

Government response to Treasury Committee Report on Childcare

On 20 June, the **Government's response** to a Treasury Committee Report on Childcare was published. The Treasury Committee, which scrutinises the work of HM Treasury, published its unanimously-agreed independent **Report on Childcare** in March 2018 recommending that the Government keep the **Childcare Voucher scheme** open to new entrants, until the winners and losers of discontinuing it are known.

The Government's response fails to address several of the issues raised by the Committee including delivering a full analysis of the impact of closing the Childcare Voucher scheme to new entrants. Instead, the response reiterates arguments previously made by the Government that have already been challenged robustly using clear evidence.

Government argument	Challenge
<p>Childcare Vouchers only support parents whose employers offer the scheme, do not take account of the number of children in a household, exclude self-employed parents and favour two-parent households over single parent households.</p>	<p>Analysis of UK average household spend on childcare, using Government figures, shows ordinary working families—both single and two parent households—are likely to be better off using Childcare Vouchers. A majority of UK employees have access to the scheme, and employers are typically keen to offer it once they have a member of staff who could benefit. Families where one parent is working and the other is not (eg through job loss or caring for an elderly relative) cannot access Tax-Free Childcare. Keeping both schemes open allows families to choose the support best suited to their needs.</p>
<p>The cost of administering Tax-Free Childcare is significantly lower than the cost attributed to the savings employers receive through offering Childcare Vouchers to staff.</p>	<p>The cost of administering both schemes is comparable – evidenced in figures we have already shared with HM Treasury. Savings employers receive through offering Childcare Vouchers support them to implement family friendly policies in the workplace. Government has suggested that removing these savings would make the scheme more difficult and costly for employers – a simple solution is to cap the savings, reducing overall cost while continuing to deliver support.</p>
<p>It was always intended that Tax-Free Childcare replace Childcare Vouchers and parliamentary approval was given for this through the Childcare Payments Act 2014. To reflect concerns about the timing of the closure of Childcare Vouchers, the Government decided to keep them open for a further six months allowing more time for Tax-Free Childcare to bed in.</p>	<p>Government has not comprehensively assessed the impact of the closure of Childcare Vouchers on working families. We have highlighted the negative impact for many families and, as Tax-Free Childcare has been rolled out, further concerns have been identified. MPs from across the political parties have raised these, informing Government's decision to keep Childcare Vouchers open to new entrants until October. These issues are not related only to lack of awareness of Tax-Free Childcare, but more fundamentally to differences in the schemes. There is strong political consensus Childcare Vouchers should be kept open alongside Tax-Free Childcare.</p>

Government argument	Challenge
<p>Tax-Free Childcare is targeted at a similar income population as Childcare Vouchers but will provide support to nearly 1 million more families compared to the number currently using Childcare Vouchers.</p>	<p>Government has presented no evidence to support this claim. Take up of the Tax-Free Childcare scheme has been significantly below Government projections, in part because many families currently using Childcare Vouchers have found that they are better off not moving to the new scheme and also due to ongoing technical problems with the Tax-Free Childcare IT infrastructure. Based on almost 7000 calls from across the UK to our independent Family Benefits Advice Service, 64% of families have been better off on Childcare Vouchers, Tax Credits, or a combination of these rather than on Tax-Free Childcare. Analysing the Government's own figures, it is only likely to be families on higher incomes and with above average spend on childcare who will benefit more from Tax-Free Childcare.</p>
<p>Analysis of the impact of Tax-Free Childcare on working parents will need to take place once the scheme has had time to bed in. This is why the Government has committed to carry out a post-implementation review of Tax-Free Childcare two years after it was implemented.</p>	<p>It makes no sense to close the Childcare Voucher scheme – a proven, popular form of support – to new entrants when Government is not intending to analyse the impact of Tax-Free Childcare on working parents for another two years. If the Government does not wish to commit to keeping Childcare Vouchers open permanently at this stage, it should at least keep the scheme open until the outcome of this analysis has been published.</p>
<p>Parents currently using Childcare Vouchers will see no change when the scheme is closed to new entrants in October—they will continue to be able to claim vouchers providing they remain with the same employer. If they move to a different employer they will no longer be eligible for vouchers but they may be eligible for TFC.</p>	<p>In the same paragraph the Government states that parents currently using Childcare Vouchers will see no change, while admitting that current users who change jobs will lose access. This is an issue that has previously been raised by MPs, and affects even those parents who are required to rotate between employers on a regular basis, for example, Health Trust staff required to move between Trusts. The Government advised that they would look into this in March, but we are unaware of any progress on this over three months later.</p>
<p>An impact assessment was published in March 2017 on the rollout of Tax-Free Childcare and closure of Childcare Vouchers to new entrants. It highlights the benefits of Tax-Free Childcare to low income parents earning close to the National Living Wage. They are unable to salary sacrifice and therefore cannot use Childcare Vouchers. They will, subject to eligibility conditions, be able to use Tax-Free Childcare. However, most low income families will access support via the welfare system (Tax Credits or Universal Credit).</p>	<p>The impact assessment published by Government is based on unrealistic scenarios of childcare expenditure, rather than actual reported spend by families. Lower income families will not benefit more through Tax-Free Childcare. Instead, they are more likely to benefit from Tax Credits or Universal Credit, which cannot be accessed alongside Tax-Free Childcare. Conversely, parents can use Childcare Vouchers alongside Tax Credits or Universal Credit. Keeping each of these schemes open supports lower income parents to transition into work, and over time increase their hours and income, progressing through the different forms of support.</p>

Treasury Committee reiterates call to keep Childcare Vouchers open to new entrants until effects of closing it are known

Treasury Committee Chair and Conservative MP Rt Hon. Nicky Morgan has [written a letter](#) expressing the Committee's disappointment with the Government's response and urging the Government not to close the Childcare Voucher scheme without knowing its impact on working parents.

Commenting on the letter other members of the Treasury Committee have shared their support for keeping the Childcare Voucher scheme open to new entrants and their concern that its closure will result in families losing out financially:

"The Government's ambition to move towards Tax-Free Childcare, and scrap vouchers, will cause hundreds of thousands of parents to lose out." Rushanara Ali, MP (Labour)

"Until the Government has properly scrutinised the effects of scrapping vouchers in favour of Tax-Free Childcare, both schemes should remain open. Families should be able to make a choice about the form of childcare support that best suits their individual circumstances and their families' needs." Catherine McKinnell, MP (Labour)

Next steps

Find out what is the best form of support for your family. Employers For Childcare's Family Benefits Advice Service was specifically set up to ensure families avail of the best support available to them, particularly with childcare costs. Call 0800 028 3008 or email hello@employersforchildcare.org to find out what financial support for childcare is best suited to you, and identify any other benefits to which your family may be entitled.

Employers For Childcare is lobbying for a comprehensive and flexible package of childcare support for parents that includes Tax-Free Childcare and Childcare Vouchers, so that parents have the choice of the scheme that best suits their needs. Visit [here](#) for more information on how to support this campaign.