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Dear Sir/Madam,

4Children welcomes the opportunity to respond to HMRC and HM Treasury's consultation on the design and operation of the proposed Tax-Free Childcare scheme.

4Children is the national charity all about children and families. We have spearheaded a joined-up, integrated approach to children's services and work with a wide range of partners around the country to ensure children and families have access to the services and support they need in their communities. We run Sure Start Children's Centres as well as family and youth services across Britain. We develop, influence and shape national policy on all aspects of the lives of children, young people and families.

4Children is acutely aware of the pressure that the rising cost of childcare is having on families across the country. The Government's proposals for Tax-Free Childcare are an important intervention in this regard, and will potentially offer parents valuable support with childcare costs. However, in order to be effective, it is crucial to get the design of the scheme right, and ensure that parents' needs are fully taken into account.

Overall, we would stress that there is a need to build a useable, integrated system for parents that is simple and does not confuse, something that will be especially important within the context of universal credit. This means that:

- The two schemes have to work together seamlessly
- They are presented as holistic childcare support
- That they genuinely support parents to move back into work and stay there
- That they pass a fair4families test –

We are concerned about the present disparity where those individuals and families receiving Universal Credit and earning less than £10,000 (paying no tax) will receive only 70% of their childcare costs, compared to 85% on those receiving Universal Credit and earning above this level. This presents two issues: first, that there needs to be a consistency. Offering a lower amount to those on lower income may have the unintended consequence of limiting their ability to escape poverty. 30% of a monthly childcare bill of £300 is a lot to find for some families and we therefore support the increase of support with childcare to 85% for all those on Universal Credit. There may be scope to reduce the £150,000 cap on Tax Free Childcare to help contribute to this increased payment although this must be carefully considered and consulted on further before any decisions were made.

We have been involved in discussions with officials from HMRC and HM Treasury during the course of the consultation period, and appreciate that there has been an evolution in the design of the scheme during this time. This submission is based on our understanding of HMRC and HM Treasury's thinking on the design shortly before the conclusion of the formal consultation process, having attended our final stakeholder engagement session on Tuesday 8th October.

In general, we are broadly supportive of the approach that HMRC and HM Treasury have adopted to design and implementation. There are clearly certain key issues which will underpin the overall effectiveness of the scheme. One, which has been regularly discussed throughout our meetings with officials, is finding an appropriate definition of "qualifying employment" which sufficiently recognises the flexible nature of today's labour market, and the complexities that can be created through, for example, the use of zero-hours contracts. On balance, we feel that HMRC and HM Treasury's proposed approach to addressing this issue, through the use of a minimum income rule estimated over a quarterly entitlement period, is perhaps the most workable solution, and we make detailed comment on this issue in response to Questions 8 and 9.

However, there are certain other aspects of the current design we feel have the potential to create significant difficulties. In particular, we are very concerned about the effective "cliff-edge" that will be created when the policy begins to roll-out, which will exclude all parents with a child aged over 5 in autumn 2015 from the scheme. This will prospectively limit access to childcare support for thousands of working families. Moreover, given that the Employer Supported Childcare will close to new entrants, there will be parents who are currently receiving support through this existing programme who will subsequently move jobs and lose eligibility, but find themselves unable to claim replacement support through Tax-Free Childcare because their children are too old. We view this as the most significant flaw in the current design, and believe there is an urgent need for it to be resolved – we address this further in our response to Question 10.

In addition, we would also stress that in order to ensure that the scheme provides parents with a sufficient level of support with childcare costs, it is utterly vital that they are not expected to meet the administration costs of delivering the programme. There is a clear commitment to this in the consultation, and in our opinion it is essential for this to be followed through in the final design if Tax-Free Childcare is to appropriately meet parents' needs.

We will address all of these issues in greater detail in the course of this submission. In order to focus on those issues which are particularly relevant to 4Children, we have decided to concentrate on those sections of the consultation which are particularly relevant to parent and families groups, which is the basis on which HMRC and HM Treasury have engaged with us during the consultation process so far. Our submission therefore specifically addresses Questions 1, 2, 3, 6, 7, 8, 9, 10, 11, 17, 29, 35 and 38.

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

In general, we agree with the core aims and principles of the Tax-Free Childcare outlined in paragraphs 2.7 to 2.11. From a parents' perspective, it will be crucial for the system to be straightforward to understand and use, for both data and money to be transferred securely, and for parents to be able to redeem vouchers with a childcare provider of their choice to ensure they have as much flexibility as possible.

However, there are two particular issues that we would raise at this stage. Firstly, we would reiterate that in our view it is utterly crucial that parents are not made liable for the administration costs of the scheme. We will say more on this in our response to Question 29, but at this stage would simply reaffirm that we believe it is essential for the firm commitment made on this in paragraph 5.17 of the consultation to be followed through.

In addition, we would also use this opportunity to raise the issue of digital exclusion. We understand that under current plans, online account management will be the default option for users. However, we would stress that there will be some families who will struggle to access the internet, and there is a need for other options to be in place for opening and managing accounts where necessary. We note that paragraph 2.12 of the consultation suggests that alternative routes could include opening accounts at a nursery or on the high street, and would simply highlight the importance of these sorts of alternatives being available in case digitally excluded families need to make use of them.

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

In our view, the proposal to apply the £1,200 limit by means of a monthly cap would place significant restrictions on parents' ability to make full use of the scheme. Under this system, parents would need to consistently contribute £400 every month in order to earn the full £1,200 top-up over the course of a year. There will be some instances, for example where parents are in irregular employment, where it will simply not be realistic for them to consistently maintain this level of contribution on a monthly basis. We would therefore favour building as much flexibility as possible into the system in order to allow parents the opportunity to take full advantage of the scheme.

We understand that HMRC and HM Treasury have reservations around applying the cap on a purely annual basis, particularly with regard to the possibility of high-earning parents returning to work for a short period of time in order to pay their entire annual entitlement in one go. However, we believe that such occurrences would be relatively rare, and that on their own these concerns would not necessarily justify the introduction of restrictions, such as a monthly cap, which could limit the effectiveness of the scheme for the vast majority of parents on normal incomes.

In principle therefore, we would have no opposition to an annual cap if Government were to choose to introduce this. However, we understand from meetings with HMRC officials that the idea of a quarterly entitlement period (under which parents could contribute up to £1,200 over a three month period in return for a top-up of up to £300) is currently being considered as a core part of the design. While this would not be as generous as implementing an annual cap, it would in our opinion represent a workable compromise, and would certainly be preferable to a monthly cap.

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

In many ways, this is a difficult question to answer, as the range of circumstances that could lead to a family saving up vouchers and then finding themselves ineligible is quite broad, as referenced in paragraph 2.20. From our perspective, it is therefore difficult to come up with a comprehensive list of situations in which parents should be allowed to spend saved-up vouchers, and to discern a firm dividing line between circumstances in which this should be permitted and in which it should not.

However, as HMRC and HM Treasury reflect on this issue, we would stress the importance of fairness to families who may have built up vouchers in good faith only to unexpectedly find themselves ineligible, for example as a result of one parent experiencing sudden redundancy. In situations such as these, we would hope that the system is sufficiently sensitive to the needs of those who lose eligibility through no fault of their own, and in potentially quite difficult circumstances.

We recognise that this Question also has implications for those making the transition between the Tax-Free Childcare and Universal Credit systems, and the issue of how the balance of a Tax-Free Childcare account might affect a family's Universal Credit award. We make further comment on this in our response to Question 38, particularly with regard to the importance of clear messaging for parents.

Question 6: Does the proposed definition of 'parents' ensure that all individuals who have responsibility for a child can benefit from Tax-Free Childcare?

As paragraph 3.5 sets out, the proposed definition of a ‘parent’ is someone who has responsibility for a child, regardless of their biological relationship, and with whom the child has their primary residence. In our view, this appears to be a sensible approach, and we agree with the importance of ensuring that adoptive parents, extended family members or others who have taken on primary responsibility for the child could benefit from Tax-Free Childcare, even if there is no direct biological relationship with the child.

Question 7: Is the proposed definition of ‘households’ fair and workable?

As paragraph 3.6 sets out, the proposed definition of a ‘household’ is two individuals aged over 16 who are living together as a couple with a child for whom one or both individuals has responsibility. The consultation also makes clear that lone parents will qualify for Tax-Free Childcare support providing they meet the employment criteria, discussed further in Questions 8 and 9.

Once again, this appears to be a broadly sensible approach to providing a consistent definition of a ‘household’. However, we would also highlight that employing a definition such as this has the potential to create some slightly unusual incentives in certain circumstances, especially when combined with the use of “qualifying employment” criteria. In particular, we note that if one parent loses their job, the household lose eligibility for Tax-Free Childcare; in this context it will be the household’s interests, insofar as Tax-Free Childcare is concerned, for them to move out of the family home so that the household is re-classified as working lone parent, and eligibility is restored.

We appreciate that in reality, the balance of incentives in these sorts of situations will also be influenced by the level of childcare support that the household can claim through Universal Credit, and how the interactions between the two systems work. However, considered on their own terms, the eligibility rules around Tax-Free Childcare can create these somewhat strange incentives. While this is perhaps inherent in the use of any definition, we feel it is important to highlight the situation so that HMRC and HM Treasury are aware of some of the implications involved – indeed, if anything these issues help emphasise the importance of smooth interactions between Tax-Free Childcare and Universal Credit, and ensuring that these are designed and managed in such a way as to provide appropriate support for families at potentially difficult times such as redundancy.

Question 8: What are the potential benefits and risks of a minimum income rule or hours rule in defining qualifying employment?

Establishing an appropriate definition of “qualifying employment” is one of the central issues to address if Tax-Free Childcare is to work effectively and support those parents who are in genuine need of help with childcare costs. As HMRC and HM Treasury are no doubt very aware, one of the major challenges is ensuring that the definitions that are ultimately employed are sufficiently sensitive to the flexible nature of today's labour market.

We recognise that this is not a straightforward line to walk, and the introduction of any minimum hours or income rule risks excluding those who are technically in employment but not guaranteed work, such as workers on zero-hours contracts or the self-employed. Indeed, in many ways the simplest solution may be to remove the "qualifying employment" criteria altogether, and broaden the scheme into one that is open to all families. However, we appreciate that Government has set a clear objective of offering support specifically to working families, and to delivering the policy within an expenditure limit of £750 million, which would make it difficult to adopt this approach.

If "qualifying employment" criteria are utilised, we would on balance favour a minimum income rule. While this is not a perfect mechanism, we can appreciate the point made by officials that a minimum income rule is likely to be a less burdensome approach as HMRC already gather earnings information for employed people through the Real Time Information system, and that the administration of the system will therefore be easier and potentially less costly if a minimum income rule is used. We also feel that, from a parents' perspective, when initially setting up an account and confirming eligibility it will arguably be easier for users to estimate the amount of income that they will earn over a qualifying period (prospectively based on previous experience), rather than forecast the number of hours they will actually work if, for example, they are employed on a zero-hours contract.

However, in order for a minimum income rule to work effectively, it will also be crucial for eligibility to be determined over a sufficiently long time horizon to allow short-term changes in working patterns to average out. We understand that HMRC and HM Treasury's current approach will be to require parents to declare that they have a "reasonable expectation" of meeting the minimum income rule over the course of the quarterly entitlement period, with Real Time Information checks then being conducted over the course of the quarter to confirm that this "reasonable expectation" is met. To us, this seems like a sensible approach, and is certainly preferable to calculating eligibility on a weekly or monthly basis, which would not be long enough to allow variations in working patterns (for example, for those employed in seasonal industries) to iron out.

Furthermore, officials have also indicated that if parents were to declare that they expected to meet the minimum income threshold, but ultimately failed to do so, HMRC's first reaction will be to try and understand why the expectation was not met and if this is only a temporary issue, rather than attempting to claw back money straight away. In our view, this sort of approach is important to ensuring that the system is sufficiently sensitive to the realities of employment for those involved in more flexible working arrangements, and is therefore welcome.

At this stage, we would make one last additional point regarding eligibility, and the need for greater clarity around eligibility for families where one parent is disabled and the other has caring responsibilities. The consultation is not clear about how families in this situation will be treated. Paragraph 3.18 states that where one member of a couple is in work, and the other is in receipt either of Carer's Allowance or contributory Employment and Support Allowance, the couple will be eligible for Tax-Free Childcare, even though both parents are not technically in "qualifying employment". However, it is unclear how eligibility will apply if neither member of the couple is in work because one is disabled (and in receipt of contributory Employment and Support Allowance) and the other has caring responsibilities for their partner (and is in receipt of Carer's Allowance). In this context, while neither member of the couple is in "qualifying employment", both would meet criteria which, individually, would permit eligibility for Tax-Free Childcare. We therefore feel that there needs to be greater clarity around this issue, and whether couples in this situation can expect support.

Question 9: What alternative ways are there to define qualifying employment, and what are the potential risks and benefits of these?

As suggested in our response to Question 8, the simplest alternative to introducing a minimum income or hours rule may simply be to remove the "qualifying employment" criteria altogether, and extend eligibility for support to all families. However, we recognise that this conflicts with the Government's stated approach to implementation, and would re-iterate that we find the minimum income rule favourable to a minimum hours rule, providing that eligibility is calculated over a quarterly time horizon which will allow short term variations in working patterns to average out.

Question 10: Will the proposed operation of the age cut-off rule ensure that all children who are eligible for Tax-Free Childcare in year one remain eligible until the end of the school year in which they turn 11?

Under the current proposals for implementation, as set out in paragraphs 3.29 to 3.33, we believe that the operation of the age cut-off rule will ensure that all children who are eligible for Tax-Free Childcare in year one remain eligible until the end of the school year in which they turn 11.

However, in our view the age cut-off rule also raises a much larger issue of the effective "cliff-edge" that will be created for families with children aged over 5 in autumn 2015. As plans for implementing Tax-Free Childcare currently stand, all such families would be excluded from the scheme. Moreover, with the closure of Employer Supported Childcare to new entrants, alternative sources of support with childcare costs are also being taken off-line. Indeed, after the introduction of Tax-Free Childcare there will undoubtedly be parents who to date have been receiving support through Employer Supported Childcare, but move jobs and therefore lose eligibility for the scheme – for those whose children are too old to qualify for Tax-Free Childcare, this will mean a complete loss support with childcare costs as a result of the transition.

In our view, this is one of the biggest flaws in the current design of Tax-Free Childcare, and is something that we would urge HMRC and HM Treasury to address. We understand from conversations with officials that plans are being explored to accelerate the roll-out so that fewer children are affected, but while this is welcome it does not resolve the issue, and there will remain families who will lose all eligibility for support beyond Universal Credit.

While we recognise the funding restrictions that Government is operating under, and that it will not, for example, be possible to keep Employer Supported Childcare open at the same time as Tax-Free Childcare is introduced as the latter is partly subsidised by the closure of the former, we feel that there is a fundamental unfairness to the position that affected families are being placed in. Those who will be adversely impacted are effectively losing support simply by virtue of having had a child at the wrong time, and obviously would have made the decision to have a baby without any foreknowledge of the changes that are now set to take place.

We would therefore urge Government to do whatever it can to help those families who are currently set to lose out through the transition to Tax-Free Childcare. The existence of such a dramatic "cliff edge" in support represents an area of real concern for us, and is an issue that we feel needs to be dealt with urgently.

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

While we do not hold specific information on this issue, we would expect that for the majority of parents, changes to eligibility will be relatively rare. However, there is also likely to be a group of parents, particularly those at the fringes of the labour market, for whom changes to eligibility may be much more common.

It is therefore vital that the Tax-Free Childcare system is capable of dealing with regular changes in eligibility, as there will be a section of users for whom this is a fact of life. In addition, this again highlights the importance of smooth interactions between Tax-Free Childcare and Universal Credit (as already discussed to in our response to Question 7), as transitions between the two systems will be quite a common occurrence for some.

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

We understand from meetings with officials that HMRC and HM Treasury's current approach to this issue is to require parents to proactively re-confirm their eligibility during a "reconfirmation window" towards the end of the quarterly eligibility period. We have been told that a series of reminders will be sent to parents before the eligibility period ends, usually by email but also using other channels such as SMS, prompting them to check that that the various eligibility criteria for the scheme still apply and to re-confirm their account.

We can understand the rationale behind this system, and that while it is not a perfect solution, it is perhaps the best available. We would emphasise at this point that the need for proactive re-confirmation is likely to lead to some parents dropping out of the system through factors such as simple inertia, or because personal circumstances (for example, a prolonged stay in hospital) prevent them from doing so – some degree of attrition is probably unavoidable if proactive re-confirmation is employed. However, at the same time we can appreciate that utilising this system does mitigate certain problems which might present in an alternative design, such as the possibility of significant overpayments if parents do not notify of a change in circumstances for a prolonged period of time, or the need parents to proactively notify HMRC of their exit from the scheme.

In this context, out main point would be that if HMRC and HM Treasury are to ultimately employ this kind proactive re-confirmation system, it will be essential for measures to be put in place to minimise the drop-out rate amongst eligible parents as far as possible. For one, it will be crucial for the messaging around the importance of re-confirming eligibility on a quarterly basis to be very clear, and that parents are informed from the point that first find out about and sign up to the scheme that a failure to re-confirm when prompted will lead to suspension of their account.

Furthermore, in instances where an account is suspended, it will be crucial for parents to be able to re-activate their account quickly and easily if they realise an error has been made, and for delayed re-confirmation to have no impact on the vouchers already saved up in parents' accounts. If possible, it would be a good idea for the system to continue to send reminders to parents even after their account is frozen, to let them know that this has happened and informing them of how to re-activate their account if they wish to remain in the scheme.

We would also stress that processes will need to be in place to deal with situations where parents' contact details change, for example if they start using a new email address or telephone number. We understand that the system will allow parents to amend the contact details held for them at any time. However, if it is possible to design processes whereby HMRC can proactively contact parents through alternative channels, if they fail to re-confirm but appear from existing evidence to still be eligible, then this is something that we feel it would be worth exploring. This also raises a parallel issue of digital exclusion, and it will be crucial for procedures to be in place which enable those who cannot easily access the internet to re-confirm when they need to.

Question 29: How should administration costs be kept low?

Administration costs should not, under any circumstances, have to be met by parents. There is a clear commitment in this respect in the consultation, with paragraph 5.17 stating that:

> Whatever market option is chosen, it will need to genuinely deliver Tax-Free Childcare and a net 20 per cent support for parent's childcare costs. The Government wants to deliver Tax-Free Childcare without parents paying fees that erode the value of the Government's support.

It is essential that this commitment is followed through in the final design. Were parents to be made liable for administration fees, it would in our view significantly undermine the legitimacy of the scheme, and it is therefore crucial that whatever mechanism is ultimately used to meet administration costs, no burden is placed on parents.

Question 35: Is offering a choice between Universal Credit and Tax-Free Childcare 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?

In response to this question, our main point would be to highlight some of the potential problems inherent in limiting the number of times that a parent can switch between Universal Credit and Tax-Free Childcare. In particular, for those parents at the fringes of the labour market who regularly drop into and out of employment and for whom wage levels may not be consistent, transferring between the two systems may largely be unavoidable, and not something over which they will have a great deal of choice. We would therefore be wary of placing too many limitations on parents' ability to claim childcare support, as doing so may potentially lead to them being locked out of support through no fault of their own.

Question 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?

The issue of how the balance of a Tax-Free Childcare account will affect a family's Universal Credit award will clearly be a key issue for parents, and addressing this effectively will be crucial to ensuring that the transition between the two systems works efficiently.

We appreciate that this is a complex issue, and that Government is concerned to ensure that as far as possible the support available through Tax-Free Childcare is targeted at eligible families. There is, we understand, an element of tension between this principle and allowing those families who have transferred to Universal Credit to use their Tax-Free Childcare entitlement as well as qualifying for a full Universal Credit award.

As previously outlined, we are concerned about the present disparity where those individuals and families receiving Universal Credit and earning less than £10,000 (paying no tax) will receive only 70% of their childcare costs, compared to 85% on those receiving Universal Credit and earning above this level. This presents two issues: first, that there needs to be a consistency. Offering a lower amount to those on lower income may have the unintended consequence of limiting their ability to escape poverty. 30% of a monthly childcare bill of £300 is a lot to find for some families and we therefore support the increase of support with childcare to 85% for all those on Universal Credit. There may be scope to reduce the £150,000 cap on Tax Free Childcare to help contribute to this increased payment although this must be carefully considered and consulted on further before any decisions were made.

We would also stress the importance of clarity around how the balance of a Tax-Free Childcare account could affect a Universal Credit award. There may be an inherent expectation amongst some parents that if they have previously paid for vouchers through Tax-Free Childcare and saved these up, they will still be able to use them after transferring to Universal Credit as well as claiming a full award. If this is not the case in the final design, we would stress the need for strong messaging, so that parental expectations are managed appropriately and the full implications of transferring between the two systems is understood.

If you wish to discuss this or any of the other issues raised in this submission in more detail, please do not hesitate to get in touch.

Yours sincerely,

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