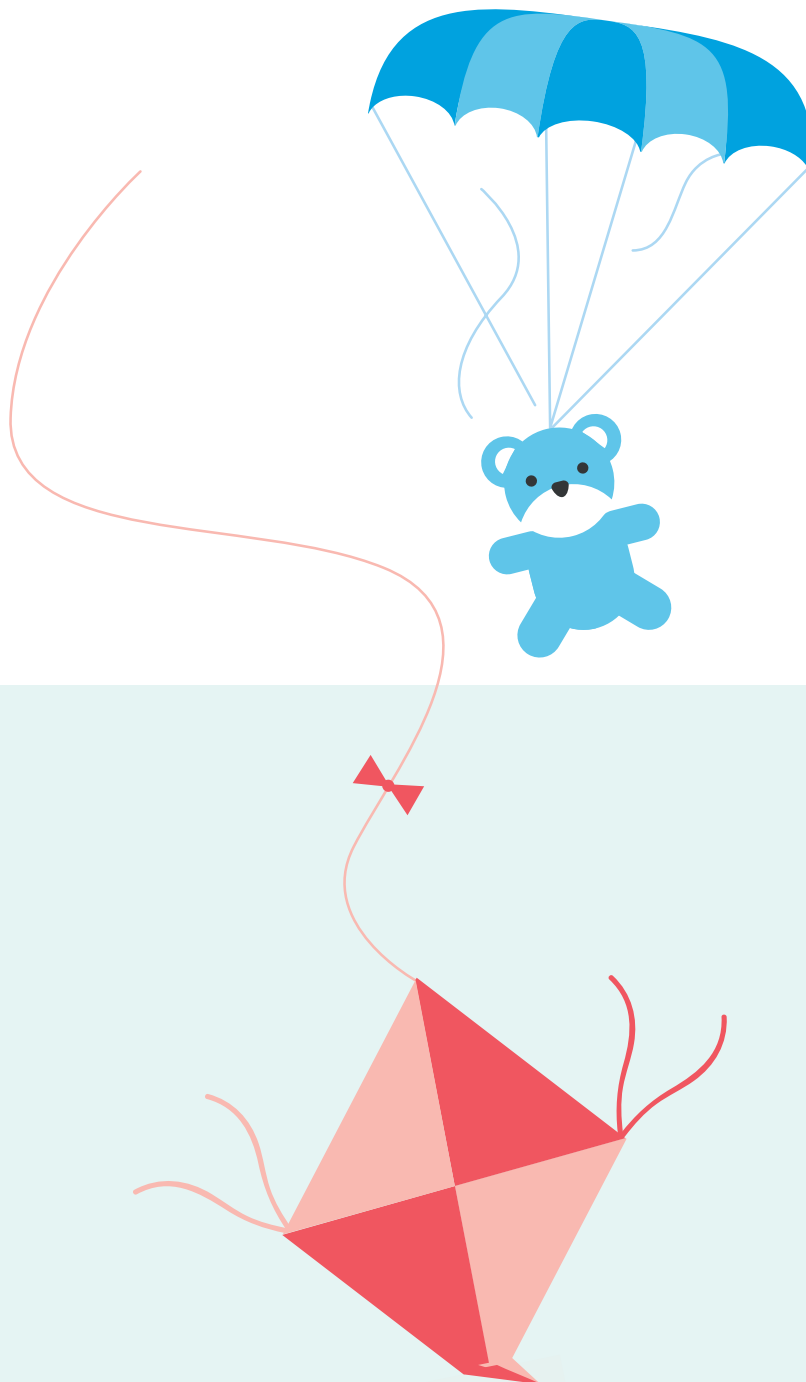


It's not child's play: childcare funding in crisis

Assessing the impact of the Childcare Voucher
scheme's closure

Childcare Voucher Providers Association (CVPA)



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Foreword

Childcare is an emotive subject. Finding, and paying for, high-quality childcare is a decision many parents agonise over, and it can be difficult to manage the separation, anxiety, and often guilt that comes from leaving your child with a stranger.

However, millions of parents across the UK rely on childcare. It not only leads to better social and academic outcomes for children, but allows parents to provide for their families and have successful and rewarding careers.

It enables parents to return, get into, and progress in work – ensuring a workforce that is productive, gender-balanced, and motivated to deliver results. This helps the UK economy grow and thrive.

The UK’s childcare sector is at crisis-point. Childcare fees are increasing year on year, overtaking wages, while nurseries and childminders are struggling to make ends meet to deliver care sustainably.

More and more parents, saddled with these rising costs, find their ability to work dependent on affordable childcare, with many questioning their ability to work at all. Despite ongoing efforts to redress the gender imbalance, this has a disproportionate effect on working mothers.

There is no one-size fits all solution to childcare, and options need to be flexible. Funded entitlements, including the 15 and 30-hours policies, are undoubtedly important, but only address one side of the coin.

The Childcare Voucher scheme has been a hugely popular parental-support subsidy since its inception in 2005, helping millions of working parents to pay for childcare and progress in their careers.

The government’s decision to close the scheme to new entrants in October 2018 has shut out hundreds of thousands of families from this vital source of support. For many, this has been the tipping point when deciding whether to continue working – parents are increasingly having to make the choice to stay at home to raise their children and avoid costly childcare costs, depriving the workforce of their skills and limiting their own career development.

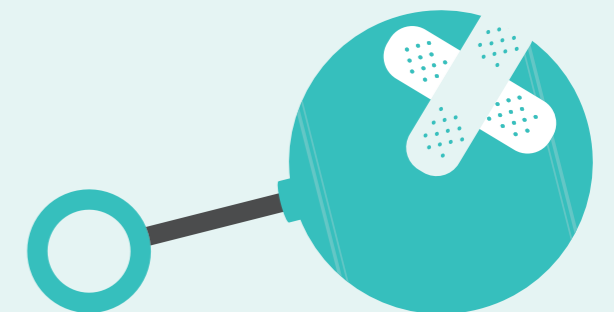
The government’s planned replacement to Childcare Vouchers, Tax-Free Childcare, simply doesn’t replicate the same level of support Childcare Vouchers offer.

This is clearly demonstrated by the underwhelming take-up figures for Tax-Free Childcare, the huge numbers of parents remaining on Childcare Vouchers, and by our survey results.

This report seeks to understand the impact the Childcare Voucher closure has had on parents, employers and childcare providers. The evidence is drawn from extensive surveys of these groups, and is intended to inform a debate about where childcare policy should go next.

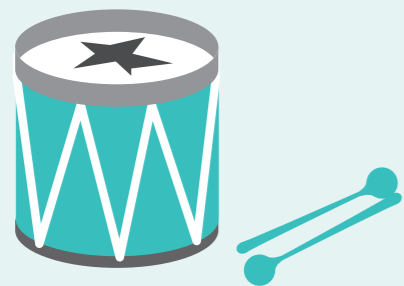
Now, more than ever, it is vital the UK finds a better solution for working parents’ childcare needs. This has to involve government, parents, employers, and childcare providers – all working together.

Jacquie Mills, Chair of the Childcare Voucher Providers Association



Executive summary

Several months on from the grandfathering of the Childcare Voucher scheme, it is clear its closure to new joiners has had a significantly negative impact on working families, employers and childcare providers across the country.



- **Parents are increasingly struggling to progress or stay in work, with Tax-Free Childcare not offering the same level of support as Vouchers and many unable to meet the rising costs of childcare.**
- **Employers are finding employees on Tax-Free Childcare have lower levels of morale and many have reported a 'two-tier system' in their workplace between those who have Vouchers and those who don't.**
- **Childcare providers are spending more of their time supporting parents to navigate a complex system rather than doing what they do best – providing high quality childcare.**

Across six weeks, the Childcare Voucher Providers Association (CVPA) ran four surveys to gain a better understanding of the impact of the closure of Childcare Vouchers.

Parents, employers, and childcare providers told us their views and experiences of the scheme, and how its closure is affecting their lives, families, careers, and businesses.

The results show a worrying picture for working families across the UK.

Since the closure of Childcare Vouchers, parents have told us how they're worse off financially and struggling to get back to work or change jobs, restricting their ability to progress in their careers.

Employers are finding lower levels of staff satisfaction among their working parents and have reported a 'two-tier system' in their workplace – where some employees have access to childcare support while others don't.

At the same time, childcare providers are under more pressure than ever before. With additional burdens brought about by Tax-Free Childcare, they're spending more time helping parents navigate a complex, challenging new system,

instead of doing what they do best – providing care and support to the children they look after.

Our findings send a clear message to government that childcare has to provide flexibility and choice.

Childcare support needs to offer working families the opportunity to choose what works best for them. It needs to break down the barriers to career progression and extend opportunities to working parents, enabling employers to attract the best talent into the workforce. Finally, it has to be simple, allowing every parent to access the support they need, and equipping them with the freedom to use that support as they choose.

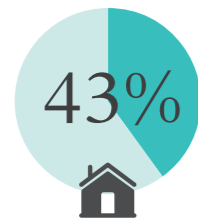
The quickest and simplest way to achieve this is to reopen Childcare Vouchers to new entrants, indefinitely – all working families deserve a choice.

KEY FINDINGS SINCE VOUCHERS CLOSED

Parents



84% financially worse off



43% less likely to return to work

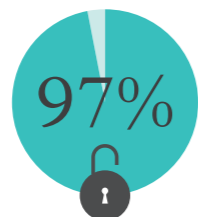


84% will have to alter their career plans

Employers

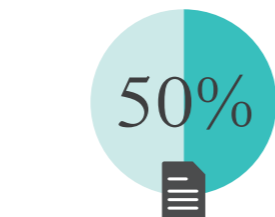
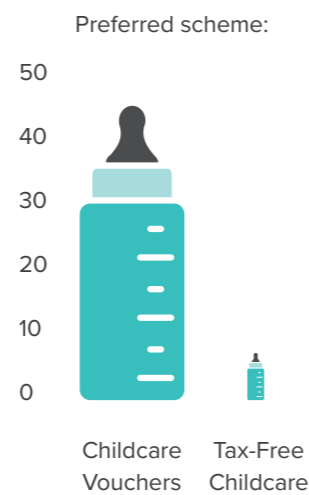


Over half have experienced issues with employee satisfaction



97% want childcare vouchers reopened to new entrants

Childcare providers



50% report an increased admin burden helping parents with TFC

SURVEY RESPONSES

Parents



Employers



Childcare providers



Parents increasingly struggle to progress or stay in work



More than **80% of parents** are financially worse off now Childcare Vouchers have closed, and **nine in ten** would sign up to the scheme if it were reopened to new entrants.

Childcare Vouchers are a lifeline for working families across the UK. Since running in their current format from 2005, Vouchers have helped millions of parents access childcare, get into work, and progress in their careers. For many working parents, they would struggle to manage work and family life without them.

Since the scheme closed to new entrants on 4th October 2018, parents have been left worse off and with fewer options for childcare support. Childcare Vouchers' nominal replacement, Tax-Free Childcare has consistently reported low take-up, with recent figures showing 80% of parents are not accessing the support they're entitled to.¹

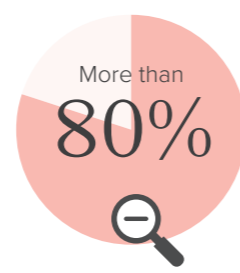


More than **40% of parents** said returning to work is less attractive as a result of the closure.

At the same time, childcare costs are rising faster than wages, with Coram's 2019 Annual Childcare Survey highlighting a 3% increase in prices this year.² With these costs rising, parents are increasingly finding their decision to work depends on the availability of affordable childcare – with many questioning their ability to work at all.

As our survey shows, support for the Childcare Voucher scheme has continued to grow despite its closure. With more than 17,000 responses from current users and around 1,000 parents who've missed out, it's clearer than ever parents value the flexibility, choice and support Childcare Vouchers offer.

The CVPA, alongside the overwhelming majority of our survey's respondents, believe all working parents deserve that choice.



More than **80% of parents** said the Childcare Voucher closure means they will have to alter their career plans in the future.

“

“A job move on 5th October has meant I've lost out on £900+ each year for the next 5 years due to the Childcare Voucher closure. I did not realise the implications of changing jobs, and did not have the opportunity to consider this huge financial loss that was about to affect me. I'm devastated.”

Rebecca, Parent

“

“I am a current Childcare Voucher user and I feel the closure of the scheme has had a huge impact on my career. I work in the public sector where austerity measures have halted any chance to advance within the organisation and any chance I have as a working mum of two to progress is to change employer.

However having looked at applying for new jobs, I now realise I will be penalised by losing the Childcare Voucher scheme. The Tax-Free Childcare scheme will result in much lower financial benefit for me and my family.”

Tracy, Parent

“

“I am disappointed to have missed out on thousands of pounds worth of support because of the closure of Childcare Vouchers. We are very disappointed with the government's decision – we now do not have the same benefits as other parents. Tax-Free Childcare does not offer the same level of support.”

Emily, Parent

Parents overwhelmingly happy with their experience of the Voucher scheme

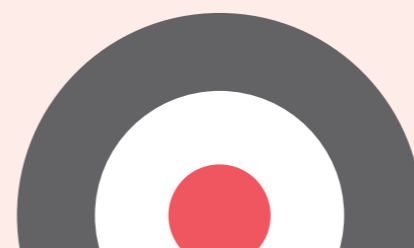
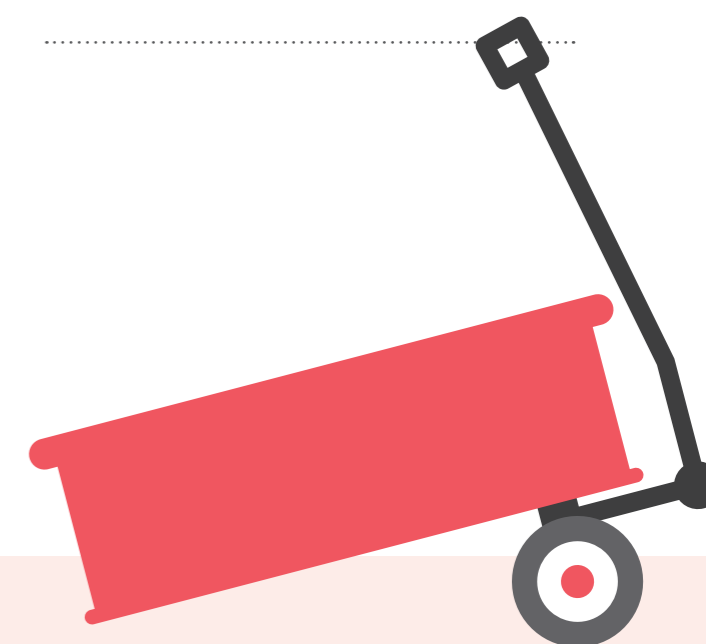
Since 2005, Childcare Vouchers have been a convenient and reliable way for working parents to pay for childcare.

The overwhelming majority (98%) of respondents to our survey agreed or strongly agreed they are happy with their experience as a Voucher scheme user, and we've heard countless stories of how they've supported – and continue to support – working families.

“

Chris, a working father who's claimed Childcare Vouchers for a number of years told us: **“I've always been impressed with the process and it's a shame the government has now closed the scheme.”**

Tom, a father of two, said: **“It's an excellent scheme that helps working families like me and my partner. We'd struggle to manage without it.”**



¹ HMRC, *Tax-Free Childcare Statistics, December 2018*, 13 February 2019.
² Coram Family and Childcare, *Childcare Survey 2019*, 28 February 2019. (The Consumer Price Index Rate for 2018 ranged from 2.7% in Q1 to 2.3% in Q4).

Tax-Free Childcare, by comparison, has consistently fallen below expectations on take-up, with recent data showing only a fifth of eligible families have used it to pay for childcare.

More worrying, however, is that the scheme has fallen below parents' expectations on quality. In October 2018, failings with the scheme led to delays of up to a week for 22,000 payments, while as at 31st March 2019, around 5,500 complaints had been made about the Childcare Service.³

Parents have been left angry and frustrated while carers are left unpaid.

Becky O'Connor, a personal finance specialist at Royal London, told us that, having used both systems, the Tax-Free Childcare platform is incredibly complex to navigate.

Parents have to administer and manage the process themselves, setting up their online account and reconfirming their eligibility every three months – even if there are no changes to their circumstances. If they fail to do so, they risk being denied access to all support.

“

Annie, who moved with her husband from Childcare Vouchers to Tax-Free Childcare told us the scheme was **“a nightmare”** and she'd spent **“so much time on the phone”** trying to sort out her account. She wished she'd never left the Childcare Voucher scheme.

Another parent told us that even though she's better off on Tax-Free Childcare than Vouchers, in practice, **“it's been so complex and time-consuming I wish I'd never left Vouchers.”**

The scheme's closure is impacting parents' ability to progress or stay in work

One of the starkest findings from our survey was the effect the closure is having on parents' careers.

As the Childcare Voucher scheme has been 'grandfathered', those currently claiming the scheme can continue to do so as long as they remain eligible and do not change employer.

However, for the hundreds of thousands of parents with children born after 4th October 2018, families not registered before this date, and current users who change employers, or have a change in circumstances, are locked out from this vital childcare support.

More than 40% of respondents weren't aware that if they changed employer, they'd lose their eligibility to claim Childcare Vouchers.

Our survey also highlighted the implications the closure is having on parents' future career plans. 37% said the loss of Vouchers will have a large impact on their careers, while 26% reported a medium impact. More than 40% of parents also said the idea of returning to work has become less attractive now they can't claim support under the scheme.

“

Parents working in the NHS

The Childcare Voucher closure has been particularly problematic for parents working in the NHS. **Amy**, a doctor currently in training for a consultant post, must rotate through hospitals every 6 months. Yet, every time she rotates to a new position, she is classified as having changed employer and will therefore be removed from the Childcare Voucher scheme.

She told us: **“Overall, my employer is Healthcare Education England (HEE) which I have been employed by since I graduated 8 years ago. But, under the Voucher scheme, each individual hospital trust is considered a new employer and so I will be losing out on my Vouchers, with no option but to use the new government scheme. This is not the best financial option for my family.”**

Kunal, a trainee doctor working for the NHS at the Royal Berkshire Hospital in Reading recently moved to the John Radcliffe Hospital in Oxford and lost his Childcare Vouchers as he was considered a new user by changing employer.

Similarly, **Gemma** told us: **“I lost access to the Childcare Voucher scheme after my employment was transferred from one NHS organisation to another. I had no say in this transfer and did not realise it would affect my Vouchers until it was too late. My husband and I are missing out on around £900 per year when I am doing exactly the same job as I was before – it's not a supportive change to hard working families, I feel so unfairly penalised.”**



More concerning were the personal stories we were hearing from parents:

“

Rebecca, who moved jobs on 5th October 2018 – one day after the closure – told us: **“I did not realise the implications of changing jobs and did not have the opportunity to consider this huge financial loss that was about to affect me. The changes and closure have had a big impact on me and will continue to do so for the next five years – I'm devastated.”**

Danier, a single mother of two, told us: **“As a single mother with virtually no help, I missed out on Childcare Vouchers because I wasn't aware of the change. I believe the government Tax-Free Childcare scheme isn't enough to support parents looking at the cost of childcare. I suggest they bring back our workplace Childcare Vouchers.”**

Jenny, a mother of four-year-old twins, said: **“If I now decided to move jobs, I would lose the benefit of Vouchers. In my view, this would actually negatively impact my career.”**

“

An anonymous parent said: **“I won't be entitled to sign up to Childcare Vouchers if I changed employer. With other financial losses, it is likely I will be forced to stay with my current employer despite having limited ability to develop as a professional female engineer, whilst also being a single mum. I will also be forced to suffer the increasing negative impact on my mental health caused by issues with my current employer.”**

Lin, a mother who just returned to work after maternity leave said: **“I missed out on signing up to receive childcare vouchers. My childcare costs are astronomical now which effectively means that I am financially working for nothing as my wage just covers childcare costs. How can we encourage women to go back to work yet not help with their childcare costs?”**



Parents worse off on Tax-Free Childcare

While some families are better off on Tax-Free Childcare – namely those who are self-employed, higher earners, and those with higher childcare costs – many have significantly lost out.

As our survey shows, more than four in five parents told us they'd be financially better off if the Childcare Voucher scheme was still open, while nine in ten would sign up to Vouchers if it was reopened to new entrants.

The Childcare Voucher scheme is progressive in nature, structured to benefit lower earners by basing qualifying support on income. Tax-Free Childcare, however, bases qualifying support on expenditure, so the more you spend the more you can save.

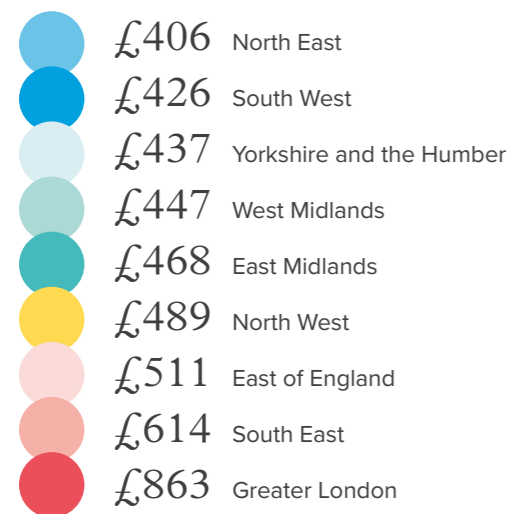
This tends to benefit higher earners, particularly those in London and the South East. Department for Education data shows the average family in London will receive more than double as much support on Tax-Free Childcare as those in the North East.⁴

Additionally, recent Tax-Free Childcare statistics show that take-up of the scheme is highest in London and the South East of England, with 9,900 and 8,700 families having active accounts, respectively.⁵

Families are also able to combine the support they receive under Childcare Vouchers and Tax Credits/ Universal Credit – unlike with Tax-Free Childcare. Parents have told us this helps them transition out of the welfare system and onto Childcare Vouchers exclusively, before moving onto Tax-Free Childcare as their hours and childcare costs increase.

Tax-Free Childcare – support offer by region

Average expected support under TFC per annum



Based on figures from the Department for Education's *Childcare and early years survey of parents: 2018*. Figures are rounded to the nearest pound.



Aoife Hamilton, Policy and Information Manager at Employers for Childcare, said:

“Parents tell us every day about the challenges they face in paying for the childcare they need to allow them to go to work, with many questioning their ability to work at all. Closing Childcare Vouchers, has, for many families, increased this challenge with some receiving less support and others missing out entirely. Almost a year on, we continue to hear from parents impacted by the closure of the scheme to new entrants, particularly those who are now changing jobs and had not realised this would cause them to lose access to the support they previously received through Childcare Vouchers.

Families should have access to the form of childcare support that best suits their individual circumstances which is why we are calling for a comprehensive and flexible package of childcare support for parents that includes Tax-Free Childcare and Childcare Vouchers. Re-opening the Childcare Voucher scheme to new entrants is a policy that is aligned with the Government’s objectives, clearly has widespread support from parents, employers, and childcare providers and will be straightforward to implement as the necessary infrastructure is already in place, with the scheme continuing to be available for existing beneficiaries.”



One of our respondents, who had to transfer from Vouchers to Tax-Free Childcare, told us:

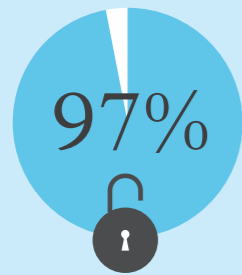
“Although I am eligible for Tax-Free Childcare; I am worse off. I lose eligibility to my Child Tax Credit by signing up; adding insult to injury! I appreciate there are some families better off with this change but unfortunately at my expense!”

The closure of Childcare Vouchers has had a wide-ranging impact on parents across the country. Most acutely, it has impacted the parents who need support most, namely lower earners who do not have access to benefits.

Its closure has been to the detriment of those least well-placed to manage the changes. This is happening within the workforce – creating an unfair two-tier system for parents, between those who can access the support they need and those who can't, and for others, leaving them trapped in roles from which they would have otherwise progressed.



Unlocking productivity in the workplace



97% of employers would reintroduce Childcare Vouchers at their workplace if it was reopened indefinitely by government.

As parents have told us time and time again, the childcare landscape is complicated and cumbersome, with many struggling to access the childcare support they require. This can have unintended consequences on employers.

Businesses across the UK rely on a productive workforce in order to grow and prosper – this is how the UK economy thrives and public services improve. With a high proportion of that workforce being parents, it is crucial to families, their employers, and the economy overall, that childcare support is flexible, affordable and accessible.

Since 2005, Childcare Vouchers have been a key part of the government's ambition to improve productivity by increasing labour force participation among parents. The scheme is a crucial link between employers and their staff, supporting recruitment and retention, helping employers recognise, understand, and assist with the difficulties working families face when combining work with childcare.

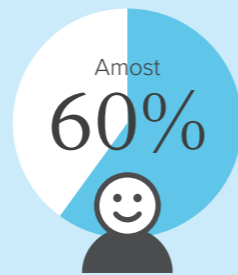


Over half of employers have experienced issues with employee satisfaction since the scheme closed to new entrants.

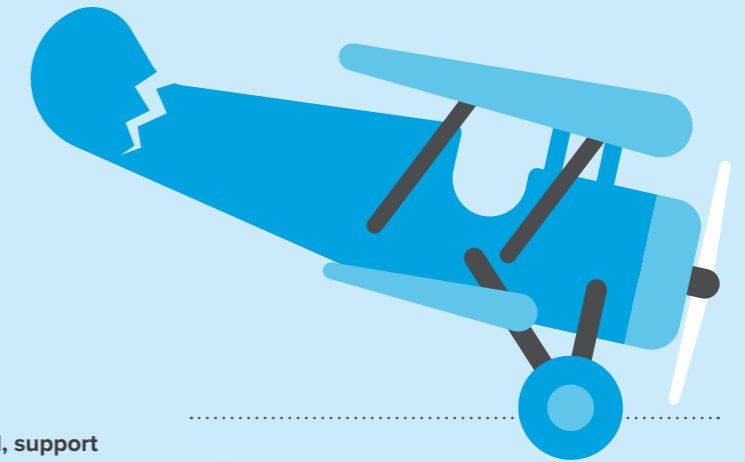
As our survey and interviews show, employers, business groups, and trade unions place considerable value on childcare. This ensures their workforce can keep doing what they do best.

Respondents told us Childcare Vouchers not only provide working parents with vital financial support but boost employer-employee relationships and stimulate conversations about employee wellbeing. Since the scheme closed, businesses have identified lower staff morale and a two-tier system emerging in their workplace with those who can access Vouchers and those who can't.

As our findings show, the overwhelming majority of employers across the country want the scheme reopened to new entrants because the working parents they employ will struggle to manage without it.



Almost **60% of employers** noticed improved satisfaction levels in employees using Childcare Vouchers, compared to those on Tax-Free Childcare.



Ian Cass, Chief Executive of the FPB told us that: **“Operating a Vouchers scheme in the workplace was a simple process, and the minor administrative outlay was far outweighed by the benefits it brought in.”**

Whilst big businesses can swallow the cost of a staff member leaving their job, smaller employers take a hit when their employees are forced to leave to raise their children.”

It stands to reason that the overwhelming majority (97%) of employers who responded to our survey would re-introduce the scheme in their workplace, if it was reopened by government. Last year, more than 280 employers of all sizes, representing 148,200 members of staff, including Kettle Foods and Barnardo's, pledged their support for the Voucher scheme.

Employers recognise Childcare Vouchers are pro-family, flexible and allow working parents greater choice when it comes to paying for childcare.

Providing financial, as well as cultural, support in the workplace

The closure of the Childcare Voucher scheme has been widely criticised by the business community. Employers told us the scheme provides an easy and convenient way for them to assist their working parents to claim vital financial support – free from tax and national insurance – which in turn enables them to better balance work and home commitments.

However, what's clear is that the scheme goes beyond just financial support.

The Childcare Voucher scheme creates a crucial link between employers and their employees, often acting as a catalyst for the conversation about how to achieve a positive work-life balance.

Ian Cass, Chief Executive of the Forum of Private Business (FPB), told us the scheme had formed an **“integral part”** of the ongoing conversation around employee wellbeing between businesses and their staff.

As well as facilitating discussions over the pressures of combining work and childcare, Childcare Vouchers have often led to the creation of family-friendly workplace practices – this includes flexible hours, opportunities to work from home, and onsite crèches. These allow parents to continue working productively, whilst also fostering good employer-employee relationships.

Employers have also told us they were happy to offer the Voucher scheme, as most administration was largely covered by Voucher providers.

Childcare Vouchers aiding recruitment and retention

Up until its closure, Vouchers served as an effective recruitment and retention tool for employers, incentivising parents to apply for positions, encouraging employees to return after childbirth, and aiding overall career progression.

However, following the scheme's closure, parents have told us they are increasingly weighing up the benefits of returning to work against the costs, with many choosing to stay at home to raise their children rather than face costly childcare fees.



Kate, who's just given birth to her first child after the scheme closed to new entrants, told us the Voucher scheme's alternatives don't provide the support she needs to stay in work and ensure her child receives high quality childcare. This means she's forced to rethink her return to work and weigh up the costs of childcare versus loss of income.

This effect is disproportionately impacting mothers, who want to work longer hours but find that the costs just don't add up. Research by The People's Pension found that four in ten women would choose to work longer hours if childcare was cheaper.⁶

For mothers who left the workforce after childbirth, almost half did so because it didn't make financial sense to keep working while paying childcare costs. A further 29% said they left work because they could not afford suitable childcare.⁷

We heard the same thing. Nearly half of employers responding to our survey said the closure of Vouchers had created issues for employees who are now unable to access sufficient childcare support. Only one in ten employers reported their staff had not experienced any difficulties.

This has a knock-on effect on employers. If parents are forced to reconsider returning to work, this impacts employers' overall productivity and success as a business. This can also have a particularly damaging impact on smaller businesses.



'Two-tier' system in the workplace

Our survey highlighted the Childcare Voucher closure has had a considerable impact on employee satisfaction. More than two in five employers agreed it had led to a "two-tier" system in their workplace, where some parents can claim Childcare Vouchers while others are ineligible.

One employer said the government's policy **"is creating a division in the workforce", with some employees coming to them asking why their colleagues can benefit, but they cannot. Another employer said their staff "don't understand the discrimination – one employee gets the benefit, the next doesn't."**



Our survey also found over half of employers had noticed issues with their employees' satisfaction, and we have heard from countless parents who told us of the distress and frustration they feel now they can no longer join the scheme.

For nearly six in ten employers, the closure of Childcare Vouchers has created issues for their employees who are unable to access sufficient childcare support.

The government noted the importance of access to affordable, high-quality childcare as it **"improves productivity in the workforce by reducing absenteeism and problems with timekeeping associated with childcare emergencies."**⁸

Given that, since the financial crisis in 2008 productivity growth in the UK has been weak – approximately one fifth below its pre-crisis trend – this is significant.⁹

Our conversations with business groups have further illustrated this point, and many employers have noted the impact this is having on workplaces.



Jane van Zyl, CEO of Working Families, said: **"This report confirms that the closure of the Childcare Voucher scheme is bad for employers and bad for parents. The government's decision to close the scheme was disappointing—not least because in the workplace, Vouchers allowed employers to start conversations with parents about their family-friendly working policies and practice more broadly.**

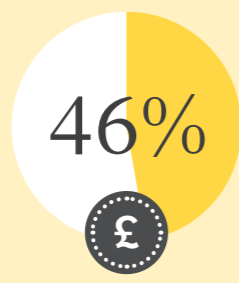
Working Families continues to call for Childcare Vouchers to reopen, running alongside Tax-Free Childcare, to allow parents the maximum amount of choice and enable them to choose the scheme that offers them the most support and helps them balance work and caring for their children in the way that works best for their families."

⁶ The People's Pension, *The Gender Pensions Gap: Tackling the motherhood penalty*, 13 May 2019.
⁷ Ibid.
⁸ HMRC, *Impact Assessment to the Childcare Payments Act 2014*, January 2017.
⁹ House of Commons Treasury Committee, *Childcare, Ninth Report of Session 2017–19*, 25 March 2018.

Childcare providers under more pressure than before



Nearly half of providers say the closure of Vouchers has created an increased administrative burden in helping parents navigate Tax-Free Childcare.



46% prefer Childcare Vouchers as a form of payment compared to the **5% that prefer** Tax-Free Childcare.



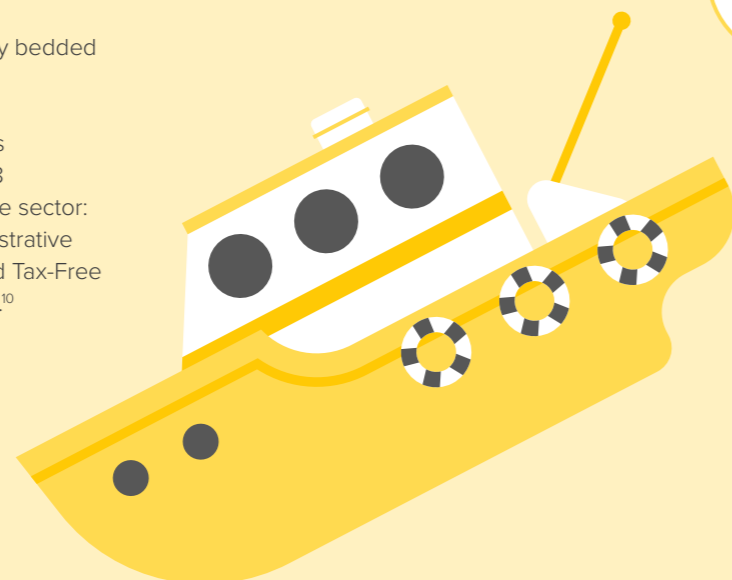
Over half say the closure of Vouchers has made it harder for parents to pay for childcare.

Nurseries and childminders have witnessed significant policy change over the past few years. With the launch of Tax-Free Childcare in April 2017, and the implementation of the 30 hours free childcare scheme the following September, the sector has had much to adapt to.

While many of these reforms have largely bedded in, it hasn't been without its problems.

Findings from the National Day Nurseries Association's (NDNA) annual survey 2018 highlighted the top three concerns for the sector: Increasing staff wages, additional administrative burdens from the funded entitlement and Tax-Free Childcare, and making a profit or surplus.¹⁰

Low funding rates, higher staff costs and rising business rates mean many providers are struggling to deliver care for young children sustainably.



As our survey has found, the closure of Childcare Vouchers has only added to these pressures. With respondents reporting greater administrative burdens with Tax-Free Childcare, including online glitches and delays, and difficulties accepting payments, it's unsurprising nearly eight in ten providers support reopening Childcare Vouchers to new entrants – indefinitely.

Increased administrative burden of Tax-Free Childcare

Our survey highlights that since the closure of Childcare Vouchers in October 2018, childcare providers are having to grapple with the additional administrative burden Tax-Free Childcare brings.

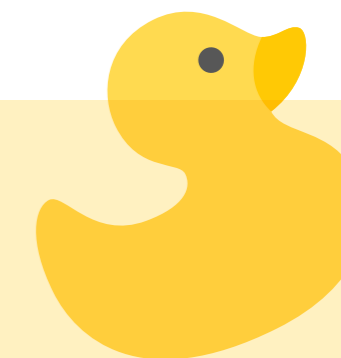
Nearly half of our survey's respondents strongly agreed or agreed the closure of Vouchers had increased the administration involved in supporting parents manage Tax-Free Childcare, with many having to devote significant time helping them navigate the complex and, at times, unreliable IT system.

“

Neil Leitch, Chief Executive of the Early Years Alliance (EYA), confirmed this remains one of the key challenges facing the sector. He told us:

“The amount of additional administrative work and overheads as a result of the poor delivery and mechanism of Tax-Free Childcare has caused nurseries nothing but hassle.”

He said all providers really want is a **“simplified approach”, “something administratively straightforward and sound”**. He concluded: **“Tax-Free Childcare is a mile off that mission.”**



The Early Years Alliance's recent survey, assessing the mental health and wellbeing impact of working in the early years sector, found administration and paperwork was the top concern for practitioners, with 25% of respondents considering leaving the sector due to stress or mental health difficulties.¹¹

The Childcare Voucher scheme is a well-functioning and reliable source of income for childcare providers, and its closure has only served to increase the pressure they're already experiencing by increasing their administrative burden and reducing flexibility when it comes to receiving payments for their childcare services.

Further demonstrating this is the fact 46% of childcare providers prefer Childcare Vouchers as a form of payment for their services, while only 5% prefer Tax-Free Childcare.

¹⁰ NDNA, 2018 Nursery Survey England, June 2018.

¹¹ EYA, Minds Matter, The impact of working in the early years sector on practitioners' mental health and wellbeing, June 2018.

Childcare providers facing difficulties receiving payments

As well as staff taking time away from their roles to support parents, childcare providers are facing difficulties themselves, particularly when it comes to receiving payments for their services.

Over half of providers in our survey reported parents are finding it harder to pay for childcare as a result of the Childcare Voucher closure. Longstanding issues with Tax-Free Childcare's payment system have meant standing orders from parents to childcare providers have been delayed, with the media reporting parents have faced fines for late payments.¹²

These delays are significantly detrimental to childcare providers' cashflow and business sustainability, and discourage many from relying on the scheme as their main form of payment.



“

One childcare provider told us:
“Tax-Free Childcare has been a nightmare for parents and providers alike, with parents being unable to find providers and providers not being able to know when they are getting paid. There is no email confirmation of payments ready to be made, no communication at all, in fact. Thousands of childminders were about £1,000 out of pocket at Christmas due to lack of payments being made on time, and this resulted in late payment fines.”

“

Another said:
“The government makes everything so hard to sign up to and follow. Vouchers allow us to quickly log onto our account and check pending payments and quickly allocate them to parents' accounts if they don't show on the bank statements. This is simple and we can check historical payments easily too if there are any payment queries. This kind of thing is not possible on TFC and parents are reluctant to use it as they find the system too difficult to navigate!”

“

Liz Bayram, Director of Policy and Public Affairs at PACEY said:
“We already know the UK's childcare funding system is one of the most complex for parents to navigate. Tax Free Childcare and 30 hours of funded early education have helped with families with the cost of childcare, but have increased cost and burden for providers.

Increasingly it is registered childcare providers who are helping parents to work out what they are entitled to and how to claim it. Childcare Vouchers have long served a community of parents well and should remain an option for families, particularly as they are one of the few ways that employers can demonstrate they are family-friendly employers.”

“

Alison, one of the only childminders in her local area, told us she'd read so many negative stories about Tax-Free Childcare, particularly that childminders were experiencing significant delays in payments, that she made the decision to not enrol onto the scheme.

She told us she couldn't risk not being paid and so can only accept parents who are either already claiming Childcare Vouchers or paying in cash.

“The Voucher scheme was already such a success that I do not understand why it needed to be changed when the new scheme is having so many problems. Childcare Vouchers are so easy to use and access for both Childminders and parents.”

Limiting choice for providers and parents

Administrative issues and penalties have been widely reported in the media and have unsurprisingly discouraged some childcare providers from signing up to receive Tax-Free Childcare, choosing instead to remain on Childcare Vouchers as their main form of payment.¹³

This is evident in the stories sent to us by childcare providers.

Paul, a father eligible Tax-Free Childcare, told us his current childcare provider **“who is excellent”** and as such he **“wouldn't consider changing”** isn't currently registered to receive Tax-Free Childcare payments, so Paul is unable to get any financial assistance with childcare costs.

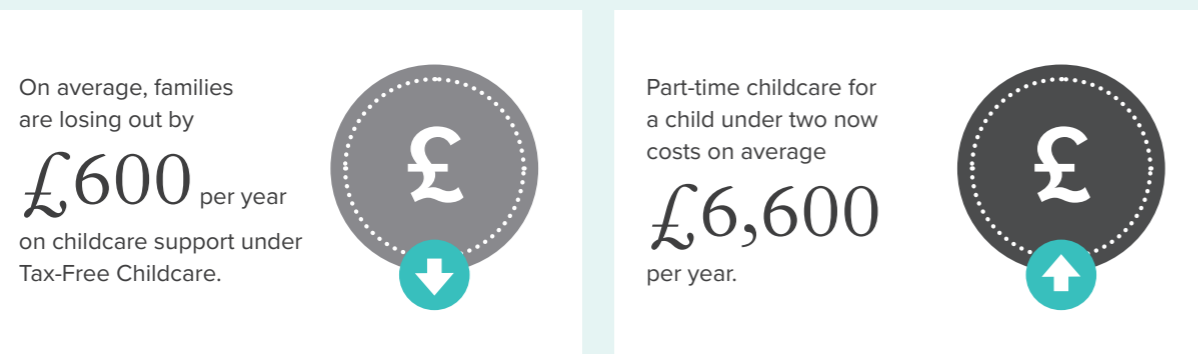
Alison's case – like many others – demonstrates the risk childcare providers feel they take on by signing up to receive payments through Tax-Free Childcare. And this is a risk many simply can't afford to take.

This not only limits childcare providers' ability to build a sustainable and growing business or plan for the future, it makes it harder for families to find affordable and accessible childcare, with many being forced to look further afield.



¹² The Sun, *Childcare Glitch: Tax-Free Childcare error leaves parents facing fines and childminders unpaid*, 7 November 2018; MoneySavingExpert, *22,000 tax-free childcare payments delayed – here's what you need*, 7 November 2018.
¹³ The Guardian, *Thousands still unable to claim free childcare after HMRC site problems*, 23 August 2017; Nursery World, *Parents' complaints about Tax-Free Childcare top 4,500*, 30 November 2018.

Cost-benefit analysis of Childcare Vouchers and Tax-Free Childcare

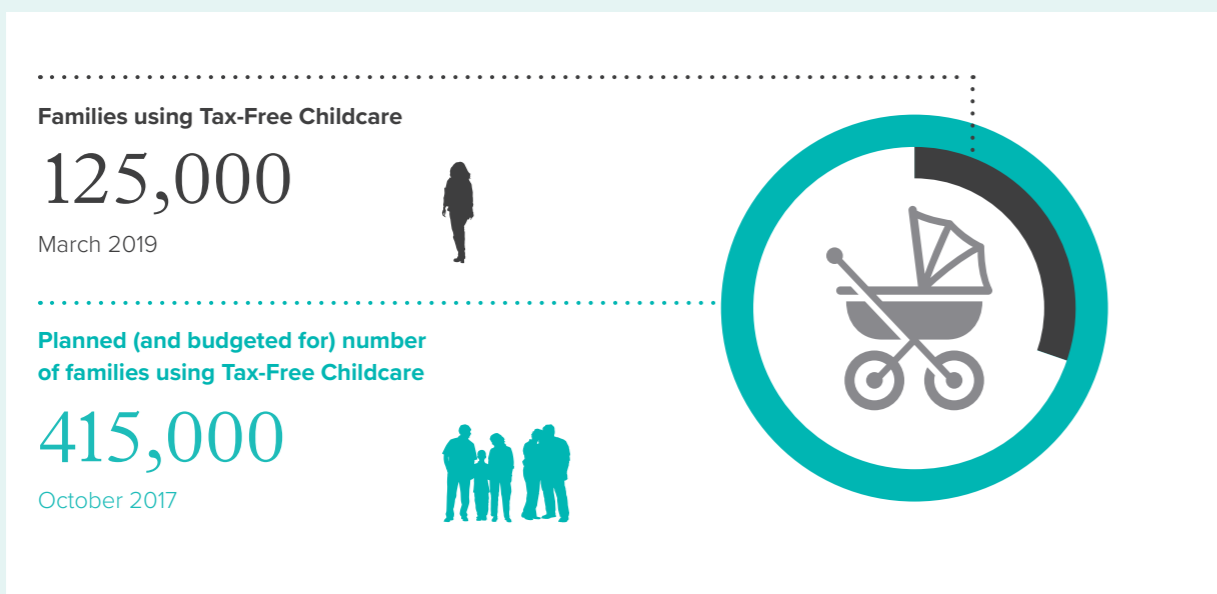


Tax-Free Childcare is making thousands of working families worse off across the country.

Childcare costs are soaring, with families now paying an average of £6,600 a year for a 25-hour place with a nursery or childminder for each child under the age of two.¹⁴

Now, more than ever, hard-working families need the support that Vouchers can offer.

Parents left out by Tax-Free Childcare
Since its introduction, Tax-Free Childcare has had woefully low take-up. As of March 2019, 125,000 families across the country were using the scheme, against a planned (and budgeted for) take-up of 415,000 by the end of October 2017.¹⁵



¹⁴ Coram Family and Childcare, Childcare Survey 2019, 28 February 2019.

¹⁵ HMRC, Tax-Free Childcare Statistics, 22 May 2019; BBC, Tax-free childcare helps just a fifth of families, 18 February 2019.

“

Becky O'Connor, personal finance specialist at Royal London, the mutual insurer, said:

“Parents have to make big decisions about how to fund childcare without fully understanding the facts about which scheme will save them the most money.

This lack of information and support means many parents could be choosing Tax-Free Childcare, despite the possibility that vouchers would be better for them over the long term.

Tax-Free Childcare is great news for some parents, but for many, it's the poorer cousin of the Voucher scheme it is replacing.”

Whilst government framed its argument for closing the Voucher scheme as an opportunity to recoup lost Treasury revenue, this fails to recognise the significance of this support for families to meet their childcare costs.

Furthermore, following the closure of Vouchers, there are now a significant number of families for whom returning to work after childbirth does not make financial sense. This of course can lead to fewer parents working, bringing in less in tax receipts, dragging down productivity, exacerbating gender imbalance in the workforce and contributing less to the economy.

At the current rate of take-up, it will be April 2021 before the Government hits this target, at which point they will be three years and eight months behind schedule.

Driven by the insufficient support Tax-Free Childcare provides and the sheer complexity of the system, only one in 14 eligible families who qualify for the help, have done so to date.¹⁶

In comparison, Vouchers is estimated to support at least 700,000 families, and since its introduction in 2005 has helped millions of families with their childcare costs.

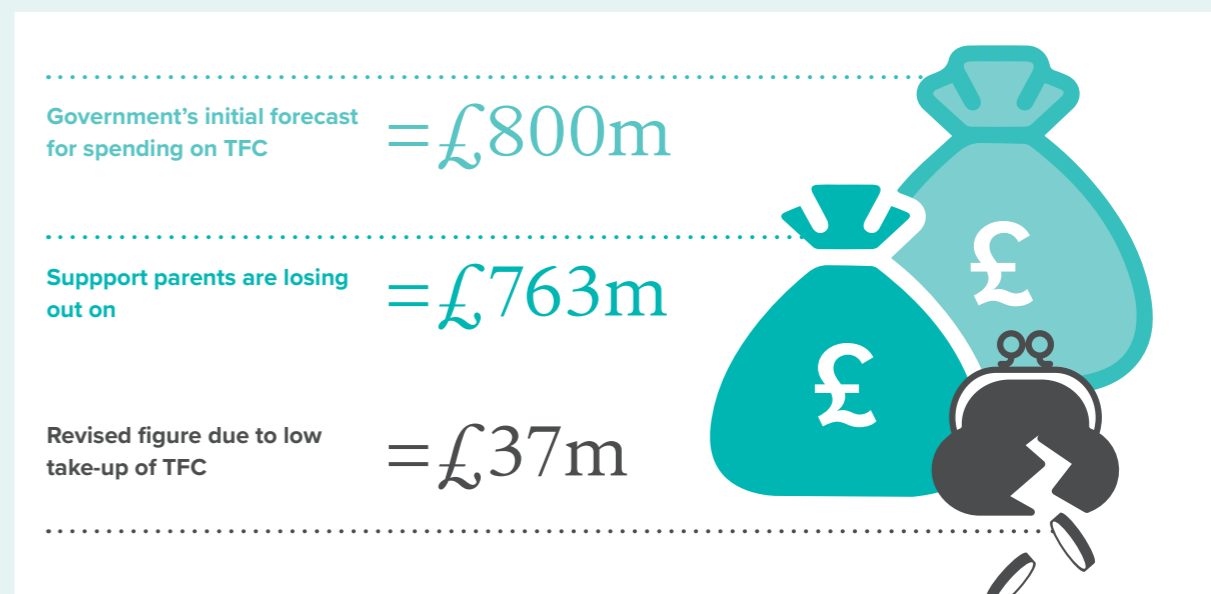
Even since the scheme's closure to new entrants, Voucher providers' data shows that the scheme's users remain stable.

Parents are clinging on to the scheme that they know provides the support they need – Childcare Vouchers.

HMRC spend on TFC

The Office for Budget Responsibility (OBR) had forecast government spending on Tax-Free Childcare would reach £800 million in 2017-18.

However, this figure was revised down to £37 million specifically because of low take-up of Tax-Free Childcare.¹⁷ This means that parents are losing out on at least £750 million of support.



¹⁶ Ibid.

¹⁷ BBC, Tax-free childcare helps just a fifth of families, 18 February 2019.

The support the schemes provide to working families are significantly different. In 2018, under Tax-Free Childcare, families saved just £352 per year from their childcare bill, according to the latest figures from HMRC.

Comparison of financial support

Family characteristics	Support offered by CCV	Support offered by TFC
Two parent household – One parent working, one parent not working – Basic rate tax-payer – Average yearly childcare expenditure (£1,716) on one child	£933* 😊	Not eligible 😞
Two parent household – Both parents working – Both basic rate tax-payers – Average yearly childcare expenditure (£3,380) on one child	£1,866 😊	£676 😞
Two parent household – Both parents working – Both basic rate tax-payers – Double average yearly childcare expenditure (£6,760) on two children	£1,866 😊	£1,352 😞
Two parent household – Both parents working – Both basic rate tax-payers – Triple average yearly childcare expenditure (£10,140) on three children	£1,866 😞	£2,028 😊
Two parent household – Both parents working – Both higher rate tax-payers – Average yearly childcare expenditure (£3,380) on one child	£1,250 😊	£676 😞
Two parent household – Both parents working – Both higher rate tax-payers – Double average yearly childcare expenditure (£6,760) on two children	£1,250 😞	£1,352 😊
Two parent household – Both parents working – Both higher rate tax-payers – Triple average yearly childcare expenditure (£10,140) on three children	£1,250 😞	£2,028 😊
Two parent household – Both parents working – Both additional rate tax-payers – Average yearly childcare expenditure (£3,380) on one child	£1,246 😊	Not eligible 😞
Single parent household – One parent working – Basic rate tax-payer – Average yearly childcare expenditure (£2,236) on one child	£933 😊	£447.20 😞
Single parent household – Self-employed – Average yearly childcare expenditure (£2,236) on one child	Not eligible 😞	£447.20 😊

*The bold figures represent the optimal scheme

¹⁸ Based on the average yearly childcare costs in Department for Education, *Childcare and early years survey of parents: 2018*, 20 December 2018.

In comparison, families made savings on average of more than £1,000 a year under the Childcare Voucher scheme, according to analysis of data from a recent Freedom of Information request submitted to HMRC.

This means that under Tax-Free Childcare, on average, families are receiving around £600 less on childcare support per year at a time of rising costs.

The difference in contribution the two schemes make to families' childcare costs, goes a long way towards explaining why parents using Tax-Free Childcare feel so "short-changed."

Forecast

And yet, whilst Tax-Free Childcare clearly is not meeting families' needs, the Office for Budget Responsibility has forecast that government spending on the scheme will reach £1 billion by 2023-24.¹⁸

This, despite delivering less for families, will be a significantly greater cost to government than Childcare Vouchers was prior to its closure in October 2018.




Tim Roache, GMB General Secretary, said:

"Childcare shouldn't cost an arm and a leg. It makes sense for working parents, employers and the economy as a whole to be supporting people back into work after they've had kids, instead we're seeing barriers being put in their way and costs going up."

Scrapping this established programme is self-defeating and will make 800,000 working parents worse off. The Government needs to think again."

¹⁹ BBC, *Tax-free childcare helps just a fifth of families*, 18 February 2019.



Conclusions and recommendations

Today's parents face considerable challenges balancing their work and family commitments. The demands of work in an increasingly competitive economy combined with the strain of childcare mean families are finding it harder than ever to strike the right work-life balance.

These demands on family life create considerable challenges. As our survey has highlighted, rising childcare costs can result in parents, predominantly working mothers, questioning the benefits of staying in work.

However, there are also opportunities to be seized. We believe the UK's childcare policy must seek to prioritise and promote:

- **Choice:** The framework of childcare support for working families must offer parents the choice about how to balance work and family needs. The government's role is to ensure families have that choice, enabling them greater access and freedom to use, and do, what they feel is best for their family.
- **A greater role for employers:** Childcare matters, both to employers and their employees, and employers have a responsibility to support all staff in this respect. Removing barriers at work will extend opportunities for working parents, especially women, attracting greater talent into the workforce and boosting productivity.
- **Simplicity:** As it stands, the childcare funding system can be excessively complicated, with families struggling to find their way to the support they need. They need a simple, progressive funding system that ensures every parent gets the support they are entitled to and the freedom to spend it how they need.

A framework of childcare support that incorporates these principles will: help boost employment and productivity; enhance employer / employee engagement; and improve gender balance in the workforce. This in turn will result in economic benefits for families, employers and the wider economy.

Before its closure in October 2018, Childcare Vouchers formed a core part of the UK's childcare offer, underpinned by the three principles we have outlined. It is clear that its nominal successor, Tax-Free Childcare, is not delivering on these core principles and is falling below expectations.

Closing Childcare Vouchers has clearly been a backwards step, leaving a hole in the current childcare support framework. Reopening the Childcare Voucher scheme to new entrants and allowing participants to move between employers and continue to access Vouchers would be a quick and easy fix to the issues we've explored. The scheme is tried and tested and hugely popular with its users. Furthermore, the infrastructure to run the scheme is already up and running so would require no new IT or administrative systems to be established.

Such a move would: provide working families with greater choice of childcare support that suits their individual needs; re-engage employers in positive discussions surrounding childcare and improve employee satisfaction; and provide childcare providers with continued (and improved) access to a reliable and vital source of income at a time of severe financial strain.

Getting the right childcare support framework in place is critical, both for individual working families and for the success of the UK economy as a whole. We therefore recommend that re-opening Childcare Vouchers to new entrants should be a top priority for the next government.



Appendices

Parents' experiences of the Childcare Voucher closure



- **Kerry**
I used the government's childcare calculator and worked out Vouchers would save me a fortune off my childcare costs. But when I went to apply, I was told it was no longer open to new applicants.
- **Annie**
My husband and I switched to the Tax-Free Childcare system as we thought it would help us more financially. But the scheme has been a nightmare and so many of my childcare costs, like breakfast and after school clubs, aren't covered by the scheme.
- **Rene**
I was made redundant and forced off the scheme. When I get a new job, I won't be able to re-join the Childcare Voucher scheme. This means I won't be able to get the childcare support my children need. I didn't choose this situation, I'm just simply dealing with the change.
- **Anna**
I work as a contractor and when my current posting ends, I'll be forced off the scheme. This means my kids will miss out on after school clubs because I can no longer budget for them. People leave jobs all the time, it's often not their choice!
- **Kunal**
I'm a trainee doctor and have to rotate NHS Trusts every 6 months as part of my training. When I leave my current posting, I'll be forced out of the Voucher scheme.
- **Kirsty**
I'm a basic rate tax-payer and decided to leave my job when the Voucher scheme closed, because childcare costs now outweigh my wage. It's not worth me staying in employment!
- **Gemma**
I work for the NHS and lost access to the Voucher scheme after I moved from one NHS Trust to another. Because I didn't choose to move employers, I feel unfairly punished.
- **Danni**
I wasn't told the Voucher scheme was closing, and now I'll be left financially worse off. The new scheme doesn't benefit us as much as the Voucher scheme did.
- **Gemma**
I was hugely disappointed to hear the Scheme had recently closed. The cost of childcare is huge, and Vouchers would have massively helped me return to work and afford quality care for my baby. Now me and my husband are unsure we'll be able to make ends meet.
- **Tracey**
The closure of the Voucher scheme has had a huge impact on my career. There are no opportunities to progress in my current role, and so I was looking to move employer. But leaving my current job would mean leaving the scheme and I'd probably end up being penalised by increase childcare costs. This will definitely impact more women than men too. The closure of Vouchers hampers the career opportunities of working mums everywhere.
- **Chris**
I have been so impressed with the service, as a user of Childcare Vouchers. It's such a shame the government have now closed this. On top of that, the government has failed to communicate the closure of Vouchers properly and so I've been left out of pocket.
- **Kate**
I'm a new parent who's been told I won't be able to access Childcare Vouchers, and alternatives don't provide the support I need to carry on working and ensure my children receive high quality childcare. This means I'm having to rethink my return to work, as the cost versus loss of income means I will be left out of pocket.

Bibliography

List of interviewees

Becky O'Connor, Personal Finance Specialist, Royal London

Tim Roache, General Secretary GMB Union

Ian Cass, Chief Executive, Forum of Private Business

Liz Bayram, Chief Executive, PACEY

Neil Leitch, Chief Executive, Early Years Alliance

Aoife Hamilton, Policy and Information Manager, Employers for Childcare

Jane van Zyl, Chief Executive, Working Families

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Methodology

This report is informed and has been developed through:

- An anonymous survey of parents, childcare providers and employers across the country, which ran for six weeks between 3rd April and 15th May 2019.
 - Parents: current users – 17,722
 - Parents: those who missed out – 964
 - Employers: 808 respondents
 - Childcare providers: 1,130 respondents
- Analysis of HMRC spending data on Tax-Free Childcare and Childcare Vouchers, and the CVPA's data on Childcare Vouchers.
- Comprehensive interviews with employers, business groups, trade unions and charities, taking place in April and May 2019.
- Case study contributions from parents and employers through our website (<https://futureofchildcaresupport.com/>), before and after the Childcare Voucher scheme closed to new entrants, and responses to our survey.

