

Tax-Free Childcare: consultation on design and operation Cover sheet for responses

Please include a completed copy of this coversheet with responses to the Tax-Free Childcare consultation.

Representations by email are preferable. They should be sent to: tax-free.childcare@hmrc.gsi.gov.uk

Hard copy responses should be sent to:

Tax-Free Childcare Team,
HMRC,
Room 1C/07,
100 Parliament Street,
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The deadline for responses is 14 October 2013.

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Please mark an 'x' below against the questions covered by your response. Not all issues will be relevant to all respondents, so please feel free to skip questions that are not relevant to you.

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Have you raised any other issues in your response? Yes

Details of any accompanying documents

Please refer to the introductory comments on pages 2 to 6 of this response.

Please place an 'x' in this box if you DO NOT want your response to be made publicly available.

Introductory comments

1. Scope of the consultation exercise

Wider Plan welcomes the Government's stated intention of providing increased childcare support for working parents. We also welcome the extensive consultation which is being undertaken with regards to the design and implementation of the proposed Tax-Free Childcare ("TFC") scheme.

During the consultation process to date, the childcare voucher industry, along with other experts and stakeholders, has openly and constructively engaged with the Government's Tax-Free Childcare implementation team. Sharing our knowledge of the benefits, practicalities and administrative issues of tax breaks on childcare is believed to have led to the implementation team having an improved understanding of the current Employer-Supported Childcare ("ESC") system, as well as an improved understanding of the complexities of TFC.

Despite this increase in knowledge, it has been clear that the scope of this consultation is limited to the design and implementation of TFC, rather than also considering the wisdom of the underlying policy. It is important to highlight that there was no consultation on the underlying policy decision of replacing ESC with TFC. As such, we believe that this decision was taken without a full understanding of the facts and without an adequate cost-benefit analysis.

We would urge the Government to take this opportunity to pause and re-consider the relative benefits of ESC and TFC in the light of the current consultation process. The best solution, in terms of meeting the Government's childcare aims and in terms of value for money, could well involve elements of both schemes. As such, a compromise solution could be presented as a sensible outcome of the consultation process, rather than a "u-turn".

For example, ESC could be adapted to: reflect the level of tax savings being offered under TFC; allow for childcare vouchers to be claimed under a per-child rather than per-parent model; accommodate low earners; and ensure a means of access for all parents, including the self-employed and those whose employers prefer not to offer a childcare voucher scheme (but without requiring compulsion on employers). The implementation of these adaptations would naturally draw on the design discussions which have already been conducted in respect of TFC. Implemented correctly, such a proposal could retain the benefits of ESC, including: an active market which ensures cost-effectiveness; vastly reduced implementation costs; minimal scope for fraud and error; flexibility for parents, and HR benefits for employers.

Key point: While the current consultation is welcome, the Government has failed to consult on the underlying policy of replacing Employer-Supported Childcare. As such, this decision appears to have been taken without a full understanding of the implications and without an accurate cost-benefit analysis. In the light of this consultation, we recommend that the Government should now pause to consider alternative solutions, including comparing the relative merits and costs of ESC, TFC and intermediate models.

2. Accessibility of Employer-Supported Childcare

Childcare vouchers are regularly shown in surveys as one of the most popular employee benefits. They are offered by nearly all large employers, as well as being offered by thousands of SMEs. Indeed, in recent years the focus of the childcare voucher industry has shifted towards SMEs, in part because large employers usually already have contracted provision in place.

Inevitably there are some employers who do not employ parents with childcare needs, with this being most likely amongst the smallest companies. In quoting the percentage of employers who provide childcare vouchers, it seems inappropriate for the Government to give the same weighting to companies employing one person (who may not be a parent) as to those which employ thousands. It would be more appropriate to focus on the fact that childcare vouchers are available to around 18 million employees, and to consider the reasons why the remaining employers have not yet introduced a childcare voucher scheme.

For example, where small companies do not yet have a scheme in place, this is often due to their employees having no current childcare needs (perhaps as a result of workforce demographics, part-time working or preferring to use childcare provided by relatives), or it is because neither the employer nor their employees have an adequate awareness of childcare vouchers.

Along with many other childcare voucher providers, Wider Plan offers a free service for parents whereby we will approach their employer on their behalf. In nearly all such approaches, the employer will readily set up a KiddiVouchers scheme once the benefits and ease of administration have been explained.

It is a myth that employers regularly prevent employees from accessing childcare vouchers by refusing to set up a scheme. In our experience of dealing with thousands of employers, fewer than 1% of employers respond in this way. Instead, employers often report that childcare vouchers require little administration, provide welcome NI savings, assist with employee retention, and are a valuable part of the reward package.

Wider Plan recommends that, as part of a thorough cost-benefit review of this proposal, the Government should conduct further research into the reasons why some employers are not yet offering childcare vouchers. This should include investigating how many parents who wish to use childcare vouchers are currently prevented from doing so by their employer. We would suggest that the statistics which have been quoted by the Government to date are seriously flawed and are therefore not fit for purpose.

The experience of childcare voucher providers strongly indicates that any lack of take-up in the current scheme is not due to the unwillingness of employers, but rather due to lack of education. While employers, childcare providers and the childcare voucher industry all play a part in informing parents about the benefits of childcare vouchers, the Government has notably failed to engage in any wide-scale awareness campaigns. The significant investment which will be needed for the introduction of TFC could in part be re-directed towards such campaigns, as a simple way of addressing this issue.

Key point: If the Government wishes to improve take-up of tax breaks on childcare, there are simple measures which could be taken to address this, such as engaging in campaigns to raise awareness amongst parents. It is contrary to the experience of the childcare voucher industry to assume that employers are reluctant to offer childcare voucher schemes.

3. Use of childcare by non-working parents

The Government has a clear desire to drive increased employment and to ensure that any tax breaks or benefits are targeted at those who most need them. On face value, it seems sensible that this would directly translate into employment-based eligibility criteria for the proposed TFC scheme. However, on closer examination, Wider Plan would suggest that this approach may be ill-founded.

With regards to press comment on this issue, the question of whether TFC should be available to households where only one parent is in work appears to have become confused with the separate issue of whether stay-at-home parents should receive any financial support for the nurturing role they perform. We would suggest that this latter issue should be dealt with separately and should not be allowed to cloud the issue as to whether such households should be eligible for TFC.

Instead, Wider Plan recommends that the Government should focus on which parents are likely to require formal childcare and on the reasons why they might use childcare. In our experience, the overwhelming reason why parents pay for childcare is to enable them to work. A scheme aimed at making childcare more affordable would therefore naturally seem to assist the target audience of working parents, without the need for extensive eligibility checks. Secondary reasons for using childcare may include: a belief that the social and educational aspect of formal childcare may benefit the child; providing stay-at-home parents with an occasional break; or providing older children with variety during the longer school holidays.

Our database indicates that households with a stay-at-home parent are least likely to pay for formal childcare. This is probably due to a combination of factors: firstly, such households rely on a single income and therefore are less likely to be able to afford childcare; and secondly, some such households arise from parents actively wishing to look after their children themselves, which correlates with a reduced desire for using formal childcare (except perhaps for the educational benefits of funded pre-school hours).

The more onerous the eligibility criteria for tax-free childcare, the greater the administrative costs of running the scheme and the greater the barrier to entry for parents. In establishing a true cost-benefit analysis of whether eligibility should be based on employment status, we would urge the Government to conduct and publish research on the following questions:

- How many households with one or more parent out of work (eg through long-term unemployment or a decision to be a stay-at-home parent) currently pay for formal childcare?
- How many more of these households would start paying for formal childcare as a result of being provided with access to TFC, given that they would still be required to fund at least 80% of the cost themselves?

The key point to assess is how many parents in these circumstances *pay* for formal childcare, rather than how many parents *use* childcare. Stay-at-home parents may well *use* the free pre-school hours for the benefit of the child, but far fewer will be *paying* for formal care while they are not in work. We would suggest that the introduction of a 20% tax break would not change this, simply because such parents lack either the need, or the desire or the available income to utilise formal childcare. Therefore, focussing extensive investment on ensuring that such households are prevented from accessing TFC seems unnecessary and ill-conceived.

In addition to considering households where at least one parent is out of work, the Government should re-consider the merits of excluding households where one or more parents works a small number of hours. It would be reasonable to assume that use of self-paid formal childcare is again low amongst such households, both as a result of lower average incomes and as a result of shorter working hours often fitting around childcare needs. It would also be reasonable to assume that where such households do pay for formal childcare, in the vast majority of cases the childcare use arises during the hours when the parents are at work. Parents in these circumstances will often be fitting work around their children

and planning a phased return to longer hours as their children grow up. It seems peculiar that the Government would look to exclude such households from the benefits of TFC.

We would suggest that, rather than arising from careful modelling of TFC and a focus on the target audience, the proposed employment-related eligibility criteria appear to have been based largely on the tax credit (or Universal Credit) system. However, tax credits are not directly comparable with TFC, not least because the extent of childcare support which a parent could receive through tax credits is substantially higher than that available through TFC. Whereas a stay-at-home parent may be able to use a small amount of childcare in order to have a break if the Government were to fund a substantial proportion of this care, TFC will only provide a 20% contribution and therefore has less scope for encouraging use of 'unnecessary' childcare or indeed inviting fraud.

While the Government clearly wishes to position TFC as encouraging work, the current focus on employment-based eligibility seems an expensive and inconvenient way of supporting this. It would seem more sensible to focus on the message that making childcare more affordable inevitably supports parents who have the desire and opportunity to work, thus driving higher employment.

Key point: Research indicates that households with a stay-at-home parent rarely pay for formal childcare. It seems unlikely that the introduction of TFC would lead to such households starting to pay for formal childcare, as they typically lack either the desire, or the need or the available income. The cost of allowing such households to participate in TFC would therefore appear to be low relative to the cost of eligibility checks on employment status. We recommend that the Government conducts a proper cost-benefit analysis on eligibility, which we would expect to demonstrate the ineffectiveness of the proposed eligibility criteria.

Some useful information in this area is provided by the Department for Education's 'Childcare and Early Years Survey of Parents' at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211819/OSR_12_2012_Updated_Jun13.pdf.

On p68 of the above document, it can be seen that 59% of parents of pre-school children said they had economic reasons for using childcare, 60% said they felt childcare benefited the child and 23% said they had social or domestic reasons for using childcare. It should be noted that these figures add up to more than 100%, so clearly some parents cited multiple reasons for using childcare. The proportion of parents using childcare *purely* for social and domestic reasons will therefore almost certainly be less than 23%.

It should also be noted that these figures include both formal and informal care, with 'formal' care including babysitters (who cannot be paid with childcare vouchers and are therefore irrelevant to our question) and 'informal' care including by relatives. It seems likely that many more parents would use a babysitter in order to reclaim some parental time than would use formal daytime childcare for this purpose. This means that the percentage of parents citing social and domestic reasons (or 'parental time') for using childcare in this survey is not a true answer to our question as to how likely parents would be to claim childcare vouchers for formal childcare if they are not in work or looking for work.

However, the document sheds further light by stating that parents of children in informal childcare were most likely to cite parental time as one of the reasons for their care (cited by 36% of parents), while only 14% of parents of children in centre-based care (nurseries etc) cited this as a reason. Where parents use a combination of informal care and centre-based care, 25% said they used informal care partly for parental time while only 12% of parents said they used centre-based care partly for this purpose. As outlined above, the 14% of parents who cited parental time as a reason for using formal childcare may also have cited economic and child-based reasons, as the responses were not mutually exclusive. The

true number of parents using childcare *purely* for the purposes of parental time will therefore be less than 14% (perhaps considerably less). Despite the data not being entirely geared towards our questions, the findings support our point that formal childcare is most likely to be used when parents really need childcare, rather than to provide ‘me’-time for parents.

The survey goes on to show that where parents cited parental time as one of the reasons for using childcare, the median number of hours of childcare used per week (15) was substantially lower than the median number of hours used where parents cited economic reasons for using childcare (25.7). (These figures include both formal and informal care. If the figures were segregated to show formal care alone, with babysitting excluded, the hours of use of for reasons relating to parental time would probably be even lower.)

A true view of the extent to which parents use childcare for parental time rather than for other reasons would need to take into account both the *low propensity of parents* to use childcare for this purpose (with only 14% citing this as one their reasons for using childcare) and the *low number of hours* typically used by such parents. While the Government will clearly wish to ensure that TFC is not used to fund ‘luxury’ childcare items such as babysitting or crèches at private gyms, it is worth noting that childcare vouchers cannot normally be used for these types of childcare, so the risk of this is tiny.

4. Parents who will be disadvantaged under TFC

Although TFC is being presented as a ‘good news’ story for parents, in fact there are sizeable groups of parents who will be disadvantaged by the introduction of the scheme.

Couples will only be better off under the new scheme if they have two or more children under 5 and their annual childcare costs exceed £9,330 for basic-rate taxpayers or £6,250 for higher-rate taxpayers. Couples with only one child under 5, or with lower childcare costs, are better off under the current regime.

Single parents will only be better off under the new scheme if they have one or more children under 5 and their annual childcare costs exceed £4,665 for basic-rate taxpayers or £3,125 for higher-rate taxpayers.

Parents who sign up for ESC before Autumn 2015 are to be ‘protected’ from the change to ensure they do not experience any hardship. However, the form of protection proposed is inadequate, as parents who leave their current employer will be considered to have opted out of ESC. Some sectors will be particularly affected by this, such as in the NHS where staff on rotation are deemed to have moved from one employer to another. Where such parents have a child under 5, they would be able to join TFC (although in these circumstances, where parents had made an active choice to remain in ESC, it is reasonable to assume that TFC would provide lower savings for them). However, where parents do not have a child under 5, they would lose the support of ESC and would not be able to claim any replacement support under TFC.

Similarly, parents of school-age children who are intending to go back to work in 2015 may find that they are excluded from receiving any childcare support. Initially TFC will only be available for children up to age 5 so, for example, a parent who needs after-school care for a 7-year old in late 2015 would not be eligible to join either TFC or ESC.

Key point: In order to properly protect existing members of ESC, parents who move between employers should have a right to join their new employer’s dormant ESC scheme. In order to prevent parents of older children from being excluded from childcare support, such parents should be allowed to join their employer’s dormant childcare voucher scheme until TFC is fully phased in.

Response to the consultation questions

Chapter 2 – Voucher accounts

1. What features will the payment system need to have to ensure that it meets the needs of parents and childcare providers?

As with the current ESC system, any new scheme will need to be simple, flexible, secure and reliable. Wider Plan welcomes the Government's intention of retaining the expertise and technology provided by the existing childcare voucher market.

In order for the scheme to meet the needs of parents, registration should be quick and easy, with any identity or eligibility checks being swift, proportionate and preferably electronic.

ESC limits the scope for fraud, with employers performing identity checks automatically as part of payroll processing. As outlined above, it is our belief that ESC could be adapted to reflect the Government's current aims at a much lower cost than implementing TFC. By adapting the existing scheme, the Government would be able to take advantage of employers' unique position in providing a straightforward route for registration and identity checks.

Parents need to be able to fund their childcare accounts at a time which works for them. ESC typically works in line with payroll, accommodating employees who are paid weekly, fortnightly, four-weekly and monthly. Parents can also often top-up their childcare accounts with ad-hoc payments. Any replacement scheme should ideally offer the same flexibility.

Under ESC, parents typically receive their childcare vouchers on their usual payday, which enables them to make a prompt (often automated) payment to their childcare provider. The proposed TFC system would, in many cases, lead to parents being required to top-up their childcare accounts once they have received their salary. It is likely to then take a few days for payments to clear and for the Government 20% top-up to be claimed, which could lead to payments to childcare providers being delayed.

It would be incorrect to assume that parents normally receive childcare vouchers towards the end of the month in order to pay their childcare bill at the start of the next month; different childcare providers require payment at different times, with some requiring payment in advance and others working in arrears. There is no natural lag between parents receiving their salary and being required to pay their childcare provider; indeed most parents currently pay their carer automatically on their normal payday. To meet the needs of both parents and childcare providers, TFC must include a mechanism to allow payments to childcare providers to be handled as swiftly as permitted by ESC.

Parents should be allowed to store their childcare vouchers for future use, in order to cover variable childcare needs. The proposal to allow parents to over-fund their childcare accounts is also welcomed, as this enables parents to pay their full childcare bill with childcare vouchers and makes reconciliation of payments easier for childcare providers.

It should be easy for parents to make payments to more than one childcare provider of their choice. They should have the facility to add a reference or message to the payment, to assist their childcare provider.

Parents should have access to an online account which enables them to update their details, to register new children, to change or add their childcare provider, to make payments in and out of their childcare account and to view a clear transaction history.

Childcare providers should receive a free, reliable and accurate service, with an online transaction record to help with reconciling payments and with email or SMS notifications when payments are made.

Childcare providers should also have the option of asking the childcare voucher provider to quote a specific reference against each payment. Childcare providers typically prefer to use their own reference (eg child's name, parent's name or their own unique reference) rather than using a child reference number which may be imposed on them by a voucher provider or the Government.

Childcare providers should ideally not be required to make significant changes to the way they currently invoice parents (for example, some childcare providers currently invoice on a per-family basis rather than a per-child basis). However, by changing from a per-parent model to a per-child model, this could be a necessary outcome of the introduction of TFC.

The current ESC scheme helps parents with budgeting for childcare, as payments are taken direct from salary and therefore can't be spent on other areas. TFC will not have this advantage unless employers are encouraged to remain involved in the scheme. Although parents may set up a regular standing order or direct debit to fund TFC, others will probably choose to fund their childcare accounts when they receive a childcare bill. The loss of the automatic budgeting offered by ESC may make it harder for parents to manage variable childcare costs (particularly during expensive periods such as the summer holidays), as well as leading to less reliable payments for childcare providers.

Parents and childcare providers should have access to a reliable, convenient and preferably free helpline to back-up the online service. In the event of the Government taking responsibility for performing eligibility checks, a separate helpline should be provided by the Government. For parents to retain the level of service they are used to under ESC, the Government helpline should be free and provide a fast response.

Security of funds and data are important for both parents and childcare providers, along with confidence in the childcare voucher provider's ability to provide a long-term service.

To ensure the needs of parents and childcare providers are met in the longer term, it is important to sustain a competitive market model. Competition in ESC has very clearly been shown to lead to reduced prices, improved service and innovation. The history of the ESC market also demonstrates that it can take a substantial number of voucher providers to generate such competition; the market was relatively uncompetitive until 2006 despite there being around 10 established providers at that stage.

2. What are the advantages and disadvantages of applying the £1,200 limit by means of a monthly cap as opposed to other options?

Advantages of a monthly cap

A monthly cap may be easier to manage in the context of parents switching between Tax-Free Childcare and Universal Credit. However, our recommendation would be for the Government to take this opportunity to break the link between Universal Credit and childcare vouchers. Rather than preventing Universal Credit recipients from using childcare vouchers, we believe the Government should, broadly speaking, reduce the childcare support provided through Universal Credit by 20%. Universal Credit recipients could then be allowed to use childcare vouchers at no increased cost to the Government and the system would be greatly simplified. This suggestion provides a way for Universal Credit recipients to become familiar with childcare vouchers, which is in line with Government intentions of equipping benefit recipients for managing their money once they move out of the benefit / tax credit structure, as well as helping to ensure that childcare support is actually spent on childcare.

A monthly cap may also encourage parents to make regular payments to their childcare account, which could reduce administration and improve budgeting.

A monthly cap could avoid a potential rush of parenting topping up their childcare voucher accounts at the end of each tax year.

A monthly cap may make it easier for parents to transfer between childcare voucher providers, as there will be more clarity over how much subsidy they have already received.

If eligibility is to be checked retrospectively and if there is a risk of the 20% Government top-up being reclaimed, then applying a monthly cap may help to limit the amounts affected. However, we would recommend that reclaims are avoided where possible, which would then negate this advantage.

Disadvantages of a monthly cap

Where parents are paid on a weekly, fortnightly or four-weekly cycle, a monthly cap will be harder for them to manage as they will not be able to simply set up a standing order in line with their paydays.

A monthly cap, if applied strictly, could lead to problems where parents make payments towards the end of a month. For example, a slight delay in payment processing, or perhaps in a cheque arriving by post, could mean that a payment intended for April is actually received at the start of May, potentially causing the parent to lose out on the 20% top-up for April. While the same could be true in terms of payments arising close to year end for an annual cap, the frequency is likely to be greater with a monthly cap.

An annual cap is arguably more convenient for parents, as they can then fund their account at a time when they have higher disposable income. For example, parents who wish to save up for summer childcare may prefer not to fund their childcare account over the expensive Christmas period. A monthly cap would mean that they forfeit the 20% top-up for this period, while an annual cap would enable them to recoup it at a later date.

An annual cap is more accommodating for parents who have delayed registering for the scheme, for example because of a lack of awareness or simply because of the many pressures of parenting. Allowing parents to 'catch-up' on missed payments within a tax year would be consistent with ESC.

An annual cap is likely to be better for self-employed people and for people who are engaged in seasonal employment.

Monthly eligibility checks could be expensive to administer, as well as potentially leading to delays or inconvenience for parents. Annual checks would be easier to administer but would carry the risk of parents claiming whilst ineligible. As detailed above, we recommend conducting a thorough cost-benefit analysis on the proposed employment-based eligibility criteria. If, as we suspect, it can be proven that parents who are out of work do not typically want to pay for childcare, and that TFC would therefore naturally be claimed (in the main) by people who wish to work, then there would be no need to check employment status during the initial eligibility checks and the need for regular ongoing checks would also be removed.

Alternative approaches

In order to strike a balance, a quarterly cap could be a sensible approach.

3. In what situations should parents be able to spend saved-up vouchers if they become ineligible?

Parents should be able to continue to spend their vouchers on childcare in all circumstances. This will enable parents to feel confident about funding their childcare account even if they are in a period of intermittent employment. It will also be useful for parents who wish to save their childcare vouchers for holiday childcare.

We would recommend that refunds should not normally be allowed, as this could lead to parents treating their childcare voucher account as a bank account rather than as method purely for paying for childcare.

Where refunds are allowed, it may be appropriate for childcare voucher providers to be permitted to charge the parent a reasonable administration fee.

If a child reaches an age at which childcare is no longer available (which could be considered to be age 15 rather than age 12) then a refund of unspent childcare vouchers might become appropriate.

If the Government wishes to reclaim their 20% top-up on unspent vouchers, we would recommend that this need not also trigger an automatic refund to the parent.

It is likely that some parents will continue to fund their childcare account during periods of ineligibility. For example, this could arise due to parents not realising that they have become ineligible, or failing to cancel a standing order or direct debit in time. Some parents may also wish to fund their childcare account during periods of ineligibility as a way of budgeting for anticipated future childcare needs. We recommend that such payments should be accepted and added to the parent's childcare voucher account, although the 20% top-up would not be immediately applicable.

In the event of a parent failing to spend any childcare vouchers which are purchased during periods of ineligibility, or any routine overpayments to their account, we recommend that these payments should be available for the parent to claim a top-up on if they have a subsequent period of eligibility (subject to any cap). For example, suppose a parent is allowed to claim a £100 top-up per month on £400, and they routinely pay in £400 a month. In June they pay in an extra £400, which remains unspent in July. Subject to the parent remaining eligible, we recommend that the parent should be able to claim a top-up in July in respect of the unspent advance payment, rather than being required to make a further payment of £400 in July. This will encourage parents to fund their accounts with confidence and will ensure fair treatment. The process of claiming a top-up on unspent but eligible funds could be automated by childcare voucher providers.

4. The Government is committed to giving employers the opportunity to remain involved in the provision of support for childcare in any ways that are consistent with the principles and operation of TFC. How can the Government best ensure this happens?

As detailed in our introductory comments, in our experience employers support the use of childcare vouchers and are generally happy with ESC. We dispute the assumption that childcare vouchers are only offered by the largest employers and that many parents are excluded by their employer being unwilling to offer a scheme. Instead, our experience indicates that employers of all sizes are usually happy to offer childcare vouchers, once they are aware of the benefits for their business and their employees. A wide-spread and ongoing Government-led awareness campaign could substantially address this issue, at much lower cost than the current plans for implementing TFC.

In line with other childcare voucher providers, we believe the perceived faults of ESC, such as its inaccessibility for people on National Minimum Wage or for the self-employed, could be easily rectified

by adapting the current system. Indeed, childcare voucher providers have been lobbying for such changes for years.

In our experience it is extremely rare for an employer to refuse to set up a childcare voucher scheme. However, should the Government wish to adapt ESC to ensure accessibility even in these rare circumstances, affected employees could be allowed to participate via an annual self-assessment return. We are confident that the numbers affected would be sufficiently small as to avoid this becoming an administrative problem.

Employers report that ESC helps with employee retention and plays an important role in supporting family-friendly working policies. The administration associated with ESC is largely conducted by childcare voucher providers, with minimal administrative burden for employers. The costs to employers in running a scheme (both internal costs and external administration fees) are covered by the employer's National Insurance savings.

The Government has acknowledged that any childcare voucher scheme will involve running costs. While the market model for TFC has not been announced, we would suggest that in comparing the schemes, employer NI savings should be looked on as being analogous to any fees which the Government may pay to childcare voucher providers under TFC. Should the Government consider the employer NI savings to be excessive, ESC could be adapted accordingly, for example by reducing the NI savings. However, given the anticipated extra administration and set-up costs involved in TFC, the current cost to the Government of the employer NI savings could ultimately be considered good value for money.

It should be noted that in exchange for their current NI savings, employers play a critical role in minimising fraud, in performing eligibility checks, in ensuring the tax-exempt allowances are adhered to and in raising awareness about childcare vouchers amongst their employees. Larger employers also play a subtle but important role in market regulation. The last few years have seen industry standards improve in areas such as fund security, formal quality and IT security accreditation, innovation and customer service. These improvements have been driven, at least in part, by the demand, scrutiny and strict SLAs which larger employers have the power to impose. With regards to whether the NI savings over-compensate for this role, it is worth noting that employers often use any surplus NI savings to fund maternity benefits, to provide wider employee benefits which improve the morale of the UK workforce, and to support HR departmental budgets (particularly where these are under pressure from cutbacks).

Although employers recognise the non-financial benefits of ESC, the current financial benefit is naturally a significant attraction. It would be naïve to assume that all employers would continue to be willing to run a childcare voucher scheme in the absence of a financial incentive. It should also be noted that some employers, especially SMEs, currently agree to run a childcare voucher scheme simply because there is no alternative way by which their employees can access this benefit. The softer benefits, such as improved employee retention, are most easily seen and recognised amongst larger employers and amongst employers who have a track record of supporting working parents; therefore these benefits are a less effective argument in encouraging SMEs to introduce a scheme for the first time.

While many employers would like to be an employer of choice, supporting their working parents in all circumstances, in the current climate they are often not able to do so unless there is a financial incentive. This is particularly true of public sector employers, which are under constant pressure to reduce costs.

We believe the best way of keeping employers involved in childcare support would be to retain a version of ESC, suitably adapted to meet the Government's aims. However, should TFC go ahead, we would recommend that employers could be involved by processing TFC contributions through voluntary payroll deductions (from net pay). Under this model, employers would choose their preferred provider, market the scheme to their employees and process a bulk childcare voucher order through payroll. The 20% top-up could either be claimed from the Government by the childcare voucher provider, or the employer could deduct it from their PAYE bill and pass it across to the childcare voucher provider alongside the

voucher funds. As employees are also expected to be able to access childcare vouchers direct via the consumer model, they would be able to choose whether to participate in their employer's scheme or whether to make their own arrangements.

The advantages for employees in using their employer's preferred provider could include: the convenience of not having to make their own arrangements; regular budgeting for childcare costs; possibly swifter receipt of the 20% top-up, if this is to be deducted from the employer's PAYE bill; having the employer as an advocate in the event of any service issues arising; or the possibility of a lower cost or added value service, which the employer may be able to negotiate as part of a bulk deal.

Reasons why employees may prefer to make their own arrangements could include: flexibility; avoiding restrictions on how often their employer allows them to change their voucher order; perceived better service or value from an alternative voucher provider; or avoiding delays in voucher receipt which may arise from their employer being slow to pay their childcare voucher invoice.

If the Government wishes to encourage employers to be involved in TFC, then we believe it is crucial for there to be a financial incentive. This could be arranged through a National Insurance incentive, a direct payment from the Government or a fee-share from the chosen voucher provider. In the latter case, as it is not yet clear how the market is intended to operate, it should be noted that a meaningful fee-share could only be offered in the event of profit margins for childcare voucher providers being adequate.

5. What roles might other organisations play in helping parents access TFC?

As with ESC, TFC will be dependent on the willingness of the childcare sector to accept payment in the form of childcare vouchers. It is vital that the needs of childcare providers are taken into account in the design of TFC and that childcare providers are encouraged to continue to accept childcare vouchers from all suitably accredited voucher providers.

With ESC, parents have no choice but to use the childcare voucher provider which their employer has selected. This has led to childcare providers typically accepting childcare vouchers from numerous companies, in order to avoid upsetting parents who have no choice over their voucher provider. However, under TFC, parents will, in theory, be able to select their own voucher provider. We anticipate that childcare providers may take the opportunity to reduce their administration by limiting the number of voucher providers they are willing to work with. This possibility creates a number of risks, such as: creating a barrier to entry for new voucher providers; making it difficult for parents to start saving childcare vouchers before they have chosen their childcare provider; and causing the market to focus on relationships with (and potentially commission payments to) childcare providers, rather than on overall service levels.

Childcare providers have a natural role to play in advising parents about the benefits of childcare vouchers, and many already perform a public service by providing this advice.

If nursery groups are to be involved in offering tax-free childcare, it is important that they are mandated to allow parents to spend their vouchers at any childcare establishment. The Government may need to consider measures to deter anti-competitive behaviour.

Similarly, if financial institutions become involved, the rules governing anti-competitiveness and anti-packaging of insurance or financial products should be completely clear in terms of their application to the new scheme.

The Government could, and should, play a much greater role in advising parents of the benefits of childcare vouchers. This could include wide-spread awareness campaigns, providing information through the midwife service, and providing information when parents apply for child benefit. Such

campaigns could of course be used equally well to support ESC, thereby increasing the take-up rate and avoiding the unnecessary cost of introducing TFC.

Information about childcare vouchers could also be provided alongside Universal Credit claim forms, to help parents make an informed choice about which system is better for them and to help them prepare for times when they are ineligible for Universal Credit. If, as we recommend, Universal Credit recipients were to be allowed to use childcare vouchers, then this would be an even more valuable means of raising awareness.

Chapter 3 – Eligibility

6. Does the proposed definition of ‘parents’ ensure that all individuals who have responsibility for a child can benefit for TFC?

The proposed definition of ‘parents’ does not ensure that all individuals with responsibility for a child can benefit. In cases where divorced parents or separated parents share responsibility for a child, only one of the biological parents will be allowed to claim TFC.

ESC allows both parents (or step-parents) to claim childcare vouchers. This can be perceived as being unfair to single parents. A counter-argument would be that ESC is consistent with the income streams which are entering the household, and therefore it is no more unfair than the fact that the lone parent is bringing up a child in a single-income household rather than a dual-income household. Essentially, any unfairness is due to inequalities between the support actually provided by the absent partner and the support which they would provide were they living as a dual-income household. In allowing both parents to claim, ESC allows all parents to have a meaningful role in selecting and paying for childcare, whereas the proposed model could be seen to remove an element of parental responsibility from parents who are not the primary carer.

By allowing both parents to claim, ESC avoids the need to check whether a parent’s partner (or ex-partner) is already claiming childcare vouchers. In an age of changing households, this verification is potentially problematic and could be seen as intrusive.

However, should the Government be committed to changing the scheme to operate per household rather than per parent, it is worth noting that any validation systems which are being considered for TFC could work equally well under ESC. I.e, ESC could be adapted to work on a per household basis, so this change alone is insufficient in arguing the case for replacing ESC with TFC.

Even if only one parent per household is allowed to set up an account under TFC, there is an argument for allowing other adults, such as grandparents or ex-partners, to pay into that account direct rather than having to go via the primary parent. This would provide a means for other adults to contribute to the cost of a child’s care and have a side effect of making it easier for the primary carer to access employment. In order for this approach to be effective, refunds would have to be dis-allowed.

7. Is the proposed definition of ‘the household’ fair and workable?

As detailed in our introductory comments, Wider Plan believes that parents typically only *pay* for childcare in order to access employment. We believe there are very few parents who have the desire or the means to use significant amounts of formal childcare for leisure purposes. Where non-working parents use formal childcare to aid the social or educational development of the child, we believe this occurs largely through the free hours schemes rather than by the parent paying for formal care. As such, we believe it is a costly mistake for the Government to focus on the employment status of parents when determining eligibility for TFC. It would be wiser to accept that parents who choose to pay for

childcare are typically in work or intending to work, so the tax relief naturally reaches the right target audience without the need for extensive eligibility checks on any member of the household.

We foresee difficulties with the proposed definition of the household, as there is no clear way of knowing who a parent is living with and whether they are living 'as a couple'. While council tax records and Universal Credit records could perhaps be used to provide evidence, there is likely to be a time lag in identifying any changes via these systems. A self-declaration basis could be the easiest route, but this is open to fraud and error. Constant reminders from the Government for parents to update their household status on a central system could be considered intrusive. Parents who live in a stable household are likely to feel that they should only have to notify the Government in the event of change, rather than having to regularly reconfirm their household status. It is also worth noting that some parents will not have knowledge of their partner's income, even if they are living together 'as a couple'.

As a point of concept, if a working single mother develops a relationship with an unemployed adult who then moves into the household, she would lose her eligibility for TFC. This would appear to infer that the Government considers that the new partner should be responsible for performing the childcare, despite them having no parental responsibility for the child and despite the various complex issues which can arise when new partners are introduced to children. In the context of placing the interests of the child first, it seems curious that the Government appears to be advocating removing the child from quality childcare in order that they be looked after by the new partner, who may have no prior experience of children and who may prove not to be a stable part of the child's life. While the Government may be hoping that the withdrawal of TFC would cause the mother to encourage her new partner to find work, insufficient regard appears to be being given to the interests of the child.

We understand that the Government anticipates that one parent in each household would have responsibility for establishing and funding their child's childcare voucher account. The parent's partner could also potentially have access to the account for routine administration purposes. In the event of the couple separating, the primary carer would take on responsibility for managing the child's voucher account. However, if the primary carer is not the person who originally set up the account, there could be difficulties in establishing their access rights and in preventing the other parent from accessing the funds. This could lead to delays in paying childcare providers or cause a child to lose their childcare place.

8. What are the potential benefits of a minimum income rule or hours rule in defining qualifying employment?

As detailed above, Wider Plan believes that parents will typically only *pay* for formal childcare if they are in work or intending to work. On this basis, TFC will reach its intended audience naturally and therefore any employment-based eligibility checks are unlikely to be cost-effective.

If the Government wishes the scheme to only be available to parents who have found work, rather than to those who are actively seeking work, then this is most easily achieved by operating the scheme through employers, for example by adapting ESC.

However, there is an argument for the scheme to also be available to parents who are looking for work. Many high quality childcare providers require advance booking for childcare places. This can make it difficult for parents to arrange ad-hoc childcare while looking for work, or to take up a short-notice offer of work if their childcare has not already been arranged. By allowing parents to set up a childcare account in advance of being in work, and encouraging parents (or other relatives) to save towards childcare on a regular basis, this issue could be partially addressed. We would suggest that this could be an effective way of removing one of the barriers to re-entering the employment market.

Should the Government be determined to go ahead with employment-based eligibility checks, we would consider that a minimum income rule is more easily implemented than a minimum hours rule, due to the

introduction of RTI on earnings. It would be difficult to validate hours of work, which would therefore increase the risk of fraud. (NB Unlike the tax credit system where some parents claim exaggerated childcare costs and subsequently spend their tax credits on something other than childcare, both ESC and TFC discourage fraud by only allowing funds to be spent on registered childcare. Therefore, it is unlikely that parents will apply for TFC unless they have childcare needs. In this context, our references to 'fraud' refer to the possibility of people attempting to get around the eligibility criteria, rather than to the wider consideration of whether the funds are being mis-used.)

Whether eligibility is based on income or hours of work, validation will be difficult in respect of the self-employed. While income could be assessed retrospectively, this has the potential for triggering reclaims which could create financial problems for the parent and lead to adverse publicity.

The Government should also consider the situation where a self-employed parent is working hard but, for whatever reason, failing to turn a 'profit'. In such cases the household may already be struggling financially, and it could be deemed unfair to further penalise the parent for their lack of business success. In deciding how to assess whether a parent is meaningfully self-employed, the Government would need to consider whether 'income' should be regarded as the revenue earned by the parent or the residual 'profit' after costs have been deducted.

Where parents are employed, or self-employed, in a seasonal role, it is reasonable to assume that they will have greater than average childcare needs during the periods of increased work. If these parents are required to pass either a minimum income rule or a minimum hours rule during the slacker periods, they may not be eligible to use these periods to budget for the next season's childcare costs. Removing the employment-based eligibility criteria would solve this issue.

With either eligibility check, there could be a disparity in treatment of employed and self-employed people. For example, a minimum income rule would most naturally be applied annually to self-employed people, while an employed worker in the same (potentially seasonal) line of work may be required to prove eligibility on a monthly basis.

Both a minimum income rule and a minimum hours rule could be seen to penalise parents who are in the early stages of entering (or re-entering) the employment market. Parents do not always have control over the number of hours they work, as the hours required are often set by the employer. It seems counter-intuitive that the Government would not encourage parents to work whatever hours they can, even if this means they are only working say 8 hours a week. Once a parent is engaged with the employment market, it would seem sensible to assume that they are then better placed for working increased hours or earning a higher wage in due course.

As the Government is currently intending that recipients of Universal Credit would be excluded from the scheme, many low earners would be unable to access TFC even if a low minimum income threshold is introduced. We would recommend reducing the childcare support which is available through Universal Credit and fully compensating for this by allowing Universal Credit recipients to engage in TFC.

9. What alternative ways are there to define qualifying employment, and that are the potential risks and benefits of these approaches?

We would urge the Government to look again at whether there is a need to define qualifying employment. As childcare voucher funds can only be used to pay for registered childcare, there is little purpose in parents engaging with the scheme unless they truly intend to use such childcare. The primary reason for parents to pay for childcare is to ensure their children are safe and stimulated while they are at work. While there may be a minority of parents who have the means or desire to pay for registered childcare while not at work, we would suggest that the cost of excluding such parents from the scheme does not represent good value for money.

Should the Government wish to go ahead with these eligibility checks, it would be possible to define qualifying employment through minimum income, minimum hours or a combination of these factors. Validation could occur through self-declaration, spot-checks or automatic validation against other data sources (such as RTI). Alternatively validation could be performed by employers in the event of an employer-based model being adopted for the operation of the scheme.

With any definition of qualifying employment, the risk is that parents who are trying to enter the employment market, or who are in the lower tiers of the employment market and trying to progress, may be penalised. There is also a risk that the cost of validation is greater than the savings which arise by excluding those who are deemed ineligible. A further risk is that the registration, and re-registration, process required for confirming eligibility would deter some parents, thereby reducing take-up of the scheme and limiting its effectiveness for the target audience.

The benefit of checking for qualifying employment is that the minority of parents who use paid-for childcare *entirely* for their own social or domestic purposes would be excluded from the scheme, thus preventing Government funds reaching this presumably wealthier cohort. It could be argued that a restriction on additional-rate taxpayers joining the scheme would already serve to largely exclude this minority group.

10. Will the proposed operation of the age cut-off ensure that all children who are eligible for TFC in year one will remain eligible until the end of the school year in which they turn 11?

While the proposed definition does essentially meet this aim, we would suggest that parents should be allowed to continue to spend their childcare vouchers for at least a year after the child ceases to be eligible for Government top-ups. This would enable parents to continue to fund their childcare accounts during the last eligible school year, without being concerned about any surplus payments becoming unusable. It would also avoid a situation where childcare voucher providers are required to handle numerous refund claims every September, as parents could be advised instead to run down their childcare account over the coming year.

The proposed definition does beg the question as to what childcare arrangements the Government would suggest for children who turn 11 in August. While the law is unclear, it is common thinking that children should not be left home alone below the age of 12. The proposed definition would leave some children without childcare support for a whole school year, at an age when they are not normally considered old enough to be home alone. With this in mind, it may be more sensible to allow children to remain eligible until 1st September following their 12th birthday.

11. How often do stakeholders expect issues around changes in eligibility arise, and do stakeholders hold information that could help inform the Government's thinking on the scale of this issue?

For families who live in a stable household and generally experience stable permanent employment, changes of eligibility are most likely to arise at a 'crisis point', such as a parent becoming unemployed. We recommend that any eligibility criteria deemed necessary should include a grace period, to ensure that childcare support can continue during periods where a parent is looking for re-employment.

Changing from a per-parent model to a per-household model will inevitably lead to more frequent changes in eligibility, as eligibility validation will often require checking the employment status of more than one adult.

It is clear that the more onerous the eligibility requirements, the more likely it is for parents to move in and out of eligibility and the more confusing and costly the scheme will be. We urge the Government to

carefully consider eligibility requirements and not to deter parents by requiring them to reconfirm eligibility on a frequent basis.

It should be noted that an employer-based model automatically includes checks on identity and employment status, ensuring that any changes in employment are picked up straight away.

Performing eligibility checks for a consumer model is likely to be more expensive than in an employer-based model. The number of queries arising with regards to eligibility is also likely to be higher. In determining the market model and the level of administration fees, it will be necessary to understand how many of these queries are likely to be handled by childcare voucher providers rather than through a Government helpline.

It will also be necessary to understand whether communications in respect of eligibility will be between the Government and the parent or between the childcare voucher provider and the Government. If the Government wishes parents to reconfirm their eligibility on, say, a quarterly basis, we believe it would be preferable for reminders to be issued by the parent's chosen childcare voucher provider rather than by the Government. The Government could mandate childcare voucher providers to perform this role, to avoid any parents being missed. We recommend that once parents have passed initial validation, nearly all ongoing communications should come from their chosen childcare voucher provider. This will help to avoid confusion and annoyance for parents. It will also give childcare voucher providers more control over helpline volumes and avoid an influx of calls in the event of an official communication being unclear.

With regards to changes in the employment status of existing members of ESC, it seems unfair to penalise parents who change employment after Autumn 2015. We recommend that existing scheme members should be allowed to join a new employer's dormant ESC scheme if they have been receiving childcare vouchers from a previous employer within the last 3 months.

12. What are the best ways of ensuring that all parents have the information they need to judge whether they will be eligible for TFC, and to make the best choice for themselves?

The best way would be to remove most of the eligibility criteria and to work on the basis that parents who set money aside specifically (and irretrievably) for use on formal childcare are probably going to be in work or looking for work.

Breaking the link with Universal Credit would also remove complexity and make it easier for parents to decide whether TFC is suitable for them, without penalising any parents and without introducing any new costs.

The eligibility criteria could be reduced to: (a) proving the existence of the child; (b) ensuring there is only one childcare account per child; (c) checking that the parent is not in receipt of ESC; and (d) checking that no-one in the household is an additional rate taxpayer (ideally on a self-declaration basis for simplicity).

The registration process, including any eligibility checks, should be clear and easy for parents to understand. Childcare voucher providers would have a role to play in providing information about eligibility; childcare providers and employers could also play a vital role.

From our experience of helping parents to choose between childcare vouchers and tax credits, we would suggest that it is important for the Government to minimise complexity. Parents often struggle to understand which method of support will be best for them, not because of any lack of intellect but rather because (a) the calculations are complex and opaque, and (b) the financial outcome of the choice often varies depending on uncertain future events, such as whether a parent has a period of unemployment later in the tax year. It may be helpful for the Government to provide an accurate online calculator. Our experience is that previous calculators have been unreliable, particularly around the start of the tax year.

Chapter 4 – Information and validation

13. What information should parents provide when registering for TFC? Would parents be content to pass personal information to a voucher provider, the Government, or other third parties on registering for the scheme?

The complex eligibility requirements proposed under TFC would require parents to provide much more information than is required under the current ESC scheme. While parents are currently quite happy to provide childcare voucher providers with their contact details, their child's details and their childcare provider's contact details, they may be less happy about declaring who they are living with and sharing employment or earnings information relating to their partner. Indeed, some parents will not have accurate knowledge of their partner's earnings, and their partner may wish that to remain the case.

It is clear that the more complex the eligibility requirements, the greater the need for external validation or documentary evidence and the greater the scope for fraud, error, delay and expense.

Employers currently perform a vital role in providing natural validation through payroll processing. Retaining employers in this role would help to reduce the costs of implementing the new scheme.

Where parents are required to provide information under TFC, ideally this should be in electronic form. Avoiding paper documents such as birth certificates will help to reduce costs, minimise delays and avoid loss of important documents. Ideally parents should only be asked to provide easily obtainable and easily verifiable information.

Where information can be sourced from existing systems, for example via NI number, child benefit number or Universal Credit claim number, it may be sensible to take advantage of these routes. However, the cost of linking systems, along with the possibility of delays arising while overnight runs complete, means that such an approach should not be used blindly.

The closed-loop nature of childcare vouchers naturally serves to limit fraud; there is simply no point in a parent registering for childcare vouchers if they do not have a child for whom they wish to use childcare. With this in mind, it is debatable whether it is necessary to have sight of birth certificates to prove the existence of the child. In terms of proving the child's age, it is worth noting that the age can be verified to a degree by the nature of the childcare which is being used. For example, childcare voucher providers could automatically check that an after-school club is not being paid in respect of an under-5.

Should parents wish to defraud the childcare support system, one would assume that they would tend to exploit the vulnerabilities of tax credits (where funds are received as cash) rather than attempting to claim excess childcare vouchers (which can only be spent in a very limited way). The investment which will be needed to perform the proposed eligibility checks could be much better targeted by being applied to the tax credit system.

A unique child reference number will be needed, along with a central database, to enable childcare voucher providers to check that only one account is in place for each child.

14. Considering the objectives set out in paragraph 4.3, what are the strengths and weaknesses for each of the alternative ways in which the initial registration, and validation, of parents' registration information could be undertaken? What opportunities might third parties bring to assist the Government in validating registration information?

Option A, where the parent registers with the childcare voucher provider and is then verified by the childcare voucher provider communicating with the Government, has the potential of being the simplest mechanism for parents. However, in order for this approach to be viable, eligibility checks should be limited to easily verifiable items, avoiding any paper documents. The communication between the childcare voucher provider and the Government would ideally operate via a live link to give an instant response to the parent. This could include automatic links to other central systems, such as RTI or the child benefit database, subject to any system constraints. If our recommendation of taking a light touch with eligibility is followed, then Option A could provide a simple and easily implemented solution, at far lower cost than the other models.

If the Government wishes to engage in the onerous eligibility checks which are listed in the consultation document, then Option B may be a more sensible approach. The parent would pass initial eligibility checks by applying to the Government, perhaps through an online portal, and they would then be provided with an authorisation code which would enable them to register with their preferred childcare voucher provider.

Option B places the responsibility for eligibility checks firmly with the Government and may serve to focus attention on the costs and benefits of each of the checks.

A significant disadvantage of Option B is that it adds a level of inconvenience for parents. Parents would tend to contact a childcare voucher provider in the first instance, but will then have to be redirected to the Government portal. Generally, systems which provide parents with just one main point of contact have less scope for causing confusion.

Option C is likely to cause further confusion for parents, as another party is being introduced to the process. The links between any compliance agent and the childcare voucher provider could be a source of problems, particularly with regards to data security and speed of response.

Both Options B and C have the potential to lead to delays in registering parents, which will lead to higher administration costs for childcare voucher providers and potentially lead to adverse publicity for TFC.

15. Considering the objectives set out in paragraph 4.3, how quickly should the Government confirm eligibility based on the registration details provided to it? What should happen in cases where a parent is deemed to be ineligible for TFC? How should the parent be informed?

Ideally it should be possible to confirm eligibility in real time during an online registration process. This could be facilitated by keeping eligibility criteria as simple as possible and by relying on a mixture of live links to Government systems and self-declaration by parents.

The current complex eligibility requirements are likely to make it difficult for parents to receive instant confirmation of their eligibility. This is likely to lead to delays between a parent first applying for TFC and being able to start funding their childcare account. Any delays or inconvenience are likely to act as a barrier to entry, whereas a quick and easy registration process will help to drive take-up.

ESC offers efficient, reliable and robust validation, with instant online registration. Continuing to use an employer-based model (where appropriate) would help with achieving the objectives set out in paragraph 4.3. Any financial incentive which could be offered to encourage employers to become involved in TFC would be likely to have a valuable return in terms of improved efficiency and reduced fraud.

Where offline validation is required, we recommend using a risk-based approach supported by spot checks. Any subsequent debt recovery could be handled by confiscating unspent voucher funds or by the Government recovering funds direct from the parent. Voucher providers should have no liability for fraudulent registrations as long as all mandatory automated checks have been complied with.

If a parent is deemed to be ineligible for TFC, they should be notified by the Government or by their selected childcare voucher provider (depending on which party is responsible for performing the registration and eligibility checks). The parent should be provided with clear information as to the reason for being ineligible and there should be a clear route for appeal.

If a parent fails a Government-initiated eligibility check after starting to claim childcare vouchers, the Government should also notify the relevant childcare voucher provider.

The parent may continue to make payments into their childcare voucher account on ceasing to be eligible (and this would be administratively difficult to prevent), but no further Government top-up should be available until eligibility is reconfirmed. Depending on how top-ups are to be provided, this policy could be implemented through the Government automatically rejecting any top-up requests for an ineligible parent, or alternatively it could be the responsibility of the childcare voucher provider to ensure that no such requests are made once a parent has been deemed ineligible.

16. Would annual checks be sufficient to confirm that self-employed parents continue to meet the (income) eligibility criteria for TFC?

Annual checks could be a sensible approach for accommodating self-employed people, except to the extent that this leads to an unfair discrepancy between employed and self-employed people. To avoid such a discrepancy, and to minimise costs, it may be appropriate to use annual checks for both groups.

If a self-employed parent has claimed TFC in good faith but, for whatever reason, has failed to meet the income threshold, it could be unfair and counter-productive to seek to reclaim any support retrospectively.

As long as any mandatory checks have been implemented, childcare voucher providers should have no liability for repaying the Government top-up in the event of a self-employed person failing to meet the eligibility criteria (except in the simplest case where voucher funds remain unspent and can therefore be reclaimed).

17. How quickly should parents be required to inform of changes of circumstances that affect their eligibility, and how can they be reminded to do this? What does this mean for voucher providers' systems?

A three month grace period should be considered in order to accommodate families who experience temporary unemployment. This will help to avoid excessive administration and help parents to continue to afford childcare during difficult periods.

Where possible, situations which lead to Government support being reclaimed should be avoided. Reclaims are likely to lead to adverse publicity and may deter parents from joining the scheme.

A light touch with regards to eligibility criteria would reduce cost and reduce the risks of parents moving in and out of eligibility.

Childcare voucher providers could contribute to a risk-based validation model, for example by identifying accounts where vouchers are accumulating rather than being spent, or identifying cases where the childcare being used is out of line with the apparent age of the child.

Both the Government and childcare voucher providers could have responsibility for reminding parents to report any changes in their circumstances, for example by email, SMS or on-screen messages in their online voucher account. Ideally direct communications from the Government should be kept to a minimum, to enable parents to view their chosen childcare voucher provider as their main point of contact for the scheme and to avoid confusion.

We would strongly discourage the idea of the Government issuing reminders to parents towards the end of each quarter, as this will lead to an influx of helpline calls to childcare voucher providers. It would be preferable for childcare voucher providers to have responsibility for issuing reminders in a timely and well thought out manner, ensuring consistency of service at all times.

When parents do receive a reminder to report any change in circumstances or to reconfirm their eligibility, it should be clear how they are to do this. We would recommend that all change notifications or reconfirmations should take place through their online voucher account. Childcare voucher providers could pass this information across to the Government through an agreed mechanism, such as a live link, a reconciliation report or single sign-on through to a Government portal. Naturally the Government will wish to be confident of the identity of the person who is updating their details; however, this could be achieved via single sign-on just as effectively as by requiring a parent to login to a Government portal. A security question could be used for further confirmation of identity if this is considered necessary. We believe it would be confusing for parents to visit their online voucher account for ongoing processing and to maintain a separate Government portal login for eligibility checks.

Ideally, the only time parents should be sent direct to a Government portal, if at all, would be at the start of the process if Option B is adopted for eligibility checks. Parents would then receive an authorisation code or unique child reference number at this stage.

Childcare voucher providers are familiar with sending regular reminders to parents in respect of a range of routine account operations, from eligibility through to payment processing. It would be relatively easy to introduce new types of reminders into these systems.

Once a parent has notified a childcare voucher provider or the Government of a change of circumstances, there will need to be clear processes in place to ensure accounts are automatically suspended where appropriate.

Where parents operate accounts for more than one child, it will be necessary to ensure that any change in circumstances is applied equally to all accounts, in a manner which is convenient for parents and avoids duplication of effort.

18. What processes should be used to recover payments made to ineligible parents?

Recoveries could be made from any unspent childcare voucher funds or from future incoming payments from the parent, although this would have to be handled carefully to avoid complaints of unfair treatment.

Where voucher funds have been transferred to a childcare provider, they could be asked to provide a refund. However, this could cause debt collection issues for the childcare provider and they may be justifiably unwilling to cooperate.

Ideally, childcare voucher providers should not be involved in recovering payments, except in the simplest case where funds have not yet been spent.

The need for recoveries should be avoided where possible, for example by ensuring any eligibility criteria are cost-effective, meaningful and sensibly applied. Where recoveries are necessary, they could be handled by adjusting the parent's tax code, child benefit or universal credit award, or by engaging a debt collection agency.

In the ESC model, errors can be rectified by making an adjustment through payroll. An employer-based TFC model, building on the role performed by employers under ESC, could use a similar approach.

19. How do voucher providers suggest their systems alert the Government payment system to make a top-up payment? How responsive does the Government system need to be?

Parents are likely to expect the top-up to be virtually instant once cleared funds have been received by the childcare voucher provider. Consumers are used to being able to make same-day payments for personal banking and will expect a similarly fast response from their childcare voucher provider.

In order to provide a fast and convenient service for parents, we recommend that (suitably accredited) childcare voucher providers should receive funding in advance from the Government. This would enable the childcare voucher provider to allocate top-ups immediately on receipt of cleared funds from the parent. A retrospective reconciliation could then occur in an agreed format and at an agreed time, which could range from overnight through to once a month depending on the Government's requirements or on the amount of funding involved.

If the Government is to take responsibility for eligibility checks, then ideally they would provide childcare voucher providers with an API so that eligibility could be checked instantly prior to allocation of the top-up to the parent's account. This would ensure that any changes in circumstance which have been reported to the Government would be picked up automatically, hence avoiding the allocation of top-ups once a parent has become ineligible.

If it is not possible for the Government to provide childcare voucher providers with the top-up funds in advance, then we recommend that the Government provides an API to enable childcare voucher providers to make instant requests for top-ups as parents' funds arrive. The top-up requests would need to be processed swiftly by Government systems, ideally with a same-day payment so that the top-up could be released to the parent on the following day.

20. How would voucher providers deal with orphaned (e.g. payments that 'bounce' or do not clear) and ineligible payments? How – and how quickly – would the Government's per cent top-up be retrieved if already paid to the voucher provider?

We would suggest that the Government top-ups should only be allocated to cleared funds. However, issues could still arise with direct debit payments or credit card payments, where there may be a possibility for parents to reclaim the funds after they have been allocated to their childcare voucher account.

The risk of fraudulent payments is higher under the proposed scheme than under ESC, where credit cards are not normally used.

If a top-up has been allocated to an ineligible parent, the childcare voucher provider should have the right to retrieve the top-up if the voucher funds have not yet been spent.

If the voucher funds have already been spent then it may be difficult to retrieve the funds. It is sometimes possible to obtain a refund from a childcare provider, but this requires the cooperation of the childcare provider and could leave them with cashflow or debt collection issues. It would be preferable in these circumstances for the Government to retrieve the top-up direct from the parent. Ideally systems

and procedures would be in place to allow live checks on eligibility, to reduce the risk of top-ups being allocated to an ineligible parent.

In the event of a top-up being paid to an ineligible parent and the funds not being easily reclaimable, the childcare voucher provider should only be liable to refund the Government if they have failed in their duty to complete any mandatory checks.

21. How can voucher providers' systems ensure voucher accounts provide the flexibility parents need when paying in, while protecting themselves from defaults and the Government from making excess top-ups?

Childcare voucher providers are used to providing parents with flexibility, with the exception of handling cash payments.

Voucher providers would probably choose to protect themselves from defaults by requiring cleared payment before passing on any funds to childcare providers.

The risks associated with credit card payments and credit card fraud are a concern and could lead to increased costs, either for childcare voucher providers or, if passed on, for parents.

If employers could be encouraged (and perhaps incentivised) to process TFC via payroll deductions, the cost of fraud is likely to be reduced. The cost and administration involved in reconciling payments would also be reduced.

A live link between voucher providers' systems and any central eligibility database would allow voucher providers to confirm eligibility in real time before applying a top-up to parents' accounts. Such a link would need to return an instant response, to avoid delays when childcare voucher providers are dealing with thousands of parents in a single day.

Voucher providers will be able to offer parents a faster and more flexible service if the Government provides a pre-funded float so that top-ups can be allocated immediately. Failing this, a system should be put in place to ensure top-ups are paid on a same-day basis. It is unlikely to be feasible for childcare voucher providers to release the top-ups to parents in advance of receiving payment from the Government.

Wider Plan recommends that parents should be allowed to make payments into their childcare voucher account at a frequency of their choice, in particular accommodating parents who are paid on a non-monthly basis. Outgoing payments to childcare providers should be offered with a similar level of flexibility, to meet the varying requirements of childcare providers.

Parents should be allowed to save up their vouchers in order to budget for more expensive periods of childcare. It seems sensible that the top-ups should be allocated at the point at which payments are received, assuming the parent is eligible at that point.

If funds are received when a parent is ineligible and remain unspent at a later date when a parent becomes eligible, it would seem fair to allow a top-up request to be made at that point (but without back-dating for the period of ineligibility). This would be equivalent to a parent saving for childcare in a separate bank account during a period of ineligibility and then making a payment into their voucher account when they become eligible.

Similarly, if a parent chooses to over-fund their childcare voucher account, so that some of the funds do not receive a top-up, then in the event of these funds remaining unspent in a subsequent period, it would seem reasonable for the parent to be able to claim a top-up on them if the parent is still eligible. This

would be equivalent to the parent keeping any surplus funds in a separate bank account and using them to purchase childcare vouchers in a subsequent period.

While the above situations appear to add a degree of complexity for childcare voucher providers, we believe that the relevant system adaptations could be made relatively easily and that the investment would be worthwhile in ensuring equity for parents and avoiding complaints.

22. What channels need to be established to enable parents, voucher providers, and childcare providers to communicate with each other and the Government, to resolve queries and problems?

If the Government is to take responsibility for verifying eligibility, either when a parent first registers or on an ongoing basis, then there must be a system by which parents can contact the Government with any queries. Online information and a free Government helpline would seem to be essential. The Government could also provide all childcare voucher providers with a standard information pack to help parents who are trying to pass initial validation.

Childcare voucher providers should also be provided with a Government contact, in order to resolve any eligibility queries which arise in the course of operations and in order to report any suspected fraud or error.

We would recommend that communications between the Government and the parent are kept to a minimum, leaving the parent free to choose to manage their affairs through a childcare voucher provider of their choice. Where the Government requires communications to be made with the parent, ideally childcare voucher providers should be mandated to provide this service.

The Government may wish to invest in public awareness campaigns, which have been sadly lacking under ESC. Unless employers are suitable incentivised, they are unlikely to market TFC to the same extent as ESC is marketed.

The existing links between childcare providers and childcare voucher providers should suffice for handling payment-related queries.

We would suggest that parents should not normally be able to transfer funds between childcare voucher providers, as this leads to additional complexity.

The Government may wish to consider a centrally-managed complaint or appeal system, or an independent ratings system, to provide parents with confidence in the levels of service and security provided by childcare voucher providers.

23. Are there any information flows or validation checks that are required but not mentioned in this chapter, and who would be best placed to undertake them?

Additional information flows will probably become clear as the system designs are refined, and will of course vary depending on how fully the Government wishes to be involved in the eligibility checks.

Examples could include:

- Emails or SMS reminders to advise parents to reconfirm their eligibility (ideally these would be sent by the childcare voucher provider);
- Emails or SMS reminders to advise parents when a child's vouchers are approaching expiry;

- Collection and reporting on data which could influence the future direction of the scheme (for example, take-up rates among different sectors of the population, cost of performing the eligibility checks, information relating to the availability of childcare).

Parents who choose to continue to receive ESC will be ineligible for TFC, but there is currently no easy way for the Government to identify which parents receive ESC. Either a central database needs to be created, or the Government will need to rely on self-declaration for this aspect of the eligibility checks.

24. What changes in capabilities and capacities does this mean, especially for voucher providers?

The change from a B2B model to a B2C model will naturally have implications for childcare voucher providers.

Marketing costs are likely to increase, as it will become necessary to attract each parent individually rather than through their employer.

Helpline volumes are likely to increase considerably, particularly if parents become frustrated with the registration process or experience delays in having top-ups allocated to their accounts. Voucher providers will probably need to operate longer opening hours in order to meet the demands of a consumer-based model.

The number of incoming payments which childcare voucher providers could expect to receive through TFC is vastly higher than the number received under ESC, where one payment from an employer could relate to hundreds of employees. The process of reconciling payments and allocating childcare vouchers will therefore be more complex and expensive under TFC.

Any delay in registering parents or in allocating payments (for example due to lengthy validation or delays in receiving Government top-ups) will impact on business efficiency and generally increase costs.

System changes will be required in order to interface with any Government-led validation system. New processes and/or systems will need to be developed to manage the claiming and reconciling of the Government top-ups.

Childcare voucher accounts currently operate on a per-parent basis, with parents managing payments for all their children through a single account. Where more than one child uses the same childcare provider, it is currently common for parents to make a single payment in respect of their total childcare bill. It is also common for childcare providers to invoice by family rather than by child. Under TFC, each child's account will need to be managed separately; childcare voucher providers will need to adapt their systems to ensure that outgoing payments relate to a specific child, while at the same time attempting to accommodate the needs of the parents and childcare providers.

Childcare voucher providers will also need to consider technicalities such as whether any over-funding should be allocated to a parent initially and later to a child, or whether over-funding should be directed straight to a child, with the risk that the parent would in time prefer to use those funds for a different child. Such technicalities will have implications for system development.

Similarly, childcare voucher providers will need to consider whether all childcare voucher funds are to be spent on a first in, first out basis, or whether parents will be given the option to spend Government-assisted funds (ie funds made up of 80% personal contribution and 20% Government contribution) ahead of any personal over-funding. Doubtless further complexities will become apparent in due course.

It is currently unclear how childcare voucher providers are to be remunerated, which serves to increase the risk associated with the change and limits the scope for childcare voucher providers to make swift decisions with regards to the investment required for system development.

25. How might third parties with additional capabilities improve the operation of TFC?

We see no major role for third parties, with the obvious exception of the vital role which employers could be encouraged to play.

The use of any other third party, for example for validation of data, could easily lead to delays and increased costs.

Chapter 5 – The market for vouchers

26. Is the Data Protection Act 1998 sufficient to protect personal data? What are the costs and benefits mandating further standards, such as ISO/IEC 27000?

In our opinion, the Data Protection Act 1998 is sufficient to protect personal data. Childcare voucher providers should be required to demonstrate their compliance with this Act. In addition, their employees should be subject to sensible screening, such as CRB checks. Most childcare voucher providers already operate to very high standards of data protection.

There is an argument for requiring childcare voucher providers to obtain ISO/IEC 27000, as this can highlight risks and security issues and lead to more robust systems. The main benefit would be that parents would have greater assurance over the security of their data, regardless of which childcare voucher provider they choose.

The cost of obtaining ISO/IEC 27000 is unlikely to be prohibitive for any organisation which is already operating to high standards of data security. However, the cost would naturally be proportionally higher for any smaller childcare voucher providers, and may act as a deterrent to new entrants to the market.

27. What are the costs and benefits of further safeguarding to protect parents' funds, such as ring-fencing from working capital, an insurance-type arrangement, or authorisation by the Prudential Regulation Authority? What other options might be proportionate?

It is crucial that parents can have confidence in the security of their childcare voucher funds. As a minimum, funds should be ring-fenced from working capital. Measures should also be taken to avoid voucher funds being invested in risky assets.

Authorisation by the PRU would be likely to give parents extra confidence. However, this would need to be offset against the cost of regulation, which presumably would ultimately need to be included in the remuneration model for voucher providers. Requiring authorisation by the PRU could act as a deterrent for new entrants to the market.

Ideally voucher funds should be protected in the event of insolvency, for example by using a method similar to the Financial Services Compensation Scheme. However, the costs of such a scheme would need to be included in the remuneration model for voucher providers.

28. Which market structure is most likely to deliver the Government's objectives?

The option of choosing a single provider to supply TFC would appear to create considerable unnecessary risk. Firstly, the childcare voucher providers which failed to be selected would be in a position of administering a (probably unprofitable) run-off business, particularly if they have not been able to diversify into other areas. It is important to note that even small childcare voucher providers currently look after millions of pounds of unredeemed childcare vouchers. If any childcare voucher provider were to go out of business, parents would inevitably have difficulty in accessing their outstanding voucher funds. Such a situation has the potential to cause considerable adverse publicity for the new scheme. Secondly, the market for childcare voucher providers would essentially disappear, meaning that when the Government re-tenders the opportunity, there is very likely to be very little competition to the incumbent supplier. This would limit the scope for the Government to ensure good service, value and innovation in the longer term. It is worth noting that where the Government has appointed single providers in other areas, the service and value received has often failed to meet expectations.

The 'licensed provider' option, whereby the Government selects a limited number of preferred providers, carries similar, although less extreme, risks. It remains the case that any childcare voucher providers which fail to be selected would be likely to leave the market, leaving the prospect of parents ceasing to have access to their unredeemed vouchers. While competition would exist to a degree under this model, the extent of competition may be insufficient to ensure the best outcome for parents, childcare providers and the Government. The existing childcare voucher market has proven the benefits of competition, but it is worth noting that the benefits were not clearly seen until the market broadened in 2006. As any unlicensed childcare voucher providers would naturally leave the market, the Government would still be faced with the problem of there being few alternatives to the incumbent providers at the point of re-tendering.

At the other extreme of the proposed market models, the 'laissez-faire' option appears to offer inadequate protection for parents and childcare providers. It is vital to the success of the scheme that restrictions are in place to avoid the possibility of fraudulent voucher providers being established.

A code of conduct goes some way towards providing protection but, unless participants are rigorously audited, it may not be enough to ensure the level of data security and financial security which parents should be able to expect.

The 'trusted provider' model would give parents a high level of confidence in terms of data and financial security, but may lack the rigour of requiring firms to demonstrate their understanding of TFC and their ability to deliver a reliable childcare voucher service.

The 'accredited provider' model appears to offer the best solution. Under this model, childcare voucher providers would be required to prove their compliance with appropriate regulatory standards, which may include data security, financial security and a service level agreement. Childcare voucher providers typically already operate to high standards, so this model would allow most existing providers to remain in the market, while formally demonstrating their adherence to the essential standards.

The 'accredited provider' model allows for ongoing active competition between childcare voucher providers, serving to encourage high standards of service and innovation. It would also be feasible for new entrants to join the market, as the costs of regulation would be unlikely to be viewed as prohibitive.

In order to ensure that an active market can operate from the outset of TFC, the Government should seek to continue to work closely with childcare voucher providers as the scheme develops. In particular, a decision on the market model and the remuneration method under the new scheme should be announced as soon as possible, to enable childcare voucher providers to put appropriate plans and system development in place.

Once a childcare voucher provider has received accreditation, there should be a process for renewing this on a periodic basis. The process should be sufficiently robust as to ensure high standards are maintained, with safeguards in place to ensure continuity for the accredited providers.

In order to provide more certainty for childcare voucher providers, the Government should consider guaranteeing that ESC will continue to operate until such time as the replacement TFC scheme is fully operational. This would avoid a hypothetical situation whereby ESC automatically comes to an end in Autumn 2015 but TFC is not yet ready to be launched.

29. How should administration costs be kept low?

Costs could be kept to a minimum by incentivising employers to remain involved in childcare vouchers. The contribution which employers make includes marketing the scheme to parents, performing ongoing eligibility checks, preventing fraud and minimising the cost of payment processing.

Keeping eligibility checks to a minimum would also serve to reduce costs. As detailed above, a thorough cost-benefit analysis should be conducted for each of the proposed eligibility criteria.

Limiting the extent to which parents are required to communicate direct with the Government would be likely to reduce costs, by reducing the scope for confusion to arise.

Establishing clear processes which avoid delays in eligibility checks and in allocating top-ups to parents will also serve to promote efficiency and reduce costs.

It is not yet clear how childcare voucher providers are to be remunerated for providing the administration service.

- If childcare voucher providers are to be paid direct from the Government, for example on a per head, per transaction or transactional value basis, then the level of fees must be set at a level which ensures ongoing viability for the sector. In order to justify the initial investment in system development, childcare voucher providers will need some assurance as to the level of fees in the medium term. The fee structure should include a reasonable allowance for the risk of costs which may emerge but which are not yet known, such as the risk of childcare providers imposing charges on childcare voucher providers.
- If childcare voucher providers are instead to charge parents, this could be seen as eroding the value of the top-up. However, parents may be willing to pay for extra flexibility or an added-value service. One model would be for the Government to pay childcare voucher providers a fixed amount for the basic service, with voucher providers having the option of charging parents reasonable extra fees for add-on features. This may provide more opportunity for competition and innovation in the market. An independent audit may be required to ensure parents are not being over-charged by the market.
- A model has also been suggested whereby childcare voucher providers charge parents initially, with the Government then reimbursing parent in order to avoid the value of the top-up being eroded. It is difficult to see how this would lead to a competitive market, as parents would presumably be price-insensitive if their fees are to be reimbursed. The practicalities of reimbursing fees could also prove to be problematic.
- It is likely to be impractical to pass any costs of the scheme on to childcare providers. Childcare providers would almost certainly be unable or unwilling to absorb such costs, which would lead to the fees simply being passed on to parents. There is indeed a risk that childcare providers may seek to take advantage of the introduction of TFC to claim a contribution towards their own administration costs, either by seeking to charge childcare voucher providers or by passing on their costs to parents.

- Where employers can be encouraged to remain involved in providing childcare support, the remuneration model could include a financial incentive for the employer. This could be by way of a per head payment from Government (perhaps administered via the childcare voucher provider), by way of reintroducing an NI saving or by way of a fee share from the childcare voucher provider.

30. What should the balance be between protecting parent's money and allowing providers to generate revenues from the funds that they hold?

The primary focus should be on protecting parents' funds. Childcare voucher providers should be mandated to only hold funds in 'risk-free' assets (ie assets where there is perceived to be minimal risk to capital, such as a reputable UK bank or building society or UK Government bonds). Childcare voucher providers should also be mandated to ensure there is ample liquidity in their investments, to avoid situations arising where any parent is unable to access their funds on demand.

Childcare voucher providers currently generate very little revenue from voucher funds. It is anticipated that the TFC model would afford even fewer opportunities for generating interest, as it is likely that parents will often fund their childcare accounts in line with their childcare bills, rather than buying childcare vouchers in advance.

Chapter 6 – Childcare Support through Universal Credit

35. Is offering a choice between Universal Credit and TFC the best approach without driving up costs to the Government or increasing complexity for claimants? Should there be a limit on the number of times that a parent can switch?

Wider Plan recommends that the Government should break the link between Universal Credit and TFC. Parents have historically found it difficult to choose between childcare vouchers and tax credits, and there is no reason to assume they will find it any easier to choose between TFC and Universal Credits.

The complexity and confusion could easily be ended by simply allowing Universal Credit recipients to participate in TFC. The amount of childcare support to be provided under Universal Credit could be reduced in order for this to be a cost-neutral solution, at no detriment to parents.

Allowing Universal Credit recipients to participate in TFC would lead to them being better equipped for managing their income once they cease to be eligible for Universal Credit, as they would already be familiar with TFC at that stage. This proposal may also reduce fraud in the Universal Credit system, as there would be less incentive for parents to claim fictitious or excessive childcare costs.

By allowing Universal Credit recipients to participate in TFC, at no additional cost to the Government, one of the proposed eligibility checks for TFC would become redundant. This would automatically lead to improved efficiency and cost savings.

36. How can the Government best design the process to ensure that the journey off Universal Credit is as smooth as possible?

We would suggest that the best design would be to allow Universal Credit recipients to participate in TFC as detailed above. This would cause no additional cost to the Government but would ensure that parents have a smooth transition when they cease to be eligible for Universal Credit.

37. What information and tools do families in this position need to inform their decision, and how can this be best provided?

Parents should be given clear and accurate information about the likely financial outcomes of using either Universal Credits or TFC. The potential effects of any changes in their circumstances should be highlighted and clearly explained.

The service provided by the current tax credit helpdesk is inadequate in the view of many of the parents who contact KiddiVouchers. Any replacement service in respect of Universal Credits and TFC should be much more responsive and have a higher capacity for handling queries.

The cost of providing such a service could be easily avoided by amending Universal Credits to allow Universal Credit recipients to participate in TFC.

38. A person who moves from one scheme to another will have practical concerns, for example how the balance on their childcare voucher account might affect their Universal Credit award. What factors are parents likely to take into account when deciding which scheme works best for them, and under what circumstances?

Parents should be reassured that any balance accumulating in their childcare voucher account during periods of eligibility will not affect any subsequent Universal Credit claim. They should be allowed to continue to spend their accumulated childcare vouchers even during periods of ineligibility, although they would not be able to claim any further Government top-ups under TFC in these periods.

The factors affecting a parent's choice between Universal Credit and TFC could include:

- How long a parent expects to remain eligible for either scheme;
- The likelihood of support being subsequently reclaimed under either scheme (we have anecdotal evidence that issues with tax credits have encouraged parents to use childcare vouchers instead of claiming the childcare element);
- The impact of any planned change to their household or employment structure;
- The ease of registering for either scheme.

As outlined above, by reducing the childcare support provided by Universal Credit and allowing Universal Credit recipients to top this up through TFC, the Government could avoid the need for parents to choose between the two schemes.

Key point: The Government could reduce complexity and make the system clearer for parents by breaking the link between Universal Credit and TFC. The amount of childcare support provided under Universal Credit should be reduced and parents should then be allowed to top up this support to its original level by engaging with TFC. Parents would no longer need to choose between Universal Credit and TFC, while the reduced complexity would also lead to cost savings in the longer term.