
Childcare Payments Bill 2014-15

House of Commons Second Reading Briefing

Key points

- Affordable, flexible and high quality childcare is vital for child development, enabling parents to work and reducing poverty.
- 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 those families who most need help with childcare costs;
 - the scheme will not address the additional challenges and costs faced by families with disabled children; and
 - many families will face difficulty navigating between support under Universal Credit and the new subsidy, potentially having to make frequent switches between each scheme.
- The Bill should be amended to make sure that disabled children benefit from the scheme and as many families are able to access support as possible.
- The Family and Childcare Trust is calling for an independent review of childcare funding that delivers a simpler system and the affordable and flexible childcare that families need.

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 Existing forms of support are limited in scope, have not successfully targeted help with childcare costs at those who need it most, and often do not support parents who have difficulty finding childcare at the times they need it:

- Over half of families with children under 14 use formal childcare but, excluding the free early education offer for 3, 4 and some 2 year-olds, only around one third of families paying for childcare receive some form of financial support.²

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

- 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 Government's proposed new tax-free childcare scheme

The new childcare subsidy will only partially mitigate these problems:

- The Government estimates that around 1.25 million parents with qualifying childcare costs will be eligible for the scheme, slightly more than half of those who pay for childcare.⁵
- The scheme benefits very few low to middle income households: 80% of those eligible for the tax-free scheme will be in the top 40% of the income distribution.⁶
- The scheme will encourage investment in childcare settings serving the most well-off families rather than in expanding access in the most disadvantaged areas.

Tax-free childcare and Universal Credit

Most low income families will receive more help with childcare costs under Universal Credit, but this increased support will not reach many until 2017. As the new voucher scheme will begin in 2015, higher income parents will benefit from new support with childcare costs before those on low and middle incomes.

The government estimates that around one in ten families claiming the childcare element of Working Tax Credits may be better off claiming support under the new voucher scheme.⁷ It is likely that there will be significant movement between the two schemes and families, particularly those with fluctuating incomes, are likely to find it difficult to know and choose which system under which they are better off.

The tax-free childcare scheme has also highlighted two flaws of the support with childcare costs available under Universal Credit:

- The new subsidy system provides up to £2,000 for every child but under Universal Credit support is capped, no matter how many children in a family require childcare, which means working parents with more than two children are penalised.
- The tax-free scheme allows parents to budget as they can 'bank' support in an account and spend it when needed. This is not possible under Universal Credit.

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

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

Childcare for disabled children

The recent independent Parliamentary inquiry into childcare for disabled children found that parents with disabled children face significant extra challenges finding and paying for childcare.⁸ The parents who responded to the inquiry's survey reported paying above average childcare costs, with 38% paying £11-20 and 5% paying more than £20 per hour. As a result, 72% of families had cut back or given up work because of childcare problems.

The inquiry highlighted the limitations of the new tax-free scheme for families with disabled children: additional support of 20% with a £2,000 cap will be of limited help to parents who face costs dramatically higher than the average. The inquiry also heard that out of school and holiday childcare 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 these families pay for such childcare.

Steps to improve the tax-free childcare scheme

- Support access to childcare for disabled children by raising the maximum cap of £2,000 for children who receive Disability Living Allowance and removing the requirement that childcare paid for through the scheme should be used only to cover work.
- Raise the age of eligible children to 15 in order to be consistent with the childcare element of Working Tax Credit: 36% of children aged 12 to 14 attend an after school club or activity on a weekly basis.⁹
- Commit to an information and advice offer that includes access for parents to 'better off' calculations as and when needed to help them choose between Universal Credit and the tax-free childcare scheme.

Neither the new childcare tax-free childcare subsidy nor the childcare element of Universal Credit are long-term answers to childcare affordability. These schemes are poorly targeted, do not address access and quality problems and are excessively complex and administratively costly.

The Family and Childcare Trust is calling for an independent review of childcare funding that delivers the affordable and flexible childcare that parents and employers need.

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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*

⁹ Huskinson, T. et al (2014), p. 41