into their account in order to have the correct funds, post top-up, to pay their childcare provider. While it sounds simple to work out £2 for every £8 paid in, in reality it can be considerably time consuming to work out how much to pay in when your fees are a very precise amount of pounds and pence.[52]

66. A further issue raised was the inadequate information about Tax-Free Childcare. For instance, the Government's guidance website does not explicitly say that only one parent can open an account per child; but this is the case. One member of the public submitted evidence to the Committee stating:

> Nowhere on the site could I find information on whether both parents could apply for a childcare account so as a result my husband wasted time submitting applications that were later declined.[53]

67. The LITRG highlighted areas where it considers the guidance provided by the Government to be insufficient. It states that in order for individuals to make the correct decision between the different available schemes, they need to be able to do all of the following:

- Understand the qualifying conditions of each scheme and the differences between them.
- Calculate how much support they will receive from each scheme (if they meet the relevant conditions) and whether that will differ in the longer term.
- Understand how changes in their circumstances will impact on the support they receive and whether they need to consider a different childcare scheme.
- Understand how the schemes interact and the potential consequences of making a claim for a scheme in terms of their existing benefits.[54]

68. The LITRG did not believe that the level of guidance currently provided is adequate to allow parents to understand all of this information. It states:

> The main problem is that there is no single source of advice or guidance that covers all of the schemes. The tax credits helpline cannot answer questions about childcare vouchers or help parents carry out better-off calculations and similarly the Tax-free Childcare helpline cannot answer questions about

51 Mrs Victoria Begbie (CHI0063)
52 Mrs Victoria Begbie (CHI0063)
53 Mrs Victoria Begbie (CHI0063)
54 Low Incomes Tax Reform Group (CHI0100)

> tax credits or Universal Credit. [...] We do not think that there is enough guidance and support at present to help people do this which means that people are at risk of making decisions that could be financially detrimental and in some cases irreversible.[55]

69. In addition to guidance information being spread among different providers, the LITRG considered some key information to be missing:

> One of the rules for Tax-free childcare is that you can only use the government top-up payments to pay for qualifying childcare—this means that the main reason, or one of the main reasons, for incurring the costs must be to enable the person to work. However, we cannot find that important rule mentioned on gov.uk or the childcare choices website—the former saying merely that 'you can use it to pay for approved childcare'.[56]

70. In addition to the omission of key information, the LITRG highlighted over-simplifications and inaccuracies, including but not limited to:

- Gov.uk currently states you must be 'each earning at least the National Minimum Wage or Living Wage for 16 hours a week—this is £120 if you're over 25'. This suggests that the threshold is weekly rather than set over a longer entitlement period and refers to being 'over 25' rather than correctly '25 and over'.

- Similar misleading information is found on the Tax-Free Childcare—10 things parents should know guidance. It fails to mention that the [income] test is based on an expectation of your earnings. It offers no guidance to those who have fluctuating incomes on how to work out their expected earnings nor is there any information on what happens if your 'expectation' turns out to be wrong and you do not earn above the threshold.

- There is a childcare calculator that has been launched on gov.uk that allows people to find out how much they can get towards childcare. However, it includes free 15/30 hour childcare, tax credits and Tax-Free Childcare but does not include Universal Credit. Given that in many areas you can no longer claim tax credits this is a significant oversight.[57]

71. **The Tax-Free Childcare website was intended to be available to parents in preparation for the start of the new school term in September 2017. But it failed consistently throughout the summer, causing stress and inconvenience to thousands. Having to close a system for repeated maintenance so soon after it has gone live is unacceptable. 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.**

72. **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**

55 Low Incomes Tax Reform Group (CHI0100)
56 Low Incomes Tax Reform Group (CHI0100)
57 Low Incomes Tax Reform Group (CHI0100)

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.

73. **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.**

74. **The Government should ensure that its online childcare calculator can take account of Universal Credit entitlements.**

Difficulties in choosing the right scheme

75. LITRG highlighted a number of complex interactions between different policies. In some cases (e.g. 30-hours and Tax-Free Childcare), it is possible to obtain support from more than one scheme at the same time. In other cases (e.g. Tax-Free Childcare and tax credits), claiming support for one scheme makes one ineligible for the other. And in other cases, obtaining support under one scheme (e.g. tax credits) reduces entitlement under others (e.g. childcare vouchers). LITRG wrote that:

> […] The majority of people who pay childcare costs are unlikely to understand this range of interactions and yet the consequences of failing to understand can be very serious. For example, take the interaction between Tax-Free Childcare and tax credits. Most people might see the logic in a rule that prevents you from claiming help with the same childcare costs from two schemes, and so it would seem logical that you cannot claim Tax-Free Childcare for the same childcare costs that you are claiming the childcare element of WTC for. However, the Tax-Free Childcare goes one step further and says that if an existing tax credit claimant, whether claiming the childcare element of Working Tax Credit or not, makes a claim for Tax-Free Childcare their whole tax credit award (both Working Tax Credit and child tax credit) is automatically terminated. Similar rules exist between Tax-Free Childcare and Universal Credit, although according to the gov.uk website, the claimant is responsible for cancelling any Universal Credit claim. It is not clear whether there are punitive consequences if the claimant fails to do that.[58]

76. The optimum choice of schemes for parents depends on their income level and childcare needs. Additional complexity can arise if these vary from month to month. LITRG explained that:

> The most complicated part of these financial calculations is the potential impact of changes of circumstances. Very few people who we come into contact with have static lives. There are regular changes of working hours, income and childcare costs that can affect which scheme is financially the most beneficial and secure for them. It may also be the case that even if one scheme gives more financial support in the short term, it may be better to accept a lower level of support for longer term gains if circumstances are going to change.[59]

58 Low Incomes Tax Reform Group (CHI0100)
59 Low Incomes Tax Reform Group (CHI0100)

In its submission to the Committee, Save the Children stated:

> parents say that they struggle to understand how changing circumstances relating to: employment; hours worked; earnings; and the age of children effect their entitlement to different types of childcare support and the ways they interact".[60]

Suffolk County Council submitted examples to the Committee of how parents have reacted to these complexities within the system:

> Feedback from our children's centres has been that some parents did not take up their free entitlement at age two because they were concerned this would reduce other benefits they were in receipt of. We have also heard that parents find it difficult to ascertain which childcare entitlement will leave them better off. As a result, the council changed its communication to parents. The main issue we have heard is that parents are unable easily to see, which combination of childcare entitlements will work best for their circumstances[61].

77. **While the wide range of childcare schemes has provided parents with greater choice and flexibility, the level of complexity has become overwhelming. It is likely that for parents whose circumstances change from month to month it is almost impossible to make the best choice.**

78. **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.**

79. **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.**

60 Save the Children (CHI0090)
61 Suffolk County Council (CHI0079)

4 Funding of 30-hours free childcare

Level of funding provided

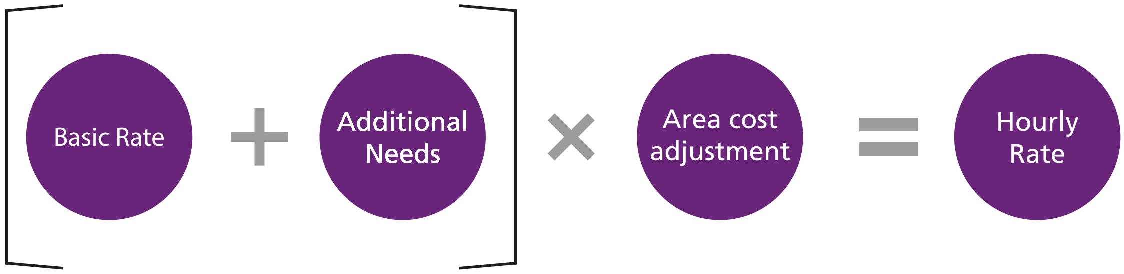
80. Local authorities are legally responsible for ensuring that every child that is eligible for the 15 and 30-hours free childcare entitlement is able to access a place.[62] Local authorities receive the funding from central Government in order to provide these places, and in turn, pass the funding they receive on to the front-line providers of childcare services. The table below describes the amount that local authorities receive, the amount that providers are paid, and various estimates of the average costs of childcare provision.

Table 2: Summary of childcare rates per hour

Measure	Size	Source and comments
Funding		
Minimum per hour rate Government will provide to local authorities	£4.30	
Average hourly rate Government states it will provide to local authorities	£4.94	Includes Early Years Pupil Premium, not included in other figures in this table.
Average rate provided to local authorities 2018–19	£4.86	Early Years National Funding Formula rates 2018–19
Average rate provided to local authorities 2017–18	£4.85	Early Years National Funding Formula rates 2018–19
Average baseline rate provided to local authorities 2016–17	£4.43	Early Years National Funding Formula rates 2018–19
Average amount passed on to private, voluntary and independent childcare providers by local authorities, 2017–18	£4.34	Early Years Funding Benchmarking tool 2017–18
Estimated average costs		
DfE: Review of childcare costs, published November 2015 Private setting Voluntary setting Primary schools with nursery provision	£4.25 £3.81 £4.37	Wage data based on 2013 survey. Non-staff costs (including rent business rates) based on 2012 survey.
Ceeda report average cost per hour of providing childcare, published	£4.68	Estimated rate for 2016–17
SEED report average cost per hour of providing childcare, published January 2017	£3.72	Wage data based on 2015 fieldwork, or where not known, ONS wage data from 2010 uprated to 2015 price. Does not include increases in wages since 2015.

62 Department for Education, *Early education and childcare: Statutory guidance for local authorities* (February 2018), paras A1.& A1.11

81. The amount of money that local authorities receive is based on a formula that combines a basic hourly rate with an additional needs factor. The additional needs factor is dependent on, among other things: the number of children with free school meals eligibility; whether children have English as their first language; and whether children are in receipt of the Disability Living Allowance.[63] The basic rate and the additional needs factor are combined and then multiplied by an area cost adjustment to take into account the differing costs faced by providers around the country.[64]



82. The Government has introduced a minimum funding rate that guarantees local authorities will receive a minimum of £4.30 per hour.[65]

83. In November 2015, as part of DfE's own 2015 "Review of childcare costs: the analytical report", it announced that from September 2017 the average hourly rate that local authorities would receive would be £4.88,[66] and the rate was increased to £4.94 in December 2017.[67] The Early Years National Funding Formula rates set out in for 2018–19 show that 105 of 152 local authorities will not receive any increase in their funding compared to 2017–18, and 21 local authorities will receive a reduced rate in 2018–19.[68]

84. Not all of the money that local authorities receive is passed on to the front-line providers of childcare. The Government has required local authorities to pass through a minimum of 93 per cent of funding for providers in 2017–18, rising to 95 per cent the year after.[69] This pass—through calculation is not based on the £4.94 rate listed above, because this rate includes the funding of the Early Years Pupil Premium (EYPP) which is not passed on to local authorities using the Early Years National Funding Formula. On average, in 2017–18, local authorities passed over £4.34 per hour to private, voluntary and independent providers and £4.52 per hour for primary nursery places, both significantly

63 Department for Education, *Early years funding, Changes to funding for three-and four-year olds: Government consultation response* (December 2016), para 9
64 Department for Education, *Early years funding, Changes to funding for three- and four-year olds: Government consultation response* (December 2016), para 9
65 Department for Education, *Early years funding, Changes to funding for three- and four-year olds: Government consultation response* (December 2016), para 26
66 Department for Education, *Review of childcare costs: the analytical report* (November 2015), p 2
67 Department for Education, *Early years funding, Changes to funding for three- and four-year olds: Government consultation response* (December 2016), p 26
68 Education and Skills Funding Agency, *Early years national funding formula: funding rates and guidance* (December 2016)
69 Department for Education, *Early years funding, Changes to funding for three- and four-year olds: Government consultation response* (December 2016), para 13

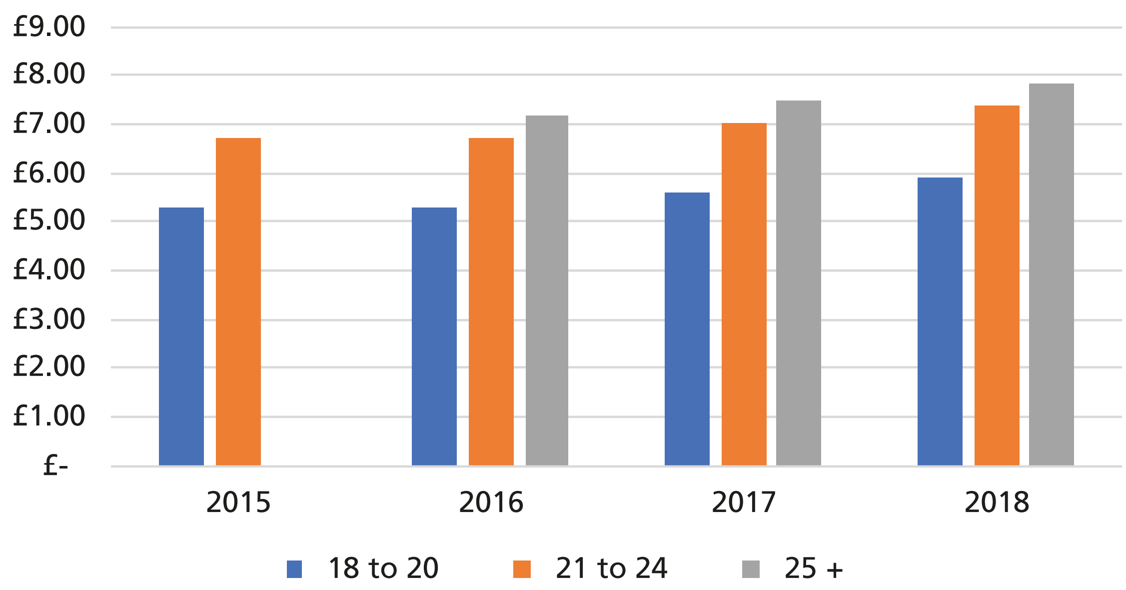
lower than headline figure of £4.94 that Government announced as the sum of money it pays for childcare. On average, nursery schools received £7.42 an hour (nursery schools receive higher funding because they are required to employ qualified teachers).[70]

85. The DfE and HMRC jointly funded the Study of Early Education (SEED), an eight year project to "explore how childcare and early education can give children the best start in life and the factors which are important for the delivery of high-quality provision".[71] The report is due to conclude in 2020 but preliminary outputs of the Value for Money aspects of policy have already been concluded and were published in "SEED: The cost and funding of early education, in January 2017". This report found that the average hourly cost of providing childcare for three to four-year-olds was £3.72.[72]

Shortcomings of data used to support level of funding

86. The data on which the SEED report is based was collected between April and December 2015, predating the introduction of the National Living Wage.[73] It found that 75 per cent of costs were staff costs, 12 per cent were venue related and the balance related to other costs.[74] Since 2015, the minimum wage (since 2016 known as the National Living Wage) has risen by 11 per cent for 18 to 20-year-olds, by 10 per cent for 21 to 24-year-olds and by 17 per cent for those aged over 25.

Chart 2: Minimum wages since 2015:



70 Department for Education, '*Early years funding tool*' (accessed 20 March 2018)
71 Department for Education, *Study of Early Education and Development (SEED): The cost and funding of early education: Research report* (January 2017), page 8
72 Department for Education, *Study of Early Education and Development (SEED): The cost and funding of early education: Research report* (January 2017), table 1
73 Department for Education, *Study of Early Education and Development (SEED): The cost and funding of early education: Research report* (January 2017), page 9
74 Department for Education, *Study of Early Education and Development (SEED): The cost and funding of early education: Research report* (January 2017), page 10

87. The NDNA stated that:

> The staffing costs facing nurseries have increased considerably in recent years. NDNA members reported payroll cost increases of 7 per cent from April 2017, and increases in the National Living Wage, national insurance and pension contributions are expected to increase staffing costs by 6 per cent from April 2018.[75]

88. In addition to the increases in the minimum wage, the Government has also introduced pension auto-enrolment for smaller employers. In 2017 the minimum employer contribution was one per cent, rising to two per cent in 2018 and then three per cent in 2019.[76]

89. When the Committee asked the Chief Secretary to the Treasury how the Treasury had taken into account the increases in the National Living Wage when setting its hourly rate she said:

> The national living wage is part of the assessment that Frontier Economics [the SEED report] have done, so they have taken into account those issues of rising staff costs. […] It definitely included the impact of the national living wage.[77]

Beth Russell agreed with the Chief Secretary to the Treasury and said the subsequent DfE decisions also took the National Living Wage into account. Despite these assertions, the SEED report makes no mention of the National Living Wage other than when discussing three alternative studies led by KPMG, the NEF, and Ceeda.[78] The SEED report itself states that where wage information had to be imputed due to lack of an evidence base, "dependent upon the job description, salaries were either imputed as the Office for National Statistics average for the reported qualification level or as the age-appropriate minimum wage rate".[79] A footnote to the report states that the date for these salary imputations was 2010, uprated to 2015 prices[80], which would not include increases in the minimum / living wage since then.

90. In writing to the Committee, the Chief Secretary to the Treasury stated that, although the Government's funding rate was not derived from the SEED report figure, funding "does compare very favourably with it."[81]

91. The DfE published its own separate "Review of childcare costs" in November 2015. This review is based on wage data from the "Childcare and Early Years Provider Survey 2013".[82] Rent and overheads data, meanwhile, is taken from the Childcare Provider

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75 National Day Nurseries Association (CHI00095)
76 UK Government, 'Workplace pensions' (accessed 20 March 2018)
77 Q82
78 Department for Education, *Study of Early Education and Development (SEED): The cost and funding of early education: Research report* (January 2017)
79 Department for Education, *Study of Early Education and Development (SEED): The cost and funding of early education: Research report* (January 2017), page 29
80 Department for Education, *Study of Early Education and Development (SEED): The cost and funding of early education: Research report* (January 2017), footnote 25
81 HM Treasury (CHI0107)
82 Department for Education, *Review of childcare costs: the analytical report* (November 2015) Page 54

Finances Survey 2012. This review found the average costs varied significantly depending on how many children were being looked after per staff member, as shown in the table below:

Table 2: Representative costs per contact hour for three and four year olds, England 2014–15 (staff to child ration in parentheses

Core provider segment	Hourly cost at average ratios	Hourly cost at statutory ratios
Private	£4.25 (1:6)	£3.56 (1:8)
Voluntary	£3.81 (1:6)	£3.14 (1:8)
Primary schools with nursery provisions	£4.37 (1:10)	£3.60 (1:13)

Source: Department for Education Review of childcare costs, November 2015

92. Despite using wage data from 2013, the average hourly costs in the DfE's report are higher than the £3.72 found in the SEED report.

93. In addition to the increases in wage costs, the NDNA stated that there had been significant increases in business rates since the SEED study and the Government's own study in 2015:

> The average rateable value facing providers in England is £23,863 and our members reported a 24 per cent increase in the rateable value of their premises last year, resulting in an overnight doubling of business rates.[83]

94. The SEED report also found there was a significant variation in cost by type of provider and by geographic region:

Table 3: Average hourly cost by provider type for three and four year olds:

Type of provider	Hourly cost (mean)	Hourly cost (median)
Private	£3.12	£3.04
Voluntary	£3.45	£3.12
Nursery class	£3.96	£3.64
Maintained nursery school	£6.65	£6.51
Local authority children's centre	£5.33	£4.86
Childminder	£5.33	£4.86

Source: Study of Early Education and Development: The cost and funding of early education, January 2017

95. The table shows that for maintained nursery schools, local authority children's centres and childminders, the average figure passed on to providers of £4.34 is significantly lower than their mean and modal operating cost per hour. Ceeda estimated that there would be a "total sector-wide shortfall of over £157 million per year from 2017–18".[84]

96. A further study into childcare costs carried out in 2014 by Ceeda, a private sector research agency specialising in early years research, and referenced widely by the Government's own 2015 study into childcare costs, concluded that that average cost per

83 National Day Nurseries Association (CHI0095)
84 Evidence submitted to Childcare Bill Committee 8 December 2015 (CB 08)

hour was £4.53,[85] 19 pence less than the average sum passed on by local authorities to providers. Having carried out further modelling of this data, factoring in National Living Wage increases and CPI inflation, Ceeda have increased this average cost to £4.68 per hour for 2016–17.[86]

Is there a funding shortfall?

97. The Committee received written evidence from the NDNA, the Pre-School Learning Alliance and Professional Association for Childcare and Early Years, stating that the level of funding provided by the Government was insufficient. The NDNA wrote:

> The introduction of 30-hours funded early years entitlement has directly threatened the business viability of nurseries in England. Chronic insufficient funding from central government means the hourly rate received by nurseries often doesn't cover the cost of providing childcare. This situation isn't sustainable.[…] High operating costs, including business rates and increases in staffing costs, staff to child ratios and the administrative burden of delivering funded places and Tax-Free Childcare and difficulties in recruiting staff are putting the nursery sector under considerable strain.[87]

98. The NDNA went on to say that because the funding is too low, some providers are not offering the service:

> 15 per cent of nurseries (rising to 19 per cent in London) have told us they don't intend to deliver 30-hours funded places because insufficient funding for the scheme undermines business viability. […] Ahead of the rollout of 30 hours funded places for three and four-year olds, some nurseries decided to cease operating, deeming the new funding environment unviable for their business.[88]

99. The Committee also received evidence that demonstrated how the 30-hours had improved outcomes for children and their parents. One nursery wrote:

> The 30-hour funding has had a significant impact on learning and development and attainment for those children who have accessed it. A number of families who are 'just about managing' have benefited significantly from having 30-hours. Prior to the funding parents were having to work opposite shifts in order to cover childcare; this obviously has a detrimental effect on family life and the children's wellbeing.[89]

PATA, a membership organisation with member groups drawn from all childcare sectors carried out a survey of its members and found:

> 35 per cent of those who are offering the extended hours have increased their opening hours to allow for this. […] 27 per cent of respondents said that numbers had increased due to the funded hours. […] A number of

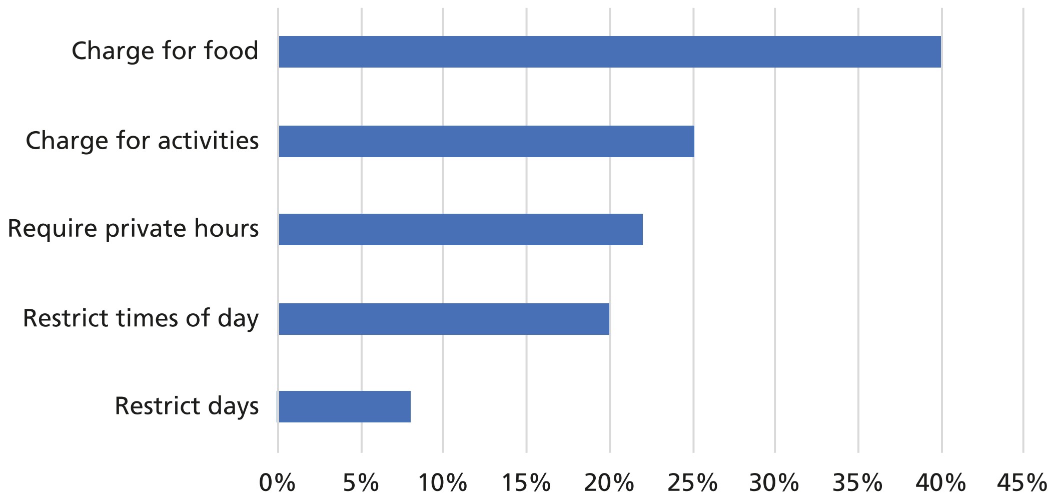
85 ceeda, *Counting the cost: An analysis of delivery costs for funded early years education and childcare* (October 2014), p 4
86 ceeda, *Counting the Cost: The Impact of a National Living Wage* (July 2015)
87 National Day Nurseries Association (CHI0095)
88 National Day Nurseries Association (CHI0095)
89 Oaklands Nursery (CHI0033)

settings commented that although the number of children attending had not increased, the number of hours that existing children were taking had. Overall this meant an increase in numbers in sessions.[90]

Potential unintended consequences

100. The Committee received written evidence from a number of organisations[91] highlighting the measures being taken by providers to make up for shortfalls in funding. Research conducted by Ceeda in the 2017–18 autumn term, found that only 46 per cent of the places offered under the 30-hours entitlement are completely free of charge. A number of different charges and restrictions were placed on the offer, as shown in the chart below:[92]

Chart 3: Proportion of providers responses to 30-hours free childcare



Source: Ceeda, About Early Years; autumn snapshot, 2017

101. Ceeda's research also found that the proportion of staff holding higher levels of qualifications was declining:

> The proportion of staff holding a level three qualification or above was 71 per cent in summer 2017, lower than the figure of 79 per cent reported in the 2016 DfE childcare provider survey. The 2013 DfE provider survey reported 87 per cent of staff in full day care.[93]

102. The NDNA submission explained that providers' ability to introduce fees to cover the shortfalls from 30-hours funding, depended on the circumstances of every individual provider. The NDNA stated "those settings located in deprived areas are much more restricted in their ability to raise revenue through different means. […] This is particularly the case in deprived areas where they are less able to absorb losses through cross-subsidy; as such they are unable to attract better trained staff".[94]

90 New View Nursery (CHI0025)
91 For example: Pre-school Learning Alliance (CHI0066), Professional Association for Childcare and Early Years (CHI0084), National Day Nurseries Association (CHI0095), Ceeda Research Limited (CHI0098)
92 ceeda, *About Early Years: autumn snapshot* (August 2017)
93 Ceeda Research Limited (CHI0098)
94 National Day Nurseries Association (CHI0095)

103. The British Association for Early Childhood Education highlighted that the Government had no ability to restrict additional costs:

> Despite the expectation that the 30 hours is not limited by parents' ability to pay, Government has accepted the principle of voluntary charges for "extras" hence endorsing the principle of top up charges. There is no mechanism to control the level of additional charges […] there is no cap to ensure rises in fees are proportionate, or are directed to improving quality. Providers acknowledge they are also raising the cost of parent-paid hours to compensate, which will also fuel inflation of families' childcare bills.[95]

104. London Councils highlighted how the roll-out of 30-hours childcare was redistributing resources away from low-income parents towards higher-income parents:

> London boroughs are concerned about the impact of the 30 hour free entitlement on the opportunities available to the most disadvantaged children in their local areas. This is particularly true for those boroughs that previously offered free places for the most disadvantaged three and four year olds in their maintained settings. 11 out of 26 boroughs surveyed have offered this at some point, providing between 10 and 35 additional hours on top of the universal entitlement for a targeted group of children. As a result of the introduction of the 30-hour entitlement and the budgetary pressures on local authorities, only one of these 11 will be able to continue offering this provision in the long term, and two are not sure. […] The introduction of the 30-hour entitlement for three and four year olds is not only limiting local authorities' ability to offer additional opportunities to children from disadvantaged families, but is also inadvertently creating a system in which children from more advantaged backgrounds are more likely to benefit.[96]

105. The British Association for Early Childhood Education agreed with this assessment:

> [The issue is] highlighted most markedly in local authorities which previously used funding to provide full-time places for the most disadvantaged children, which now cannot do so but do have to fund 30 hours for eligible working parents. Schools report seeing the gap widen, and being unable to support the most vulnerable families to overcome adverse circumstances and begin the process of seeking training and work experience and move towards employment. […] Consideration should be given to whether the 30 hours entitlement should be open to more—or perhaps all—children in families below the current income threshold, and if necessary whether fewer families at the upper end of the earnings threshold should qualify.[97]

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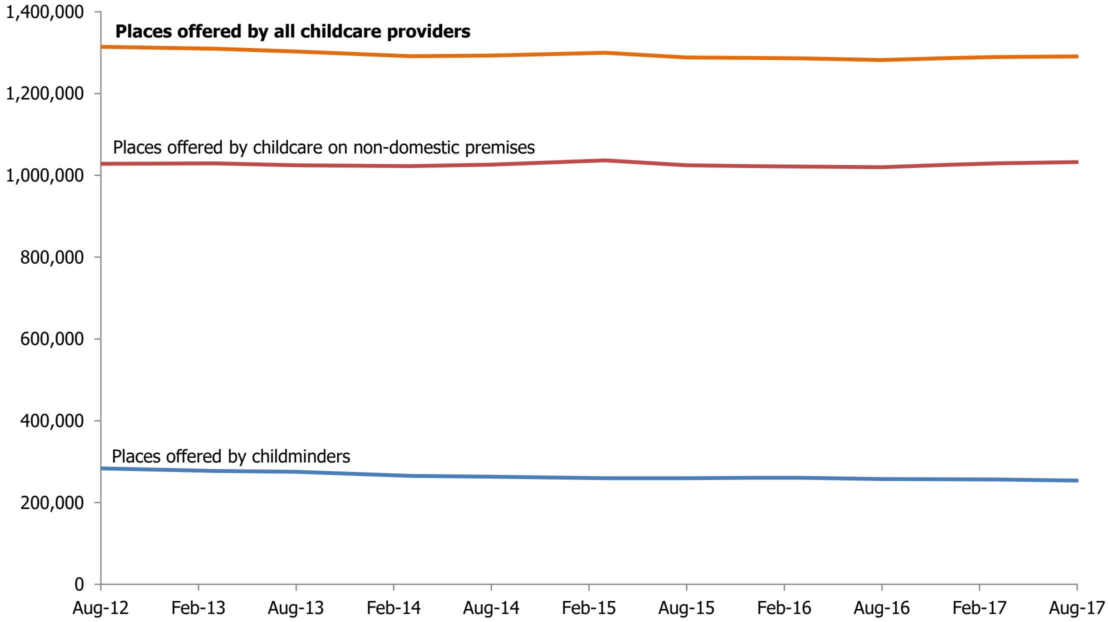
95 Early Education (CHI0054)
96 London Councils (CHI0093)
97 The British Association for Early Childhood Education (CHI0054)

Chart 4: Childcare places on the Early Years Register over time, by provider type



Source: Ofsted, 'Childcare providers and inspections as at 31 August 2017: main findings'

106. Chart 4 shows the number of childcare places available in England for children aged under eight, from August 2012 to August 2017, the latest data available. A number of factors, including the Government policy and the inspection regime, could affect trends in the number and setting of places offered. Tax-Free Childcare and 30-hours free childcare began in September 2017, so it is too early to determine from the published data the impact of the schemes on the childcare sector, and the availability of childcare places. Ofsted state that it hopes "to provide some insight into the scheme's impact on the childcare sector" once the data becomes available".[98]

Administrative issues faced by providers as a result of 30-hours scheme

107. The Professional Association for Childcare and Early Years explained that, in addition to the funding constraints, providers face cash-flow concerns as a result of the payment timescales that local authorities operate under:

> Most providers, and childminders in particular, are accustomed to weekly or monthly payments. Local authorities, on the other hand, have historically dispensed payments in arrears on a termly basis in line with school administration systems, and delays or errors are not uncommon. This can cause serious cash flow problems, which can be very damaging for small businesses operating on very low or no profit margins. Although the statutory guidance advises local authorities to pay childminders monthly by September 2018 at the latest, this is simply not happening in a number of areas.[99]

98 Ofsted, 'Childcare providers and inspections as at 31 August 2017: main findings,' accessed 21 March 2018
99 Professional Association for Childcare and Early Years (CHI0084)

108. The Professional Association for Childcare and Early Years' submission to the Committee also highlighted administrative burdens that local authorities have placed on providers as a result of the 30 hours scheme:

> Excessive paperwork, red tape and administrative errors are common complaints throughout the country. We are hearing numerous reports of problems with local authority portals. […]. Under the regulations, Ofsted is meant to be the sole arbiter of quality, and local authorities are not meant to impose any additional requirements on providers as a condition of providing funded places. However, PACEY is continuing to hear reports of local authorities requiring providers to hold certain policies, training, or even participate in mandatory quality visits. All of these serve to put off smaller providers, and childminders in particular, from delivering funded places. As sole operators without administrative support, childminders must do all of this late in the evening or on weekends when they are not caring for children.[100]

109. **The Government has stated that it provides £4.94 per hour to fund 30-hours free childcare. Such a figure is misleading firstly because not all this money is passed onto childcare providers—a proportion is retained by local authorities—and secondly, because it includes money for some specific schemes, such as the Early Years Fund, which many providers do not receive. The average rate passed on to private, voluntary and independent providers was £4.34 per hour.**

110. **A number of different studies have calculated the average cost per hour of providing childcare. The estimates range from £3.72 to £4.68. The Government maintains that its current level of funding per hour compares very favourably to these average costs. However, the Department for Education's own analysis, as well as the Study of Early Education (SEED) report, show that for certain types of providers, the average government rate passed on to providers of £4.34 is only just above, and in some cases less than, the average costs providers incur.**

111. **The Department for Education's 2015 Cost of Childcare Review relies on wage data from a survey carried out in 2013, and rent and other overhead costs from a survey carried out in 2012. The Committee has not seen any evidence to justify the Chief Secretary to the Treasury's evidence that the increases in the National Living Wage have been factored into the hourly rates provided by central Government to local authorities and childcare providers. It is highly likely that increases in other costs, such as pension auto-enrolment and business rates, have also not been factored into the central Government hourly rates. 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. Setting the funding level with reference to wage and overheads data that is more than five years old is unsatisfactory.**

112. **In response to the 30-hours free childcare scheme, providers are altering their service in ways that were not foreseen when the scheme was designed, and that may undermine the Government's overarching policy objectives. In particular:**

100 Professional Association for Childcare and Early Years (CHI0084)

a) Providers are restricting the times at which parents can claim 30 hours. This may lead to childcare provision becoming less flexible for parents than was previously the case—the opposite of what the scheme was intended to achieve.

b) In order to cut costs, evidence suggests providers are cutting back on higher-qualified staff and increasing their child-to-staff ratios. This could reduce the quality of the childcare being offered, working counter to the Government's intention to improve the child development of three to four year olds.

c) Some providers are charging for services that were previously free, and have increased existing charges for children who are non-eligible (e.g. under threes). Lower-income households may no longer be able to afford the same level of childcare they previously received.

d) Providers in higher income areas will be better placed to mitigate the funding shortfalls than those in more deprived areas, where raising prices is less feasible. This could lead to providers in lower-income areas cutting costs—reducing the quality of care in those areas that could most benefit from it.

These consequences could be avoided were the Government to pay a higher hourly rate to providers and ensure that all the money provided to local authorities was passed on to childcare providers.

113. Evidence submitted to the Committee suggests that some local authorities are having to cut back on childcare provisions for low-income children younger than three, who do not qualify for free childcare, for whom they had previously provided support. Given the high cost of this policy, and the potential for lower-income parents to lose out as a result of its introduction, 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.

5 Tax-Free Childcare replacing childcare vouchers

114. As part of the Government's childcare voucher scheme, if a parent's employer offered childcare vouchers, parents could take £55 per week of their pay as vouchers, rather than money, and not pay income tax or national insurance on that proportion of their pay.

115. On 13 March 2018 Damian Hinds, Secretary of State for Education, told the House that the Government will "keep the voucher scheme open to new entrants for a further six months."[101] No further detail was available at that time.

116. Prior to that announcement, childcare vouchers were due to close to new applications after 6 April 2018. Parents that were already using the scheme would only be able to retain their entitlement as long as they remained with the same employer and did not take a career break.

117. The Government has justified discontinuing childcare vouchers on the grounds that it has introduced Tax-Free Childcare. At £55 per week, childcare vouchers could provide income tax and National Insurance relief worth £2,860 per parent. Tax-Free Childcare only provides £2 for every £8, up to a limit of £500 every 3 months (£2,000 per year) on the contributions a parent pays into an online account for childcare costs.[102] Therefore whilst tax relief on childcare vouchers provides relief on an individual's tax and National Insurance, Tax-Free Childcare is only provided at the basic 20 per cent rate of income tax, with no relief on National Insurance.

118. When the Committee asked the Chief Secretary to the Treasury why the Government was discontinuing the scheme for new applicants, she stated that it was a tax scheme that was not universally available for people with the same circumstances:

> Only 5 per cent of employers offered those vouchers, so it is very arbitrary.[103] […] [and therefore was only available to] half of people who are employed[104] [and] is also not offered to the self-employed.[105]

119. The Chief Secretary to the Treasury also highlighted that childcare vouchers discriminated against single parents, and the money received was not linked to the number of children within a household:

> It is also unfair on single parents. You get more money if you are a couple than if you are a single parent. Tax-Free Childcare pays according to the number of children, and we all know that childcare costs reflect how many children there are in a family. Vouchers do not do that.[106]

120. The Chief Secretary to the Treasury explained that the new system would remove such distortions:

101 HC Deb, 13 March 2018, col 802
102 UK Government, '*Help paying for childcare*' (accessed 20 March 2018)
103 Q53
104 Q54
105 Q55
106 Q55

> The whole rationale was that we were replacing an unfair system that was pretty arbitrary about who received it with a system where everybody, regardless of who you worked for, regardless of whether you were self-employed, regardless of whether you were a single parent or you were part of a couple, got the same level of support.[107]

121. In addition to the arbitrary nature of who could access childcare vouchers, the Chief Secretary to the Treasury also stated that the voucher scheme was administratively expensive:

> There is a lot of waste in it. We spend £220 million every year [which is more than 20 per cent of the cost of the scheme][108] on the administration and bureaucracy, a significant proportion of which goes to the voucher providers. Under our new scheme, all of the money is going directly to pay for childcare, directly to those high-quality nursery staff who we want to see the money going to.[109]

122. Both the Chief Secretary to the Treasury's evidence that £220 million represented "administration and bureaucracy" of the childcare voucher scheme, as well as the Economic Secretary to the Treasury's statement that "£220 million has gone on administration"[110] stand in contrast to the Treasury's response to a written parliamentary question, which stated that "£220 million is the estimated cost to government of the employer National Insurance relief on Employer Supported Childcare. […] Government does not hold details about the administration costs incurred by employers for childcare voucher schemes."[111] Administration costs to Government of childcare vouchers are likely to be small, since the scheme is administered by employers through their payroll services, and there is no interaction between Government and parents.

123. In response to a further parliamentary question requesting the programme costs and administrative costs of both Tax-Free Childcare and childcare vouchers, the Government only provided a figure for the total operating cost of the childcare service, through which parents apply for both Tax-Free Childcare and 30 hours free childcare of £36 million in 2018–19.[112] The Government did not provide a separate cost of each scheme.

124. The Government's own impact assessment of Tax-Free Childcare does not quantify the economic impact of the policy. It states:

> It is not possible to produce a full, monetised cost-benefit analysis of the scheme due to insufficient data and evidence, as well as limits to how reasonably such costs and benefits can be monetised to provide meaningful results.[113]

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107 Q55
108 Q57
109 Q55
110 HC Deb, 15 January 2018, col 240WH
111 PQ 1296 5
112 PQ 1267 0
113 HM Revenue and Customs, *Tax-Free Childcare impact assessment* (March 2017)

125. When the Committee asked the Chief Secretary to the Treasury whether the Treasury had carried out analysis to show that parents will not be worse off than they would have been under the voucher scheme, the Chief Secretary to the Treasury did not confirm that such an analysis had been conducted. She stated:

> We conduct an overall distribution analysis of all Treasury policies, as part of the Budget. That covers all areas like tax, including this area of Tax-Free Childcare and employer-supported childcare. What we do not do is break it down to individual policies, because the analysis is not sufficiently robust. It tends to reflect a fairly small sample size. The overall analysis is produced on the basis of distribution. […] We do not have the data about which employers support employer-supported childcare [vouchers]. We do not know which parents in the income distribution are eligible for that […] so we are not able to produce a robust analysis of that.[114]

126. Childcare vouchers are available for children up to the age of 15, whereas Tax-Free Childcare is only available up to the age of 11. The Committee asked the Chief Secretary to the Treasury why the qualifying age was being reduced. She stated that:

> Tax-Free Childcare was designed as people's childcare costs are higher with children who are under 12 than children who are under 16. We always have to make a decision about how we focus our resources to make sure we use them properly, but it seems to me a reasonable proposition to have a system that works for children up to the age of 12.[115]

127. **Announcing a six-month extension of the childcare voucher scheme two weeks before it was due to be discontinued for new applicants is no way to manage childcare policy. It is possible that many parents who were better-off under childcare vouchers will have already made arrangements with childcare providers and their employers to start using the Tax-Free Childcare scheme. The eleventh-hour U-turn underlines the Committee's concerns about the difficulties parents face in making the right choice about which schemes to use.**

128. **In evidence to the Committee the Chief Secretary to the Treasury stated that there was "administrative and bureaucratic" waste within childcare vouchers that cost "£220 million, more than 20 per cent of the scheme". This is not correct. It was subsequently made clear that the figure quoted was the national insurance relief that employers receive as a result of the scheme. 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.**

129. **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.**

114 Q62
115 Q63

130. **The Government's policy of discontinuing childcare vouchers will result in winners and losers. 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. Only once such scrutiny has taken place and the level of take up of Tax-Free Childcare is known will it be possible to understand the extent to which parents have been made better or worse off by the transition from childcare vouchers to Tax-Free Childcare. The Government should therefore consider keeping the childcare voucher scheme open, at least until this information is available.**

131. **The Committee acknowledges that the childcare vouchers scheme as currently designed 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. If the vouchers are kept in the long term, these would be compelling reasons to reform the scheme.**

132. **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.**

Conclusions and recommendations

The economic impact of childcare

1. The 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. However, to the extent that it increases the employment rate of parents, the Government's support for childcare will increase GDP, GDP per capita, the tax base and tax receipts. It is also likely to help to reduce the gender pay gap. (Paragraph 29)

3. 15 and 30-hours free childcare and Tax-Free Childcare aim to help parents into work. Research suggests that these interventions have only had a small impact on parental employment. (Paragraph 30)

4. The Treasury has made little effort to calculate the economic impact of the Government's childcare interventions. 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)

5. Based on the evidence available, the biggest impact of the Government's childcare schemes may be to make childcare more affordable to those that receive support, rather than bring parents back into the work place. (Paragraph 32)

6. 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 over-riding 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)

The design of Government's childcare schemes

7. 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)

8. 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)

9. The rapidly-changing nature of work makes it ever more important that Government encourages lifelong learning and promotes the acquisition of new skills. As it stands, however, most parents considering entering training or education would be deterred by an absence of proper support for childcare costs. Many parents may need to retrain in order to return to work after having children. Failing to extend childcare to parents who need to take on such retraining is therefore short sighted. (Paragraph 49)

10. As part of its efforts to address the UK's weak productivity performance through the launch of the National Retraining Scheme, 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)

11. Entitlement to 30-hours free childcare should begin as soon as a child turns three. There is no justification for delaying entitlement, which unreasonably disadvantages parents of children who happen to have been born early in an academic term. (Paragraph 52)

Identified problems within childcare policy implementation

12. With a take-up rate 90 per cent lower than initially expected, Tax-Free Childcare is a clearly under-performing scheme. The Committee received evidence that low take-up can be explained by low awareness among parents of the scheme's existence. It also received evidence that take-up may also be affected by the fact that some parents may prefer to remain on childcare vouchers scheme. The failure to publicise the scheme properly—a cornerstone of the Government's childcare policy—is regrettable. The Government should now take all necessary measures to improve awareness and take-up of the scheme. (Paragraph 59)

13. The Tax-Free Childcare website was intended to be available to parents in preparation for the start of the new school term in September 2017. But it failed consistently throughout the summer, causing stress and inconvenience to thousands. Having to close a system for repeated maintenance so soon after it has gone live is unacceptable. 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)

14. 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)

15. 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)

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

17. While the wide range of childcare schemes has provided parents with greater choice and flexibility, the level of complexity has become overwhelming. It is likely that for parents whose circumstances change from month to month it is almost impossible to make the best choice. (Paragraph 77)

18. 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)

19. 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)

Funding of 30-hours free childcare

20. The Government has stated that it provides £4.94 per hour to fund 30-hours free childcare. Such a figure is misleading firstly because not all this money is passed onto childcare providers—a proportion is retained by local authorities—and secondly, because it includes money for some specific schemes, such as the Early Years Fund, which many providers do not receive. The average rate passed on to private, voluntary and independent providers was £4.34 per hour. (Paragraph 109)

21. A number of different studies have calculated the average cost per hour of providing childcare. The estimates range from £3.72 to £4.68. The Government maintains that its current level of funding per hour compares very favourably to these average costs. However, the Department for Education's own analysis, as well as the Study of Early Education (SEED) report, show that for certain types of providers, the average government rate passed on to providers of £4.34 is only just above, and in some cases less than, the average costs providers incur. (Paragraph 110)

22. The Department for Education's 2015 Cost of Childcare Review relies on wage data from a survey carried out in 2013, and rent and other overhead costs from a survey carried out in 2012. The Committee has not seen any evidence to justify the Chief Secretary to the Treasury's evidence that the increases in the National Living Wage have been factored into the hourly rates provided by central Government to local authorities and childcare providers. It is highly likely that increases in other costs, such as pension auto-enrolment and business rates, have also not been factored into the central Government hourly rates. 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. Setting the funding level with reference to wage and overheads data that is more than five years old is unsatisfactory. (Paragraph 111)

23. In response to the 30-hours free childcare scheme, providers are altering their service in ways that were not foreseen when the scheme was designed, and that may undermine the Government's overarching policy objectives. In particular:

    a) Providers are restricting the times at which parents can claim 30 hours. This may lead to childcare provision becoming less flexible for parents than was previously the case—the opposite of what the scheme was intended to achieve.

    b) In order to cut costs, evidence suggests providers are cutting back on higher-qualified staff and increasing their child-to-staff ratios. This could reduce the quality of the childcare being offered, working counter to the Government's intention to improve the child development of three to four year olds.

    c) Some providers are charging for services that were previously free, and have increased existing charges for children who are non-eligible (e.g. under threes). Lower-income households may no longer be able to afford the same level of childcare they previously received.

    d) Providers in higher income areas will be better placed to mitigate the funding shortfalls than those in more deprived areas, where raising prices is less feasible. This could lead to providers in lower-income areas cutting costs—reducing the quality of care in those areas that could most benefit from it.

    These consequences could be avoided were the Government to pay a higher hourly rate to providers and ensure that all the money provided to local authorities was passed on to childcare providers. (Paragraph 112)

24. Evidence submitted to the Committee suggests that some local authorities are having to cut back on childcare provisions for low-income children younger than three, who do not qualify for free childcare, for whom they had previously provided support. Given the high cost of this policy, and the potential for lower-income parents to lose out as a result of its introduction, 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)

Tax-Free Childcare replacing childcare vouchers

25. Announcing a six-month extension of the childcare voucher scheme two weeks before it was due to be discontinued for new applicants is no way to manage childcare policy. It is possible that many parents who were better-off under childcare vouchers will have already made arrangements with childcare providers and their employers

to start using the Tax-Free Childcare scheme. The eleventh-hour U-turn underlines the Committee's concerns about the difficulties parents face in making the right choice about which schemes to use. (Paragraph 127)

26. In evidence to the Committee the Chief Secretary to the Treasury stated that there was "administrative and bureaucratic" waste within childcare vouchers that cost "£220 million, more than 20 per cent of the scheme". This is not correct. It was subsequently made clear that the figure quoted was the national insurance relief that employers receive as a result of the scheme. 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)

27. 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)

28. The Government's policy of discontinuing childcare vouchers will result in winners and losers. 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. Only once such scrutiny has taken place and the level of take up of Tax-Free Childcare is known will it be possible to understand the extent to which parents have been made better or worse off by the transition from childcare vouchers to Tax-Free Childcare. The Government should therefore consider keeping the childcare voucher scheme open, at least until this information is available. (Paragraph 130)

29. The Committee acknowledges that the childcare vouchers scheme as currently designed 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. If the vouchers are kept in the long term, these would be compelling reasons to reform the scheme. (Paragraph 131)

30. 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)

Formal minutes

Tuesday 21 March 2018

Members present:

Nicky Morgan, in the Chair

Rushanara Ali
Mr Simon Clarke
Stephen Hammond
Wes Streeting
Mr Alister Jack
Alison McGovern
John Mann

Draft Report (*Childcare*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 132 read and agreed to.

Resolved, That the Report be the Ninth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 27 March at 9.45 a.m.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 31 January 2018

Question number

Rt Hon Elizabeth Truss MP, Chief Secretary to the Treasury, **Beth Russell**, Director General, Tax and Welfare, HM Treasury, and **Nick Lodge**, Director General, Transformation, HM Revenue & Customs Q1–94

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

CHI numbers are generated by the evidence processing system and so may not be complete.

1 1966 Juliet Chalk (CHI0046)

2 3mxchildcare Ltd (CHI0017)

3 A M LEWIS (CHI0099)

4 Alive to the World UK Louise Kirk (CHI0059)

5 All Souls CE Primary (CHI0076)

6 Barbara Riddell (CHI0064)

7 Bradford Metropolitan District Council (CHI0088)

8 Bright Sparks Preschool (CHI0057)

9 Brighton & Hove City Council (CHI0067)

10 British Au Pair Agencies Association (CHI0010)

11 British Chambers of Commerce (CHI0105)

12 Bushy Leaze Early Years Centre (CHI0053)

13 Cambridge Day Nursery (CHI0014)

14 Cambridge Day Nursery (CHI0023)

15 Ceeda Research Limited (CHI0098)

16 Childcare Voucher Providers Association (CHI0077)

17 David Whiscombe (CHI0097)

18 Dr Maria Lyons (CHI0070)

19 Early Education (CHI0054)

20 ELBA A Tapia (CHI0042)

21 Ellen Bartoloni (CHI0022)

22 Employers For Childcare (CHI0009)

23 Family and Childcare Trust (CHI0075)

24 Fideliti Limited (CHI0013)

25 Fiveways Playcentre (CHI0091)

26 Funcare Ltd (CHI0007)

27 Heather Mills (CHI0036)

28 Helen Bilton (CHI0019)

29 Helen Wyrill (CHI0043)

30 HM Treasury (CHI0107)

31 HMRC (CHI0106)

32 Humpty Dumpty Day Nurseries Ltd (CHI0096)

33 Kate O'Farrell (CHI0068)

34 Killik & Co LLP (CHI0092)
35 Local Government Association (CHI0049)
36 London Councils (CHI0093)
37 Low Incomes Tax Reform Group (CHI0100)
38 Miss Terri-Anne creasser (CHI0008)
39 mothers at home matter (CHI0044)
40 Mr Andrew Shimmin (CHI0006)
41 Mr Douglas Leckie (CHI0029)
42 Mr John O'Neill (CHI0002)
43 Mr Nick Leake (CHI0039)
44 Mrs Alison Jones (CHI0073)
45 Mrs Alison Kavanagh (CHI0065)
46 Mrs Amanda D'Oyly (CHI0089)
47 Mrs Anne Fennell (CHI0060)
48 Mrs Becky Irving (CHI0087)
49 Mrs Claire Green (CHI0041)
50 Mrs Claire Paye (CHI0030)
51 Mrs Elizabeth Sydenham (CHI0032)
52 Mrs Evelyn Williams (CHI0094)
53 Mrs Genevieve Jordan (CHI0085)
54 Mrs Jeanette Dobson (CHI0048)
55 Mrs Katherine McGuinness (CHI0103)
56 Mrs Kim Barnetson (CHI0012)
57 Mrs Lydia Keyte (CHI0004)
58 Mrs Lynne Burnham (CHI0021)
59 Mrs Lynsey Kelleher (CHI0011)
60 Mrs Naomi Stadlen (CHI0047)
61 Mrs Rachel Brooker (CHI0102)
62 Mrs Rebecca Nuttall (CHI0027)
63 Mrs Ruth Thomas (CHI0069)
64 Mrs Stella Tidman (CHI0003)
65 Mrs Susan Alexander-Barnes (CHI0031)
66 Mrs Susan Sugden (CHI0040)
67 Mrs Tara Easton (CHI0018)
68 Mrs Victoria Begbie (CHI0063)
69 Mrs Zoe Williams (CHI0005)
70 Ms Carys Dorritt (CHI0056)
71 Ms Christine Green (CHI0038)

72 Ms Diana Dean (CHI0050)
73 Ms Julie Morris (CHI0026)
74 Ms Kathryn Kelly (CHI0055)
75 Ms lynn thompson (CHI0045)
76 Ms Melodie Hannon (CHI0035)
77 National Day Nurseries Association (CHI0095)
78 New View Nursery (CHI0025)
79 Oaklands Nursery (CHI0033)
80 PATA (UK) (CHI0082)
81 Patricia Dudley (CHI0037)
82 Peter Mills (CHI0034)
83 Potley Hill Community Preschool (CHI0061)
84 Pre-school Learning Alliance (CHI0066)
85 Professional Association for Childcare and Early Years (PACEY) (CHI0084)
86 Professor Eva Lloyd (CHI0071)
87 Prospect (CHI0024)
88 Save the Children (CHI0090)
89 Suffolk County Council (CHI0079)
90 The Children's Garden (CHI0020)
91 The Heathers Nursery (CHI0015)
92 University of Essex and other universities (CHI0081)
93 Willaston Pre-school (CHI0062)
94 Women's Equality Party (CHI0101)
95 Working Families (CHI0086)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

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Third Report	The Solvency II Directive and its impact on the UK Insurance Industry	HC 324 (HC 863)
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Fifth Report	Autumn Budget 2017	HC 600
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Second Special Report	The Solvency II Directive and its impact on the UK Insurance Industry: Bank of England Response to the Committee's Third Report of session 2017–19	HC 863
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