

Childcare Payments Bill 2014-15 **House of Lords 9 December, all stages**

Key points

- The new 'tax-free' childcare subsidy is an improvement on the existing voucher scheme and the extra support for parents is welcome, but concerns remain that:
 - the scheme is not well targeted to help low to middle income families who most need help with childcare costs
 - the scheme will not address the additional childcare challenges and costs faced by families with disabled children
 - many families will face difficulty identifying which childcare support is best for them and potentially miss out on key support.
- The government should make sure that families are passported smoothly between each childcare scheme and address the childcare problems faced by families with disabled children.
- The next government should establish an independent review of childcare funding to make recommendations on simplifying the funding system for parents and providers and long term investment to address access and quality challenges.

Childcare affordability

Childcare costs are a continuing challenge for families: more than a quarter of parents find it difficult to pay for childcare and many are discouraged from working by prohibitively high costs.¹

- Over half of families with children under 14 use childcare but, excluding the free early education offer, only around one third of families paying for childcare receive financial support.²
- Families with low incomes remain twice as likely to experience difficulty paying for childcare as those on middle incomes (47% of families with incomes below £10,000 compared to 17% of families with incomes above £45,000).
- Many parents face difficulty finding childcare: almost one in three parents (30%) say there are not enough places in their area.³ Local authorities also report large gaps in provision: 46% of local authorities do not have enough childcare for under 2s; 65% for children aged 5-11; and 72% for disabled children.⁴

The new tax-free childcare scheme

The scheme will provide a 20% top up on childcare payments for working parents with children aged under 12 (or 17 for children with a disability). The top up is capped at £2,000 each year per child or £500 each quarter. In a couple, both parents must be in work to be eligible.

The Government estimates that around 1.25 million parents will be eligible for the scheme. This is an improvement on the 450,000 parents able to access the current voucher scheme, but remains only slightly more than half of those who pay for childcare.⁵

¹ Huskinson, T. et al (2014) *Childcare and early years survey of parents 2012-13*, Department for Education, p.115

² Family and Childcare Trust (2014) *Where next for childcare? Learning from the 2004 childcare strategy and ten years of policy*, p. 55

³ Huskinson, T. et al (2014), p. 115

⁴ Family and Childcare Trust (2014) *Annual Childcare Costs Survey 2014*

⁵ HMRC (2014) *Childcare Payments Bill Impact Assessment*, p. 6

Approximately 80% of those eligible for the tax-free scheme will be in the top 40% of the income distribution⁶, and not adequately help low to middle income households for whom childcare costs remain a barrier to work.

The overlap between tax-free childcare and Universal Credit

Families will not be able to claim Universal Credit/tax credits and tax-free childcare at the same time. The Government estimates that around one in ten families claiming the childcare element of tax credits will be better off claiming support under the new scheme.⁷ It is likely that there will be significant movement between the two schemes. Many families, particularly those with fluctuating incomes such as the self-employed or those on zero hour contracts, are likely to find it difficult to know under which scheme they are better off.

Childcare for disabled children

The recent Parliamentary Inquiry into childcare for disabled children found that parents with disabled children faced significant extra challenges finding and paying for childcare.⁸ 38% of parents who responded to the inquiry survey reported paying £11-20/hr and 5% more than £20/hr. Three quarters had cut back or given up work because of childcare problems.

The Inquiry highlighted the limitations of the tax-free scheme for families with disabled children: a 20% top up is of limited help to parents who face costs per hour dramatically higher than the average. The Family and Childcare trust has estimated that increasing the top-up to 40% for children with disabilities would cost just £25million each year.

The inquiry also heard that out of school activities were a key means of social inclusion for disabled children and young people. As the tax-free childcare legislation only covers costs for childcare used to enable parents to work, it will not help many families pay for such childcare.

There are a small number of effective childcare inclusion schemes run by local authorities that both support providers to offer places to children with SEND through training, specialist support and adaptations, and subsidise the difference between the 'normal' fee and the actual cost of care for a disabled child. These schemes should be scaled up nationally.

Steps to improve the tax-free childcare scheme and childcare support

- Raise the maximum cap of £2,000 for children who receive Disability Living Allowance and increase the proportion of costs covered for these children to 40%.
- Raise the maximum age of eligibility for the scheme to 14 for all children and 18 for disabled children to align the scheme with the Childcare Act.
- Set up a passporting process between Universal Credit and the tax-free childcare scheme that supports parents to choose the most appropriate scheme and allows for smooth transitions between each scheme.
- HMRC should work with the Department for Work and Pensions to produce an online childcare costs calculator that includes Universal Credit to enable families to decide which scheme is best for them.
- Create and properly fund a national statutory inclusion framework for childcare that ensures disabled children can access childcare in any suitable setting at the same price as a non-disabled child.

To address the long term challenge of childcare funding, the government should establish an independent review of childcare funding that makes recommendations on a simpler funding system that makes sure parents get the support they need to make work pay and improves access and quality.

⁶ Alakeson, V. et al (2013) *Resolution Foundation analysis of the 2013 Budget*, p. 6

⁷ HM Treasury/HMRC (2014) *Delivering Tax-Free Childcare: the Government's response to consultation on delivery and operation*, p. 25

⁸ Every Disabled Child Matters et al (2014) *Parliamentary Inquiry into childcare for disabled children: Levelling the playing field for families with disabled children and young people*