

Treasury Committee

Oral evidence: Childcare, HC 757

Wednesday 31 January 2018

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Members present: Nicky Morgan (Chair); Rushanara Ali; Catherine McKinnell; Alister Jack; Wes Streeting.

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Witnesses

I: Rt Hon. Elizabeth Truss MP, Chief Secretary to the Treasury; Beth Russell, Director General, Tax and Welfare, HM Treasury; Nick Lodge, Director General, Transformation, HMRC.

Examination of witnesses

Witnesses: Rt Hon. Elizabeth Truss MP, Beth Russell and Nick Lodge.

Q1 Chair: Good afternoon. Thank you for coming before the Committee to help us with this next evidence session on our childcare inquiry. Just for the benefit of those in the room, but also those who are watching online, it would be great if you could just introduce yourselves, Chief Secretary.

Elizabeth Truss: I am Elizabeth Truss, Chief Secretary to the Treasury.

Beth Russell: I am Beth Russell. I am the Director General of Tax and Welfare in the Treasury.

Nick Lodge: I am Nick Lodge. I am the Director General for Transformation in HMRC.

Q2 Chair: Obviously we will ask the questions. It may be obvious who has the prime responsibility to answer them. Please feel free to contribute but, equally, if it is not your area of responsibility that we are particularly asking about, feel free to just have one of you replying to the particular question. We are particularly looking at the role of childcare in terms of helping with parental employment, which contributes to productivity. Perhaps I could start with you, Chief Secretary, and ask about what analysis the Treasury has done on the role of childcare in helping women to continue or to enter the workplace.

Elizabeth Truss: We think childcare is very important in terms of both women and men being able to continue in the workplace once they have had children. Since we have introduced our childcare policies, we have seen an increase in parental employment, both for men and women. We have seen a higher increase in maternal employment, of 6%, but we have also seen an increase in paternal employment. There are various studies. It is often quite hard to track the precise reasons because—and I am sure we will discuss this in childcare policy—we have a range of support. We clearly have the 15 hours, now going up to 30 hours, for three and four-year-olds; we have 15 hours for the lowest-income two-year-olds; and we also have increased support, as part of universal credit, of 85% of costs for the lowest-income families. A combination of those measures has helped to increase the level of maternal and paternal employment.

It is hugely important for productivity, because we know that, if parents are out of the workplace for a long time, they tend to go in at a less well paid level, can lose some of those skills or there can be perception issues as well. It is a very important part of our productivity issues, but I would also point out that not just the parents but also the children benefit from improved child development. One of the achievements over the past seven years is that we have seen better outcomes for children in early years. There are a lot of studies on this, like the EPPE study, which show



the really important part that early years education can play in a child's development.

- Q3 **Chair:** That 6% figure is very interesting, in terms of the increase in maternal employment, and obviously fathers as well. Is that analysis public? Did you have any particular figures when the Treasury was designing particularly tax-free childcare but also looking at childcare provision overall, in terms of increased employment levels?

Beth Russell: We asked Frontier Economics a few years ago, I think in 2015, to give us some advice and analysis about how we could best evaluate the tax-free childcare and 30-hours programmes. We have incorporated that into an evaluation strategy that HMRC jointly owns with DfE. When we were designing tax-free childcare was quite a long time ago now, but clearly we looked at the whole range of academic and international experience. A lot of that shows a small but material impact from a lot of these childcare interventions on the labour market. As the Chief Secretary said, it is one of a number of different factors. There are lots of factors that influence parents' decisions about how to look after their children.

- Q4 **Chair:** I remember I was at the Treasury at the time when we were talking about tax-free childcare. Chief Secretary, you were in the DfE at the time looking at one of the other schemes, so we discussed this several years ago. In terms of employment, a lot of people do not work strict nine-to-five jobs, with flexibility, shift patterns and others. Perhaps you could say a bit more in terms of the overall design of the schemes to reflect people's modern-day working patterns.

Elizabeth Truss: That is correct. If you look at the three elements of our policy, we have universal credit support for those on lower incomes, but it reaches quite far up the income scale. For example, if you live in London with two children, for a two-parent family it can go as high up the income scale as £63,000 joint income; you can still receive universal credit childcare support. The maximum you can receive is 85% of childcare costs and the principal purpose of that is to help people on low income into work and to make it affordable for those people to work. We know that increasing people in work reduces poverty, it improves outcomes for those families and it has a very positive life effect.

We then have the early-education-based policies, which are led by the Department for Education. The 15 hours are now available to 40% of low-income two-year-olds and got a 71% take-up rate, which is good. It is also available for virtually all three and four-year-olds. The purpose of that is child development, because we know how important that is. We know that there is an 18-month gap in terms of vocabulary between those on the lowest and highest incomes by age five. Closing down that gap is really important in terms of social mobility and getting better outcomes later on.



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We have expanded for three and four-year-olds to 30 hours a week for working parents. The logic behind that is from reports that have been done, and the IFS did a report, showing that when a child is in full-time education it is a driver for parents returning to work, particularly when the youngest child goes into that full-time education. Also, having that block of 30 hours enables school nurseries in particular to expand their provision and creates more stability in the market. There is a good reason for doing that, both from the supply side and also parental demand.

What the final part of the offer, tax-free childcare, does is to make sure that middle and higher-income families, up to a maximum income of £100,000, have that bit of extra help in being able to pay for their childcare. The whole concept is that you essentially get a rebate on the basic tax you pay. I know a lot of parents feel frustrated by paying for childcare after their post-tax income, but the tax-free childcare is flexible in how it can be used. It can do things like fill in holiday time, perhaps, or add extra hours. I know the Department for Education has made the provision of 15 hours and 30 hours more flexible to adjust for when there are situations where parents are working shifts or perhaps working part-time. Of course, the universal credit offer is very flexible in terms of how those childcare costs can be paid.

What we have sought to do is achieve a number of objectives here. First of all, we are trying to have an efficient childcare market, which is getting good value for money, high quality and affordable for parents. Secondly, we are making sure that we are helping with child development, which we know is very important for the futures of those young children. Finally, we are helping parents into work, particularly focused on the lowest-income parents and how we can help them into work. We have tried to maximise flexibility, at the same time as recognising that, if you are a school nursery or a private childcare provider, you need some certainty about the provision you are going to give. That helps you to make sure your nursery has good levels of occupancy, which is one of the drivers of keeping costs low. There is inevitably a trade-off between those various objectives, but my view is that we have the balance in the right place.

Q5 **Chair:** I have a couple more questions before I hand over to colleagues. You mentioned child development, and I would be interested to hear how the Treasury or Government generally monitor that the schemes are supporting child development and are funding good-quality childcare that supports child development. The other thing is that there is a huge government spend on this area of policy. Perhaps this is for Ms Russell as well, having developed policy, but why is it that the childcare market in this country, which is pretty developed, is not able to deliver all of this without pretty enormous sums of government money?

Elizabeth Truss: On the final question about the provision of childcare across the market, there are clearly issues where we could see improved



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efficiency. That is something that the Department for Education leads on. They have been putting extra money into capital to help schools develop their childcare offer, but they have also been working with the private childcare providers to improve efficiency and reduce overheads, so more of the money can be spent on high-quality staff. All of the studies, whether they have been conducted by Ofsted or EPPE, show that that really helps child development. It really is staff quality and training that is so important. That work is led by Ofsted. I know Amanda Spielman is extremely interested in this area.

The way that the Treasury looks at that issue of child development and quality is through the international studies as well. We have looked at the EPPE study. DfE is running a programme to improve quality, but also improve utilisation, which means that more of the money can be spent on making sure there is proper staff development and training.

Q6 Chair: Ms Russell, in terms of the work done by the Treasury, originally when designing the scheme and since, is it meeting the objectives that the Chief Secretary has set out?

Beth Russell: Do you mean the 30-hours scheme or more broadly?

Q7 Chair: You are right; we are going to come on to the different schemes and everything else. In the overall government offer—by the end of this Parliament or 2020, we will be spending £6 billion as a country on this—there are those three objectives of having an efficient market, child development, but really helping parents into work. A *Guardian* report in 2016 found that women in this country, the UK, on average were 1.4 times more likely not to be in education, employment or training than men. If we take that as a bar that we have to get over, how are the schemes helping with that?

Beth Russell: As I said earlier, we are very much at the start of rolling out some of these schemes, and one of the big focuses is to test and learn. We have a joint evaluation framework in place, which covers a whole host of issues from the labour market impact to the customer journey, customer experience and the quality of the childcare provided. The latter is more for DfE to lead on but, as the Chief Secretary said, clearly there is an interaction between the quality of childcare and the outcomes for children as they get older and then, from a Treasury perspective, the impact that then has on creating a productive workforce for the future. It can have a significant economic impact.

Elizabeth Truss: If I can just add to that, successive governments have been good at assessing economic capital. What is the value for money of investing in a bridge or a road? We have been less good in the past at looking at how we develop human capital, which is incredibly important. It is important economically, but it is also important for people to lead fulfilling and fruitful lives. That is very important. It is one of the lenses that I am using to look at public spending overall. How will that



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contribute to people's lives? I am a great believer that intervening early and early education are a really important part of that.

I just wanted to make one point about the difference between the UK and other countries. One of the things that Treasury analysis has identified is that there is a particular gap in maternal employment around three and four-year-olds, which was part of the logic behind extending the three and four-year-old offer to 30 hours for working parents. That has seen very high levels of interest, which we are pleased about. That was the particular age group that we identified where we were not in line with some other European countries.

Wes Streeting: Good afternoon. I want to ask you some questions about the benefits of affordable childcare for the economy and productivity but, just before I do, it seems we cannot go a single Treasury Committee at the moment without some reference to Brexit. It would be remiss of me not to raise a couple of issues.

Chair: Do you want to do that at the end?

Wes Streeting: Do you want me to do that afterwards? Okay, that is fine, as long as I do not run out of time.

Chair: Do not worry; we will definitely never run out of time to talk about Brexit.

Q8 **Wes Streeting:** Let me just begin on childcare. What proportion of parents do you believe are not working in the UK because of childcare costs?

Elizabeth Truss: From the studies I have seen, of non-working mothers, 50% would ideally like to go to work.

Q9 **Wes Streeting:** We are talking about quite a large potential pool. In understanding the barriers that they are facing, how do you think the Government's childcare policies will enable those mums to get to work, or dads for that matter?

Elizabeth Truss: We know that childcare is one of the barriers, so there can be other reasons. That is why we have introduced policies across Government like flexible parental leave as well, to make the whole process easier. In terms of our childcare policies that critical age of three and four is important. We are now on the second term of the 30 hours that the Department for Education is running. It will be really interesting to see the impact of that. We are also putting additional money into universal credit. It is fair to say that a lot of the increase in maternal employment has been among those on the lowest incomes. The additional support we are putting through universal credit will be helpful. It is important to recognise, though, that, while affordable childcare has an impact, it is not the only factor that affects the decision about whether people go back to work.



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Q10 Wes Streeting: Just so we are clear about what this means in terms of the overall economy, what is the size of the economic loss as a result of those parents who do wish to work not being able to enter the labour market?

Elizabeth Truss: There are two issues. The first issue is the loss of time when that contribution to GDP is not being made. Also, there is the loss of skills that could potentially take place so that, when those parents re-enter the workplace in due course, they are less likely to earn a high salary or might lose their place on the career ladder.

Q11 Wes Streeting: Have you quantified that?

Elizabeth Truss: We have quantified that.

Beth Russell: We know that, if you have the same levels of men and women participating in the economy, it could increase GDP by 10% by 2030, which was an OECD estimate.

Elizabeth Truss: It is worth pointing out that not all parents want to work. This is my point about the 50%.

Q12 Wes Streeting: That is exactly right. That is why I focused my question on that 50%. Do you have the numbers to hand? I do not expect every Cabinet Minister to have total recall of all the data, but it would be interesting if you could send it to us if you do not have it to hand.

Elizabeth Truss: The 10% figure Beth has is the figure for if all of those mothers worked to the same level as fathers. You could extrapolate from the 50%, but it is one of those quite difficult questions to answer, because you do not know how many might go back part-time or full-time.

Q13 Wes Streeting: It would be interesting for us. You have obviously recited some figures this afternoon, but particularly for parents who you have identified who currently would like to work but cannot, for whatever reason, enter the labour market, if the Treasury has done that analysis, it would be helpful if you could send it to the Committee. It would be helpful in terms of the dimension in which we are approaching the childcare debate, which is largely about the economy. It would be helpful to have that quantified for our report.

In September 2017, the Government reiterated their investment programme into childcare. What economic impact do you anticipate from that level of investment? I think we were talking about £6 billion per year in childcare by 2020, which includes an extra £1 billion per year to deliver the free entitlements. As the Chair said, this is quite a significant amount in public money. In economic terms, how much bang do you anticipate getting for the buck.

Elizabeth Truss: I do not think we have a specific figure for that.

Beth Russell: We have not. For example in the impact assessment we published around the Childcare Bill that introduced tax-free childcare, we



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said that we thought there would be a small but material impact. We have not quantified that. As I say, this Frontier Economics study backed up that assertion that getting at and disaggregating some of the impacts from these different programmes is going to be difficult, but that is what the evaluation programme is looking to do.

Wes Streeting: For example, if I asked you how much additional taxation revenue you would expect to be generated from greater labour market participation as a result of that investment, you would not necessarily have those answers. Can I ask why? I am not trying to be gladiatorial about this in a Select Committee fashion, but I am curious. One of the reasons we have chosen to do this inquiry is that the childcare focus in Government has been almost entirely led by DfE or equivalent departments, through the prism of the family. That is perfectly legitimate.

Chair: And early years education.

Q14 **Wes Streeting:** And early years education—for all the reasons that Liz mentioned at the beginning, in terms of the social and positive impact of childcare. We are concerned to point out the impact that lack of investment in childcare or lack of flexible or affordable childcare has on the economy, partly because, as we make difficult choices about where public money is spent, it is helpful to work out where we can spend wisely to get benefits not just for individuals, but the economy as a whole. Why has the Treasury not done this kind of analysis?

Beth Russell: As I said earlier, there are challenges around anticipating the response to childcare interventions from Government, versus all the other factors that influence decision-making about whether to work or how to look after your children. Part of the reason, as we roll out these programmes, is to get more evidence about understanding those issues to be able to make those sorts of assessments. At the moment, we do not have the underpinning data. Actually, even international and academic studies are quite patchy in this area. There are some things from the OECD, and the IFS has done some work about the 15 hours, but it has not been comprehensive enough for us to be able to make concrete assumptions on the basis of it.

Elizabeth Truss: If you have an economic model, it is always difficult to extract particular variables from it. Things like the general state of the economy are always incredibly important or, for example, the broader cultural issues. There are countries with fairly low childcare support that actually have very high parental participation and there are, conversely, other countries where that is not the case. I agree with Beth: this is something we need to get better at evaluating, as we are doing it, but the historical evaluations in the UK have certainly not been clear. As I have said, there has been a positive increase in maternal employment since 2010. I would imagine that the policies we have been putting in place have had an impact, but exactly how much of it is due to that impact is hard to definitively answer.



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- Q15 **Wes Streeting:** As you are rolling out these programmes, what kinds of metrics you are using to evaluate them? What is the interface like between the Treasury and DfE? You have identified the difficulty in some of the data around this. I wonder whether, at the point of funding these programmes and programme design, there is a good dialogue between the Treasury and DfE to make sure that both departments might get the kind of data out that you might be interested in.

Elizabeth Truss: I very much agree. We are fortunate in having a new Secretary of State at DfE who has also been responsible for the programme at the Treasury and at DWP.

Wes Streeting: We can definitely blame him if it all goes wrong then.

- Q16 **Chair:** Are you nominating him to come to the Committee then?

Elizabeth Truss: Absolutely. I have had a discussion with him about this and making sure that the work we are doing is aligned. We are putting out a joint letter today between the three departments, outlining the overall offer and giving MPs information about how parents can access that offer. Absolutely the analysis will be done on a joint basis.

- Q17 **Wes Streeting:** Bearing in mind what you have said already about some of the challenges around data, what impact do you anticipate the childcare programme having on productivity?

Elizabeth Truss: I anticipate it will have a positive outcome on productivity. This is about two things: helping parents work, but also helping with child development. Particularly child development is a very lagged measure, but we know, and all of the studies show, that the earlier the intervention takes place the more positive it is, from a future point of view. That is important. It is important that Governments take long-term decisions that affect the future. In terms of parental support for getting back into the workplace, we know that is important. The work that DWP does in particular is a very important part of their success in raising employment, particularly female employment, to the record levels that it is at now.

- Q18 **Wes Streeting:** The first point makes perfect sense. On the second point, does greater labour participation not improve total productive capacity rather than productivity itself? We think about productivity a lot on the Committee, so I am curious.

Elizabeth Truss: I fully support parents' decisions about whether they want to stay at home looking after their children or whether they want to go out to work. If a parent is not able to go out to work when they want to and there is a gap in their CV, all the evidence is that they would tend to miss out on career opportunities as a result. That means that we have a lot of parents, particularly women on the so-called "mummy track", doing work that is potentially less skilled than those women are capable of. We have schemes like the returners scheme to help people get back into high-skilled jobs but, ultimately, we are losing skills to the UK



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economy that could be contributing to higher productivity. That is the central issue for productivity I am concerned about. It is not so much the individual's productivity at the time of going back to work; the gap that is created is a problem.

Q19 Wes Streeting: Finally, in the context of an ageing society and rapid technological change, lifelong learning is going to become more important than ever. You can imagine how parents taking a break in their career to bring up children not only has all of the impacts that you just referred to in your previous answer but, increasingly, will leave people behind in terms of updating their skills. I just wonder what thought Government are giving to making sure that affordable or free childcare is also available to support people who are engaged in lifelong learning.

Elizabeth Truss: First of all, it is available. We have a special student childcare scheme to help those people and also those who are on apprenticeships. More broadly, the Government announced at the Budget a national retraining scheme, because we recognise the challenge of making sure that people are trained for the changing economy, essentially.

I have some figures here. You were asking the question about productivity. For women, hourly wages on return to employment are £2 lower for every year out of work, which indicates what we are losing. That is an IFS figure. The gender wage gap is stable until the arrival of the first child and then it gradually rises over the next 12 years, up to 33%. I have another statistic here that 44% of women working part-time said they had downgraded occupations to do so. This is where it is not just about childcare; it is a broader issue about the structure of the economy. In the UK in particular, part-time work is often not offered at the same level as full-time work is. That is quite different from some European countries, where you will see that part-time work tends to be offered at an equivalent level to full-time work. That is a cultural issue with employers.

One of the difficulties in doing the detailed analysis is that, when the Government announce policies about childcare, they also impact the culture of workplaces. We need the culture of workplaces to change, so it is not just about presenteeism or how many years you have been there and, if you are away on maternity leave, you get cut out of the conversation. The workplace culture needs to change, with employers offering good part-time jobs, rather than ones that are on a lower level, that people end up getting trapped on. All of those things are a factor, but just the sheer time of being out of work is a factor that is a problem for productivity.

Q20 Catherine McKinnell: Just following up very briefly on Wes's questions, one of the concerns I have about the response that you gave and in terms of the actual analysis that has been done in the Treasury is that, while you talk about an increase in maternal employment, I would like to know how many jobs have secure hours and are paid at a living wage.



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That has a major impact on the ability to navigate your way through the childcare offers that are being made. I am very conscious that, in the north-east, we have seen a 46% cut in support for Sure Start centres since 2010. I am wondering what analysis has been undertaken in the Treasury to make the decision to withdraw support from Sure Start, which was supporting many of those parents who I describe, and into what many people tell me and I know from personal experience are quite complex childcare systems that are supposed to be supporting those people, as you say.

Elizabeth Truss: First of all, the decisions about Sure Start centres are made by local authorities. I know it is down to local authorities to decide how they want to organise support for parents and children.

Q21 **Catherine McKinnell:** The Government could take a decision to provide Sure Start funding if they wanted to.

Elizabeth Truss: The Government believe in devolution. We do believe in local solutions and local leadership. Sure Start centres provide a variety of functions. Some are more health-focused; others might be focused on childcare.

Q22 **Catherine McKinnell:** Are you suggesting that local authorities that have reduced funding for their Sure Start centres do not have a focus on childcare and public health?

Elizabeth Truss: What I was suggesting is that we have seen an increase in the number of childcare places offered across the country. For all of the childcare support we are offering, there are sufficient places and there are a variety of ways that those are delivered. They can be delivered in school nurseries. They can be delivered by private and voluntary sector providers. They can be delivered in Sure Start centres. The local authority has a duty to make sure there is a sufficiency of childcare places in their area. That goes right up to the joint salary of £63,000 in London. I can get you the figure for the north-east, if you are interested in those eligible for universal credit care. Some 85% of those childcare costs are paid, which is more than has ever been the case before, so that is significant support. This is really a matter for DWP, but the evidence we have from Jobcentres is that support is easy to access, that parents are successfully accessing it and that it is helping those parents get into work.

Q23 **Catherine McKinnell:** In terms of the Government's newer childcare support schemes, one of the aims that has been expressed is to deliver a system that is simpler for parents and providers. Do you think that has been achieved?

Elizabeth Truss: I think that is being achieved. I certainly acknowledge that there have been problems with the interface. I have had discussions, I can assure you, with both NS&I and HMRC, which are responsible for that project overall.



Q24 **Catherine McKinnell:** In what ways has it been simplified?

Elizabeth Truss: Parents who are eligible for tax-free childcare and for the 30 hours for three and four-year-olds can access that through a single account, so it is an integrated offer for the services, supplied through the Department for Education and through the Treasury. Previously, somebody would have to sign up for childcare through their local authority and then also through the employer voucher scheme.

Q25 **Catherine McKinnell:** A recent survey by the Pre-school Learning Alliance found the top three complaints that providers of 30-hour free childcare have had from parents. Some 84.2% have received the complaints that they cannot access the 30 hours online or they have difficulty. There is confusion over the eligibility criteria; about half have expressed that. Once they start accessing the 30 hours, they do not know when it actually comes into place. I have also received a written answer from you, just yesterday, that the childcare service helpline has received 769,000 calls from parents about tax-free childcare, which seems a very large number, considering only 170,000 have actually signed up for it. I would put to you, and I know from people who have spoken to me and just from my own experience, that it is incredibly confusing for parents. What are you doing to make it simpler?

Elizabeth Truss: I am very concerned about this and have been since I was appointed as Chief Secretary. That is why I met the people in charge at HMRC and also NS&I. The Financial Secretary, Mel Stride, has also met Atos, which is also part of delivering that system, to demand a better service for parents. You are certainly right that the service has not been good enough. I was very concerned that parents' expectations were not being set early on about how long it would take to confirm their eligibility.

There is a fundamental issue that the system was designed with three different bodies delivering it—HMRC, NS&I and Atos—and is quite a complicated system, which is not ideal, in my view. Fundamentally I had a choice about whether we progress with that system and try to fix it or invent an entirely new system. I was not prepared to make parents wait any longer, so my focus has been on getting that system fixed and making it work. I appreciate that there have been huge frustrations for parents having to call the help line. What we have done is to use manual workarounds, so 12,000 manual codes have been issued for the 30 hours. As I have said, over 84% of eligible parents have applied and received places for those 30 hours. That shows, despite the frustrations, they have actually secured the places for their children. In the autumn we had 203,000 taking it up and, in the spring, we have now issued codes to 326,000 parents. I appreciate there has been a frustration.

Q26 **Catherine McKinnell:** It is not just frustration; it is actually anxiety. It is a bit issue and a big outlay for families to pay for childcare, as you know, which is why the Government should be providing this support, so it is a very anxious time for parents. The Government have played a part



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in adding to that anxiety, which needs to be recognised.

There is another group of people that I am concerned about. I asked about them specifically when the legislation was brought in. I was on the committee for tax-free childcare. There are 200,000 parents who the Government acknowledge would be eligible for that childcare but do not have access to the internet. What are the Government doing for those parents to make sure that they get the childcare support that they are entitled to? How do they keep reaffirming their entitlement, when it has to be done online through this new portal system?

Elizabeth Truss: We do have support for those parents.

Nick Lodge: We do, yes. The vast majority of people have been able to use the digital service. There have been the problems that you outlined. I apologise on behalf of HMRC and others for those problems. People have every right to expect a better service. Although the majority could use the service to access the code or their 20% top-up, we always recognised that there would be some parents who were not able to access the service digitally. They are able to phone us up. The number who have had to go through that digitally excluded route has been very small, less than 1%, about 500 people. It is there for people. People can phone up and go through that.

Q27 **Catherine McKinnell:** How do you know that only 500 people are contacting you of the 200,000 who would be eligible? How do you know? How are you reaching out to the digitally excluded?

Nick Lodge: We make it clear that people can actually use the digital service or, if they need to, phone us. That service is there. People have used that service. We will ramp up the publicity and the messages. There is a lot on gov.uk at the moment, but I accept that there is more to do.

Q28 **Catherine McKinnell:** How many days has the childcare website been down since it was introduced in April 2017?

Nick Lodge: One of the issues that we have discussed with this Committee before has been service availability and what percentage of time the service has been available. In the summer, it ranged between 93% and 95% of the time, which was too low. A service like this really needs to be available 99% or more of the time that it should be, 24 hours a day. We have made significant improvements to the service since the summer, and in December the service was available 99.4% of the time. We are getting to a position now where the service itself is up and available for parents to use, and performing much better than it did in the summer. That does not mean that there are no parents with remaining difficulties to sort out; there are. We are getting through having addressed the main IT issues that lie behind the problems that people experienced in the summer. We are now getting those parents back into the digital service, so that is making good progress. On service availability, the specific point you asked, it was 99.4% in December.



Q29 Catherine McKinnell: I have a very broad question. There seem to be some general concerns about these outsourced services. You mentioned Atos and you mentioned NS&I. How confident are you about these contracts and that parents are not going to be left in the lurch, in the way that people who were relying on Carillion-provided services and employment have been left in difficult circumstances?

Elizabeth Truss: I have been working closely with the Financial Secretary to the Treasury. The overall project is managed by HMRC, which falls under his purview. He has had those discussions with Atos about the concerns about the service. He is holding them to account on delivering the contract and we take that very seriously.

Q30 Mr Jack: Can I raise the subject of delays in the tax-free childcare rollout? Minister, I will address my questions to you first. Originally, tax-free childcare was to be launched in the autumn of 2015. The existing employer-supported childcare scheme was due to close to new entrants at the same time, as you know. In 2015, the TFC launch was delayed by 18 months following a legal challenge to the Government's decision to deliver the scheme through NS&I. In 2016, in the Budget, the Government opted for a more gradual rollout and, in the spring Budget, it pushed that date back further to April 2017. Could you outline the reasons for the latest delay in rolling out the scheme?

Elizabeth Truss: Essentially, the reasons are related to technical issues. I have spoken with NS&S and HMRC about this. Fundamentally, it comes down to the design of the system, with three different organisations responsible for delivery. One of my concerns, as I said, was the lack of clear expectations set for parents who use the website about when they would receive eligibility. What I asked for is a weekly update on progress to deal with those issues within the system, but I certainly was not confident about saying we should roll out to a further group of parents until issues had been dealt with. That is why we have also maintained employer-supported childcare during that period to make sure that that support was also available. Fundamentally, it comes down to technical issues with the system and making sure that it was working.

During the autumn and spring, we also wanted to make sure that all of the 30 hours were deliverable and that parents were able to get the codes to be able to access the 30 hours of childcare. Any decisions about delaying the rollout have been related to how functional the system was and what it was possible to do. We did not want to be in the situation of the system falling over and not being able to deal with all the parents. Nick probably wants to say a bit more on that first, if that is okay.

Nick Lodge: That is absolutely right. We wanted to make sure the system was stable. I have already quoted the availability figures that show a significant improvement since the summer, during which time we have been working to make those improvements. The majority of people have been able to use the system and were able to use the system in the summer, but a significant minority had problems and some people have



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had protracted problems. We wanted to make sure we addressed the underlying issues first, before widening out access to the system, because clearly we want people to have a good experience, not a difficult one.

Q31 Mr Jack: Are the three organisations the Minister referred to IT companies?

Elizabeth Truss: HMRC is the lead organisation. NS&I is also a Government organisation. Atos has a contract to operate the system.

Beth Russell: The contract with Atos is between NS&I and Atos. It is not specifically on tax-free childcare; Atos runs the banking accounts for the banking operation of NS&I. It was a variation in that contract that delivers tax-free childcare.

Q32 Mr Jack: Was the contract late in being delivered by Atos?

Elizabeth Truss: Yes.

Beth Russell: It is being delivered by Atos.

Chair: No, was Atos late?

Nick Lodge: No, Atos was not. That was not really the issue. The original announcement after the court case that you mentioned was that the service would be delivered in early 2017. That date was confirmed in the spring Budget that you mentioned as 21 April, and the rollout has proceeded since then. The latest decision, which we have been talking about, was whether to widen the service out and complete the delivery by the end of calendar year 2017. The decision was taken to delay that by a few weeks, until 14 February, but that is not to do with late delivery; that is to do with making sure the service is stable and ready for more people coming into it, as we open up eligibility to parents of children who are older.

Q33 Mr Jack: Benefits to the economy must have been lost through the delays.

Nick Lodge: The delay is between December 2017 and 14 February 2018, so six weeks.

Mr Jack: It is not great.

Nick Lodge: It is not great.

Beth Russell: It is not compared to the delay that was a result of the court case.

Mr Jack: Yes, I understand that.

Elizabeth Truss: The fundamental issue is the quality of the delivery and that is what has also caused the delay in rollout, rather than a delay in starting it. My concerns have been about the design and the way that



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the design has been implemented, which is something that we are looking at. The Financial Secretary is having those discussions with Atos, as well as the internal organisations, HMRC and NS&I.

- Q34 **Mr Jack:** Just to confirm with Mr Lodge if I may, the recent Ministerial Statement said it has been confirmed that tax-free childcare was rolled out for children under six on 24 November 2017 and for children under nine on 15 January 2018. Are you confirming those have been rolled out successfully?

Nick Lodge: Yes.

- Q35 **Mr Jack:** What proportion of eligible families has applied since 15 January 2018, and are those numbers in line with your expectations?

Nick Lodge: It is a little early to judge take-up, but the Government published their most recent forecast for the annually managed expenditure for tax-free childcare in the November Budget numbers, and we are broadly on track against those numbers.

- Q36 **Mr Jack:** Do you expect to be able to provide access to the scheme for all families of children under 12 from 14 February 2018, as announced?

Nick Lodge: Yes.

- Q37 **Mr Jack:** That is online. My last question is: have you ensured that families are aware of the dates when the scheme goes live for them and have completely understood how to apply?

Nick Lodge: Since we launched the Childcare Choices website—forgive me, I cannot remember the precise date, but it has been available for quite some time, since well before the 21 April 2017 launch—people have been able to register their interest. We email all of those people as the system opens to the next age group. We email those people to alert them to the fact that that is coming in. We use regional and social media, for example, and we provide information and communication packs to local authorities, childcare providers and so on and so forth.

- Q38 **Rushanara Ali:** Good afternoon. I want to talk a bit more about training. You mentioned that there was some support for students and those on apprenticeships. My understanding is that tax-free childcare and the 30-hour free childcare are not available to those who are not in work and taking formal training. Can you explain precisely what is provided, particularly for those on apprenticeships and those who want to make the transition into work and do not have the support that they require to take the time to go on to the training programmes?

Elizabeth Truss: We offer a childcare grant for full-time students on their first degree. There is also a separate scheme for apprentices.

- Q39 **Rushanara Ali:** Is it a full-time scheme?

Elizabeth Truss: Yes.



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Q40 **Rushanara Ali:** It is 30 hours for anyone doing an apprenticeship?

Beth Russell: Apprentices can get access to both tax-free childcare and 30 hours, as long as they work 16 hours a week at the apprenticeship minimum wage level.

Q41 **Rushanara Ali:** That is not really what I am asking. That is 16 hours of paid work and you are on some sort of training programme. Do you qualify for any kind of childcare support?

Elizabeth Truss: You do if you are a student.

Rushanara Ali: We have addressed that.

Elizabeth Truss: If you are an apprentice, as Beth is saying, it is if you work. Apprentices do work 16 hours a week as part of their apprenticeship, then they are eligible.

Rushanara Ali: If you are an apprenticeship that is below that threshold and you are being paid less than that, you would not be able to access childcare.

Beth Russell: That is right, although my understanding is that that is relatively unusual.

Q42 **Rushanara Ali:** I know people in my constituency who do programmes that are called apprenticeships, but they are not earning that kind of money. Could you look into that perhaps, and look at whether there is an issue about definition, because the definition may not fit the criteria for them to be able to access the childcare?

Elizabeth Truss: Could I just follow up on that? Through people's Jobcentre Plus they should be able to access support in those circumstances.

Q43 **Rushanara Ali:** Let us just move on to other examples of training for women. Certainly that has been my experience in my constituency and we have heard some of that in other cases. There are women who have been out of work for a number of years and who want to get skills. They may be basic skills; they may be language skills or training programmes that do not fit into that narrow category of apprenticeships. What childcare provision is available for them? What I am hearing is that there is not much support for them to have their children under nursery provision beyond a certain number of hours. In some cases, they might qualify for part-time if there is supply—we will come on to supply later—but it is really difficult for them to make that transition. You were talking earlier on about productivity, training and employability. There are many women who need to be retrained or gain new skills where the current arrangements do not really help them. Do you have any updates on that and whether you are looking into how you can help those women?

Elizabeth Truss: This is something that would be particularly run through DWP, in terms of support for getting into work. Jobcentre Plus



would give specific advice on that. My understanding is they have discretionary funds they can use in particular circumstances to deal with that. As I have said, for students on their first degree, we are also developing the national retraining scheme, which is focusing on basic skills. There is support if you are doing an apprenticeship, but I am happy to look at any areas that you think are falling between the gaps.

Q44 Rushanara Ali: It is a good example of where the lack of joined-up working between departments and Ministers can lead to people falling between the cracks. The reason that I am posing these questions is that parents have raised this matter, where they get caught between different systems and find themselves stuck without the appropriate childcare that they need, which would really help them to get those skills. Some of the nurseries in my constituency provide part-time childcare for mothers who are not working. Those mothers often want to get on to full-time training but they are not the kinds of training programmes that give them eligibility to the 30 hours.

In those cases, and particularly with the nurseries being under pressure to provide the 30 hours for those parents who are in the categories that we have discussed who are definitely eligible, it creates a real problem and a tension for our nursery providers, who are looking at these women thinking, "Actually, they could really make a contribution". Some of them are already starting to, if only they had those extra hours to get their skill sets up to a point where they can enter the labour market and get out of poverty. You will be aware, Minister, that in my constituency 54% of children live in poverty. It is the highest number in the country. There are many other regions in similar conditions. We have a real opportunity to refine this policy, so that it addresses the gaps that you have alluded to earlier, in terms of the percentages who are not able to be supported by this policy.

Elizabeth Truss: First of all, can I reassure you that I am working closely with DWP and DfE? I saw the Secretary of State for Education last week. I am seeing the Secretary of State for DWP next week and this will be on the agenda, because it is important that we work closely together. There is a joint letter going out today, giving MPs information about the Childcare Choices website as well, so they can give that advice to their constituents. I hope you receive a copy of the letter today.

In terms of support, when we are talking about families on low incomes, there is support available through Jobcentre Plus to help people get into work and get the training. That is the approach we are using, so the right port of call for that is DWP. No doubt you will have a DWP Minister appearing in front of the Committee to address those specific issues.

Chair: We have not yet, but that is another nice suggestion. We will tell them you nominated them.



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Elizabeth Truss: Fundamentally, we want to make sure that people are able to get into work on the lowest incomes, because it is the best way of addressing issues of poverty.

Rushanara Ali: Could I just ask a couple more questions in relation to some of the pressures that nurseries face? One of the issues is linked to assessment. If the parents get a job and then they lose their job, the child loses the full-time place and has to go part-time. That is coming through in some of the feedback I am getting, and I think that is incredibly dangerous and damaging for children. Of course, it is really tough if somebody loses their job, but to subject the child to that process seems inhumane and damaging. If we are talking about supporting children and their development, it seems to be a policy that undermines them. First of all, could you tell me if you know how many people are affected in that way? Perhaps it is a question for Mr Lodge, if you have data on this. If you do not, could you please capture that data and look at reviewing that policy and that stance?

Q45 **Chair:** Is there a grace period?

Elizabeth Truss: There is a grace period. That is right.

Q46 **Chair:** If somebody loses their job in that circumstance, at what point would their hours have to change? Is that right? Do the hours have to change?

Beth Russell: Because eligibility for tax-free childcare and 30 hours is done on a rolling three-month period, you would continue to receive for the rest of the three months. At that point, you would have to reconfirm your eligibility.

Q47 **Rushanara Ali:** There is a broader point, which is if it is good for a child's development to have to be subjected to the patterns of employment of the parent. Would it be better for a child's development—there are two different tracks we have to focus on—to be clear for the child that, if they are in full-time they stay full-time? The adjustment is basically shadowing the labour market, which is very insecure, and putting that burden on a small child. Is that right for children? Are we creating more problems?

Elizabeth Truss: As I have said, 15 hours is the key policy from the point of view of child development. I know this from my time as a Minister at Education. The analysis shows that that is the crucial period per week that the child needs for those important things like early language and early social skills that will help the child do well in school and later life. That is why we have the unconditional support for 15 hours a week.

Catherine McKinnell: That is from age three.

Elizabeth Truss: For the 40% lower-income families, it is from age two.

Catherine McKinnell: Rushanara is talking about fluctuating incomes, so



that does not necessarily cover them.

Elizabeth Truss: What I am saying is that the 40% lowest-income families have that support unconditionally for ages three and four, regardless of whether the parents are in work. The 30-hours policy, the tax-free childcare policy and the universal credit policy are about supporting parents in work. When we are allocating a government budget, we have to target it on people who are in work. This is about striking the balance in making sure we are supporting a child's development needs. In the case you mention of a two, three or four-year-old, they will continue to be at that same nursery for the 15 hours, receiving that support and making sure we are focused on that.

Q48 **Rushanara Ali:** Minister, think about the experience of a child. After three months, a child goes full-time and then has to revert to part-time. That is very disruptive for a child. Would it not be better to look at how to make sure, after the change that happens for a child in terms of having 30 hours, there is some stability in their experience? You are not feeding the disruption back into the nursery system and the provision for the child, if there is disruption in the employment patterns of the parent. It is a simple point for you to take away. It is a serious point in terms of the experience of a child.

Think about the kind of children who might be particularly badly affected for that kind of disruption—if they are coming from chaotic families, there are other things going on within the family, or special needs matters and disability issues. The pressures on nurseries mean that they do not have the same sort of flexibility to continue to provide the 30 hours, even if they are not eligible. It is a serious point about making sure that the labour market does not drive the policy that leads to children not having a particularly stable experience in nursery provision. It is a well intentioned policy, but with lots of potentially very damaging unintended consequences.

Elizabeth Truss: We were talking earlier about the balance between flexibility and stability in a system. We have sought to strike that balance by making sure that children from low-income families have that solid 15 hours a week, which is major—

Rushanara Ali: I hear you. I am trying to give you constructive suggestions, Minister.

Chair: We will pick that up in the report.

Rushanara Ali: This is a serious point.

Elizabeth Truss: What I am trying to say here is that the policy has been designed to address those issues of child development, which are important, but also to give sufficient flexibility around the labour market. If you change that, then you will end up disadvantaging somebody else in the system. This is about focusing on people who need the support most,



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who are in work who need that support, and helping people get into work through Jobcentre Plus, having a work coach and getting the support to get into work. Part of the purpose of this is for three and four-year-olds, where I have already said we have a gap relative to our international competitors. It is about particularly helping those parents. I think that combination is right, but we will look at it over time. I think it would be wrong to seek to change the system at this stage, just when it is bedding in. By all means we will continue to monitor it and see how it is operating.

- Q49 **Chair:** I am sure that ongoing analysis is something we will pick up on in the report. Can I just ask two questions, before I bring in Catherine again? One is on this rolling three-month period. The three months are fixed, as I understand it, so the three months run January to March and April to June. If somebody lost their job, let us say in the second week of March, is it right that the child would lose the entitlement at the end of March, or do the three months work for each family's individual circumstances, as to when they signed up to the system?

Nick Lodge: For 30 hours' provision, the dates are the same for everybody.

- Q50 **Chair:** Is it 30 hours and tax-free? Does the rolling three-month period apply to both?

Nick Lodge: The rolling three-month period is different if there is the 20% top-up, which rolls individually with the parent, but the 30 hours are with terms. 31 December was the last deadline; 31 March would be the next deadline.

Catherine McKinnell: You potentially have two points at which you have to confirm, if you have the 30 hours and the tax-free childcare. It has to go on twice.

Nick Lodge: I am afraid I have forgotten exactly how that works. I do not think that is the case, but can I write and confirm? I would not want to give you the wrong information on that.

- Q51 **Chair:** Could you also take as a case study this point about what happens if a parent were to lose their job or something were to change in terms of their hours, at a point in their rolling three-month period? At what point does the child's eligibility then change, where the parent might have to revisit how much they are able to afford?

Nick Lodge: I will check that, but we absolutely recognise the issues that people face with fluctuating incomes. What we ask people to do at the beginning of the three-month period, when they apply or reconfirm, is to do a forward look and tell us what their reasonable expectation is of what they are going to earn to meet their minimum criteria, £120 a week for example. Obviously we then pick that up at reconfirmation so, if somebody tells us they have a reasonable expectation of earning a certain amount but, actually, they fall well short of that, we would pick



that up at the three-month point at reconfirmation. We operate the system with that issue very much in mind, to help people to take advantage of it, with the gig economy and all the rest of it.

Chair: There is fluctuating income and fluctuating hours.

Nick Lodge: We are alive to that. I was up in Washington last week with the HMRC staff who deal with these phone calls and listening to phone calls, and these are the conversations they are having with people to make sure that people get the entitlements that they can have. It runs for those three months and then we pick it up at reconfirmation, but I will write to you to confirm those points.

- Q52 **Chair:** It would be helpful if you could write to us. The other point was on training. Again, it would be helpful to know, and this is something that we will probe. You mentioned, Chief Secretary, the national retraining scheme. You might want to write to us or we might have to pick this up in the report. It would be helpful to know whether the Government's intention is that those people in the national retraining scheme will be eligible for something like childcare support.

The other scheme that has been brought to my attention was particularly around nursing training, which may not be an apprenticeship. I am showing my ignorance. I am sure I am about to have a Twitter storm about what I do not know about nursing training, but I seem to remember from a constituency case that somebody was doing training that was not a formal apprenticeship, but they were training. They were not actually working and earning income, but were clearly going to in a few months' time. Again, this goes back to that disruption for children who have been in childcare.

Beth Russell: There is also a discretionary learners' fund, which is a DfE responsibility so I do not know the detail of it, but my understanding is it provides support for people over the age of 20 in training or further training and hardship, who need help with childcare costs.

Chair: That might be one of those well kept government secrets that we might have to flush out.

- Q53 **Catherine McKinnell:** It is interesting, Minister, that you said that you are keen not to change a system that is working and bedding in. People are very frustrated by the decision to abolish the childcare vouchers, which is a scheme that is working. It is working for thousands upon thousands of parents and businesses in this country. I wonder why you or the Government are not applying the same rationale to keeping in place a system that is working. None of this is perfect; none of this is simple. You can keep in place a system that is working for so many parents, rather than closing it down for new entrants from April this year, which will in effect create a two-tier system, for those who are very fortunate to have the vouchers and are very grateful to have them, and those who can no longer access them now and have to delve into the



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myriad of complex systems that the Government are trying to make work at the moment?

Elizabeth Truss: First of all, the rationale for replacing the voucher scheme with tax-free childcare was the problems with the voucher scheme in the first place. Only 5% of employers offered those vouchers, so it is very arbitrary.

Q54 **Catherine McKinnell:** It is a huge majority of people who are employed, because obviously there are a lot of big employers who provide it.

Elizabeth Truss: It is half of people who are employed. It is not a majority. It is half of people who are employed.

Catherine McKinnell: That is a lot of people.

Elizabeth Truss: It is still extremely arbitrary whether you happen to be working for an employer who offers those vouchers or does not offer those vouchers.

Q55 **Catherine McKinnell:** Nobody is suggesting that you should not also provide tax-free childcare for those employees who currently do not have access to the voucher scheme. The question I am asking is why you will not keep the voucher scheme open for the 50% of employed people who are very grateful for them. There was also a very large petition submitted to Parliament. It was debated, and the person who submitted it does not actually receive the vouchers. She would just like to in the future, because she is expecting. There are an awful lot of people who have the vouchers who feel quite strongly about people coming through the system who deserve them too, if that is their choice.

Elizabeth Truss: The problem with the voucher scheme is that it is unfair, because it is not offered by all employers. It is only offered by 5% of employers and it is also not offered to the self-employed.

Catherine McKinnell: Offer a scheme to the self-employed.

Elizabeth Truss: It creates a very unlevel playing field. It is also unfair on single parents. You get more money if you are a couple than if you are a single parent. Tax-free childcare pays according to the number of children, and we all know that childcare costs reflect how many children there are in a family. Vouchers do not do that. The whole rationale was that we were replacing an unfair system that was pretty arbitrary about who received it with a system where everybody, regardless of who you worked for, regardless of whether you were self-employed, regardless of whether you were a single parent or you were part of a couple, got the same level of support. That is the right decision.

The other issue with the voucher scheme is there is a lot of waste in it. We spend £220 million every year on the administration and bureaucracy, a significant proportion of which goes to the voucher providers. Under our new scheme, all of the money is going directly to



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pay for childcare, directly to those high-quality nursery staff who we want to see the money going to. We are replacing a system that is inherently unfair and wasteful with one that is much fairer, which allocates money equally as to whether you are a single parent or you are a couple, on the basis of what your childcare actually costs. That is the right approach. We do not want anyone who is currently on those vouchers to lose out, which is why we are continuing with anybody who is currently claiming the vouchers. Fundamentally, the voucher scheme was a misconceived scheme. It is right that we eliminate that unfairness from the system.

- Q56 Catherine McKinnell:** I think an awful lot of parents would disagree with you about it being misconceived. It has helped a huge number of parents manage their childcare costs. If the tax-free childcare scheme is going to be better than the voucher scheme, can you guarantee that everybody who is currently in receipt of vouchers will be better off under tax-free childcare and, therefore, will be applying for it?

Elizabeth Truss: First of all, I would just like to challenge what you said about a huge number of parents. The point you are making is about parents who are getting the vouchers. I am also concerned about the ones who are not getting the vouchers, who work for an employer who is not eligible for the vouchers or who are self-employed.

- Q57 Catherine McKinnell:** It is perfectly within the Government's gift to carry on with both schemes and therefore serve all parents, rather than only selecting some over others. Why can the Government not run both schemes?

Elizabeth Truss: We have decided to use the money, eliminate the waste of the £220 million a year that is currently being wasted on administration, which is more than 20% of the cost of the scheme—it is a pretty inefficient system—and not have a scheme that is unfair, favours a particular type of employer over another or people who are in couples versus single parents. I wanted to make sure that the tax-free childcare system was working properly before we were able to end that existing scheme. On your second point, no parent who is currently receiving those vouchers will lose out. They will continue to receive those vouchers, so those parents are not being disadvantaged.

- Q58 Catherine McKinnell:** I am talking about parents who would have taken up the vouchers. It is better for them than tax-free childcare. The analysis shows very clearly that, for most single-parent households, two-parent households and lower-to-middle-income brackets, the childcare vouchers or tax credits are more generous than tax-free childcare. Actually, tax-free childcare benefits the wealthiest much more than those on middle and lower incomes, and supports parents according to the fact that they pay higher childcare costs, as opposed to their income. The voucher scheme was designed to be much more progressive in terms of supporting people on lower incomes.

Has the Treasury undertaken an analysis of households that will receive



less support as a result of the vouchers being replaced by tax-free childcare for those parents who are coming into the system? Has there been an impact assessment undertaken on the effect on low-to-middle-income households? Are the Government confident that nobody is going to fall between the universal credit support, which you outlined earlier, and tax-free childcare, and that they will not be worse off under the new tax-free childcare system than they would have been under the vouchers?

Elizabeth Truss: It is very important to look at the system as a whole. We have universal credit, which is helping those on the lowest incomes.

Catherine McKinnell: Was that a "no"? You have not undertaken the analysis. That is the question. I am not asking about childcare as a whole. I asked a very specific question about whether an analysis has been undertaken.

Elizabeth Truss: The system as a whole is relevant when you are asking about how progressive the system is, because it is not right to look just at one element of the system. Tax-free childcare is designed for people on medium and higher incomes who do not have access to universal credit childcare support. Universal credit childcare support is the most generous part of the system, because it pays 85% of costs, whereas tax-free childcare pays 20% of costs. When you are considering the support parents get, you have to look at the whole income scale. You cannot just analyse one part of the income scale and say it is not progressive without looking at universal credit, which is supplying 85%.

Q59 **Catherine McKinnell:** I am asking about the people who fall between those two systems. Can you undertake an analysis to make sure there are no households that will not be entitled to the vouchers after April 2018 and, therefore, will either rely on universal credit support or tax-free childcare, and that they will not be worse off under the new system?

Elizabeth Truss: No one will be worse off, because people on the existing voucher system will carry on receiving it and people who are on universal credit will be getting 85%, which is more generous than the tax-free childcare amount. What you are asking me is a sort of hypothetical question about parents in the future. The overall design of the system is one that, rather than paying parents according to the number of parents in the family, pays them according to the number of children in the family.

Q60 **Catherine McKinnell:** I am asking about a very specific group of people who, once the childcare voucher choice has gone come April 2018, therefore need to sign up to tax-free childcare if they are not entitled to universal credit. Has an analysis been undertaken that shows that that group of parents will not be worse off than they would have been under the vouchers? If that analysis has not been undertaken, should the Treasury not keep the voucher scheme in place until that analysis has



been undertaken?

Elizabeth Truss: We have already said the voucher scheme is unfair.

Q61 **Catherine McKinnell:** I do not think it is unfair to the parents who are receiving them, though.

Elizabeth Truss: That is the scheme. The scheme is that a whole bunch of parents do not get them at all, so it is an unfair system.

Q62 **Catherine McKinnell:** Then provide tax-free childcare for those parents. Make sure that there is nobody who falls between the two stools, and then everybody gets support with their childcare.

Elizabeth Truss: You are still perpetuating an unfair system. That is fundamentally not right. A system that is based on which employer you have is not right.

Chair: The analysis has not been done.

Elizabeth Truss: On the question about distribution analysis, which I have been asked, we conduct an overall distribution analysis of all Treasury policies, as part of the Budget. That covers all areas like tax, including this area of tax-free childcare and employer-supported childcare. What we do not do is break it down to individual policies, because the analysis is not sufficiently robust. It tends to reflect a fairly small sample size. The overall analysis is produced on the basis of distribution. As we have talked about here, there are a lot of policies that interact with each other. Universal credit interacts with tax-free childcare, so it is not possible to split out tax-free childcare into a robust analysis.

Going back on employer-supported childcare and the issues of people on that, we do not have the data about which employers support employer-supported childcare. We do not know which parents in the income distribution are eligible for that. We could make the assumption that the 50% of parents who currently get employer-supported childcare are more likely to work for big corporates. They might be less likely to work for small businesses, but we do not actually know that, so we are not able to produce a robust analysis of that.

Q63 **Catherine McKinnell:** I will just give two examples of why people think that the new system or phasing out the vouchers is unfair. One is that the childcare vouchers can be used for a child up to the age of 15, whereas the new system only supports children up to the age of 11. I do not understand why the Government think that parents do not require childcare for children up to the age of 15 anymore. Also, it is going to create a two-tier system of parents who are on vouchers now for however many years and those who will not have them. Closing the voucher scheme is creating an unfairness in the system that is going to perpetuate for some time to come.

The Childcare Voucher Providers Association is concerned that thousands



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of parents will be left with no access to any childcare from April 2018, because of the system failures. Are you aware of this? Have you assessed how big a problem it potentially is? I have the figures for how much compensation has already been paid out. It was in response to a Parliamentary Question to my colleague. To date, HMRC has received roughly 3,500 complaints from parents who have experienced technical issues with the childcare service, and HMRC has paid £966,666 to parents in lieu of tax-free childcare payments, and just under £39,000 in redress to parents to compensate them for inconvenience and expenses to the helpline. What are the Government doing to ensure that they do not have to make more payments to parents? How are they going to make sure that parents are not left in the lurch from April 2018? How much compensation have the Government budgeted for before they start to put this whole project at risk?

Elizabeth Truss: On the subject of the Childcare Voucher Providers Association, I am not surprised that they are lobbying to keep the scheme open, because they are one of the beneficiaries of the £220 million of administration costs we pay every year for the system. I would suggest that they have a vested interest in keeping open this system, which is unfair and wasteful. Part of the reason that we have had to delay tax-free childcare is because of the court case that these voucher providers put forward, so I do not think they are entirely unbiased witnesses in this whole issue.

On the subject of the two-tier system, the point I am making is that employer-supported childcare has been a two-tier in operation for quite some time. What I do not want is for parents who are currently relying on that support to have to stop having that support. That is why we are keeping it open for people already in the system. To perpetuate that unfairness in the longer term would fundamentally be wrong.

Tax-free childcare was designed as people's childcare costs are higher with children who are under 12 than children who are under 16. We always have to make a decision about how we focus our resources to make sure we use them properly, but it seems to me a reasonable proposition to have a system that works for children up to the age of 12. Children who are disabled continue to get support for longer. That seems to be reasonable, because we have to think of how we best use the available funds to support parents who need childcare support. Others were involved at the time the policy was designed, but I suspect that, in the consultations we had with the public, that was thought to be a reasonable cut-off age for that childcare support.

On the issue of compensation, that £966,000 is money that is being used to pay for childcare costs. It is essentially money that was not properly funnelled through the digital system and has to be paid to parents for them to spend on their childcare. What is compensation is the £39,000 figure. Yes, as Nick has said, the system has not been good enough, but it is right that, rather than leaving parents in the lurch, the Government



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paid out that money, so that those parents' childcare costs were covered. Now the system is working better we do not expect to have to do that, going forward, to anything like the same extent. I would always defend that, if a parent is not paid their childcare costs properly, we should pay them and sort it out in a manual fashion, rather than leaving that parent in the lurch.

Q64 Chair: Before I hand back to Rushanara, I just wanted to ask about some numbers in terms of caseload. I think you gave us some numbers earlier on. Just to make sure that we all have the right numbers, the OBR had expected the caseload for tax-free childcare to reach 415,000 by last October but, in reality, as in their November outlook, the caseload was much lower at 30,000. They revised down their estimated costs for 2017-18 from £800 million to £37 million. Is it right that the number of people claiming tax-free childcare has, so far, been much lower than estimated?

Elizabeth Truss: Yes, and it is largely due to the later date of rollout, but that is correct.

Q65 Chair: That is correct. What is your number now? In your Ministerial Statement of this month, Chief Secretary, you noted that 170,000 parents have a tax-free childcare account. Earlier on, you said it was 200,000 or something.

Elizabeth Truss: That is the 30-hours figure.

Q66 Chair: In terms of the number of parents with a tax-free childcare account, is that 270,000 figure still right?

Elizabeth Truss: Yes, it is roughly correct.

Q67 Chair: Do you think that the difference between the 30,000, as of last autumn, and the 170,000 now is because you are just seeing that people are now realising improvements in the website and that everything is better in terms of the IT?

Elizabeth Truss: Yes, more people are applying, it is easier to apply and we have sorted out problems in the system.

Q68 Chair: What is your trajectory? It may be something you want to write to us about but, in terms of the rest of this calendar year, what numbers are you expecting by the time of the autumn, let us say?

Nick Lodge: You mentioned the £37 million figure. I would have to write to you about the number of accounts that went alongside that £37 million, but the numbers are certainly increasing. We issued 326,000 codes for the 30 hours' childcare for the spring term. That was above expectations. Incidentally, 96.4% of those codes were issued in the normal way, through the digital system. The approach that we took to the people who could not use the digital system to give them a code manually, alongside the top-ups that we have just been talking about, also enabled those people to get a code.



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I just want to take the opportunity to say that 96.4% got them automatically. It is that 3.6% who then had a manual code, but we would expect the numbers to keep on increasing, now that we have opened eligibility to the under-nines and, from the middle of next month, 14 February, to the under-12s. As more people apply, we will see that trajectory rise. It has been slower than expected, but £37 million is the figure. We are broadly on track for that. Obviously it is a little bit early, given that we have only just opened up to the under-nines in the middle of January, to really tell how that is going to go. We will see as we get to the end of March.

- Q69 **Chair:** If you are able to write to us, it would be helpful to know where the £37 million figure is going to go and the trajectory for the course of this year. The other thing was just whether there are plans for a paid-for advertising campaign. There was talk about having one, but it has not yet been conducted. Is that something that the Government are now considering?

Elizabeth Truss: We are considering it.

- Q70 **Chair:** When it is likely to happen?

Elizabeth Truss: The first thing we are doing is using all of the free modes of communication, such as social media, to get the message out there.

Chair: I would expect nothing less from a Treasury Minister in terms of value for money.

- Q71 **Rushanara Ali:** Minister, I want to talk a bit about the supply side and funding. Do you think that the 30-hour free childcare scheme is underfunded?

Elizabeth Truss: No, we think it is correctly funded.

- Q72 **Rushanara Ali:** What do you make of some of the estimates that there is a shortfall, and that, while the £1 million is obviously very welcome, there is a shortfall of some £500 million? There are over 1,000 nurseries that have closed over the last two years. Is there any analysis being done on why that is happening? Are you concerned about the reduction in supply?

Elizabeth Truss: There is not a reduction in supply. We have seen an increase of 9,000 places over the last year.

- Q73 **Rushanara Ali:** If 1,000 close, that is a reduction, is it not?

Elizabeth Truss: New ones open. The considerable amount of childcare is provided by the private sector market. New nurseries are opening. New nurseries within nursery chains are opening. The DfE has given a £50 million grant to schools to expand school-based childcare. This is a market like any other, and businesses will close for various reasons and



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new businesses will open. The net figure is an overall increase in the number of places.

- Q74 **Rushanara Ali:** On that point, according to an article in the *Independent*, of the 1,000 providers that have left the market since 2015, four-fifths of these had been “good” or “outstanding” providers. Is there any work being done to assess the quality of those who are entering the market and ensuring that we are not losing out on the ones that are good operators, and that we understand better why they are closing down?

Elizabeth Truss: If we look at the quality of early years provision since 2010, there has been a significant improvement in terms of the number of nurseries that are rated “good” or “outstanding”, but also in terms of the actual measure of the development level of children. The output of the development indicator has shown that we are seeing that more children are reaching a good level of development. Ofsted has sought to improve its inspection of childcare.

- Q75 **Rushanara Ali:** You are not concerned about these good-quality nurseries closing down. They are saying that the new funding formula is part of the reason why some of them are finding they cannot make the numbers add up. I will come on to costs in a minute, but you are not worried about that.

Elizabeth Truss: What our evidence suggests, which is as a result of Ofsted inspections and the results of the early years check, is that quality overall is improving. This is a mixed market system, where we have some state provision through school-based places, Sure Start centres and some private sector provision. In a private market, somebody might be running a nursery and then decide that they want to move on and do something else, or someone might open a new nursery. To me, the job of Ofsted and the Department for Education is to make sure that that operates properly. Local authorities also have a role in ensuring that there is a sufficient supply of nurseries in their area. What we are hearing at the Treasury from DfE is that there is a sufficient supply and all parents who are seeking those places are getting them.

- Q76 **Rushanara Ali:** That is not what some of us are seeing in our constituencies. Can I come on to the issues around pricing, cost and so on? In 2015, the Education and Childcare Minister, Sam Gyimah, referenced the 30-hour childcare in his speech, noting, “As well as being high-quality, we want to ensure that a free place for parents is exactly that, a free place”. The Pre-school Learning Alliance survey that came out recently found that 35% of providers raised their fees for those not eligible for 30 hours, so there is cross-subsidisation going on. Have the Government changed their position on providing free childcare?

Elizabeth Truss: Not at all. The rules are that nurseries are not allowed to compulsorily charge parents for additional services. They have to offer the free hours.



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Q77 Rushanara Ali: In that same survey, 37% of the nurseries surveyed said that additional charges for meals, snacks, goods and services would have to be implemented in order to manage to keep going and provide the 30 hours that the Government are expecting them to. They just cannot manage their budgets and to pay for it within the current budgets. Are you concerned about that?

Elizabeth Truss: There was a report that Frontier Economics did on behalf of the DfE, who are responsible for this area, which showed that the average hourly rate that the Government are paying for three and four-year-old children is £4.94. The cost of providing the childcare is £3.72 per hour. Their analysis showed that the Government were paying significantly over the cost for the provision of those childcare places. We have similar figures for two-year-old provision as well. The objective evidence we have, which is not from somebody who is part of the system, is that the level of support the Government are providing to pay for the free places is a reasonable level of support.

Q78 Rushanara Ali: You keep referring to organisations that are part of the system as if their perspective and their surveys should be ignored. They serve 800,000 families a year, in that case; are you saying that we should just ignore the evidence that comes from those who are directly experiencing these issues? Should the Government not be interested in their experience, so that the policy is actually effective?

Elizabeth Truss: I know the Department for Education, which is responsible for this policy, is in direct discussions with those organisations. There is also an organisation called Childcare Works, which is helping providers in terms of how those providers can save money on areas like overheads, become more efficient, utilise their space better, et cetera. The DfE is giving a lot of support to those nurseries and childcare providers.

I have to consider the value for money for all of the money we spend right across Government. We have to get independent organisations, like Frontier Economics, to look at what is a reasonable level of support for the Government to give, because every penny that is spent on one service is money that we are not spending on another service. The figures I have presented today show that there is a reasonable margin for childcare providers to provide that service. In addition, the DfE is working very closely with providers to help them make sure that that money can be spent well, as well as putting extra money into capital, which has been used by both private sector nurseries and the school and nursery school sector.

Q79 Rushanara Ali: Minister, you are talking about a reasonable amount, but earlier on you talked about needing to look at things in the round. The national living wage has been increased, but, not just in relation to nurseries, there is no additional funding going with that. They need to fund that within the provisions that you have made and the amounts that you have provided. What we are finding is that nurseries are struggling



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to cover the additional staffing costs that are coming in. In terms of the experience and some of those surveys, they are crying out for additional help; they are saying, "We can provide a good-quality service, but we are struggling". In that same survey, about 66% said they planned to make changes to how they offered the 30 hours over the next 12 months because of the costs associated with it. The numbers are not adding up for many of these organisations.

It just comes across like you are burying your head in the sand when you do not face up to the fact that the costs and the pressures that are there in relation to the expectations are not adding up for many of these providers. It is all very well saying that you can have 30 hours but if the supply chain is not there and is not effective then surely this policy is not going to be as successful as it could be. We would all like to see it succeed because it is, in principle, a good thing, to be able to offer 30 hours of childcare.

Elizabeth Truss: The DfE is providing help and is talking to providers about how they can make their budgets work. The DfE has studied this in detail. I recommend that you look at the work that it has produced on this issue, about how providers can increase things like rates of occupancy to make sure that they are able to manage within that budget. If we look objectively at the evidence, we are putting more money into the childcare system than ever before. We are seeing quality rise, and we are seeing the number of children doing well at nursery growing. We have seen an increase in the number of places, so I do not recognise the picture that is being painted.

Q80 Rushanara Ali: I suggest that you come and visit our constituencies and meet some of their nursery providers and see what they are doing. They are doing a very good job under difficult circumstances, and some of the figures that you speak to do not match their experience. Things are hunky-dory; it is just not like that. That is not the reality of the experiences of people who are doing the job, the frontline work, so I think you need to take a proper look at the experience of nurseries and those who are providing the service.

Elizabeth Truss: I have visited lots of nurseries, particularly when I did the job in DfE. I do suggest this is properly the role of the DfE Minister. I would not like to interfere, but maybe an invitation could be extended to Nadhim Zahawi, who is the relevant Minister. Maybe he could visit.

Chair: We will certainly pass on the fact that you have now nominated three Ministers.

Rushanara Ali: I referred to it because you were saying it was working very well, and I am saying it could be improved.

Q81 Chair: The Treasury's responsibilities are the money and the funding. Where costs increase—and I think we would all agree that increasing the rate of the national living wage is a very good thing—how is the Treasury enabling the funding to keep up with that?



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Elizabeth Truss: The national living wage is part of the assessment that Frontier Economics have done, so they have taken into account those issues of rising staff costs. Being an early years nursery worker or teacher is a really important role. We should pay people in those roles properly, but what the DfE does have is advice for nurseries on how best to manage that, to make sure they can retain high-quality staff whilst managing within their budget. It is properly the role of DfE Ministers to look at that, but of course at the Treasury we look at the overall budgets of departments and say whether that is reasonable. That is why the report from Frontier Economics was done.

Q82 **Chair:** What was the date of that report?

Elizabeth Truss: It definitely included the impact of the national living wage.

Beth Russell: It did, as did the subsequent DfE decisions.

Q83 **Chair:** In terms of the national minimum wage, there has been an increase in the last year of 12%. I strongly suspect that the funding for the nurseries has not increased by 12%. I appreciate that the same argument can be made in many other sectors in terms of the increase in wages.

Elizabeth Truss: The other issue is that the funding was unfair; different local authorities were getting different levels of funding. In the same way that the DfE is working on the national funding formula for schools, it is also working on a fairer system of funding, so that is also in the mix. There are a variety of issues at play, but the job of the Frontier Economics report was to look at all those issues.

Chair: We have two unrelated issues. It is too good an opportunity, having the Chief Secretary in front of us, not to ask about them. Wes, do you want to go first?

Q84 **Wes Streeting:** First, I have a follow-up from the evidence session we had with Tom Scholar. I asked the Permanent Secretary whether he had seen a single model in the Treasury's modelling of scenarios for our future economic relationship with the European Union that would give us a better economic relationship with the EU than we currently have as part of the single market and customs union. Quite reasonably, the Permanent Secretary said that it was not his place to reveal private advice given to Ministers and forward to-ing and fro-ing between Government and Parliament about information. You will have seen the various models as a Treasury Minister, I hope, and I wonder if you could reassure us that there is a model the Government are working towards that gives us a better economic relationship than the one we currently have in the single market and customs union?

Elizabeth Truss: I have not seen the models that you are talking about. It is not something that I am specifically focused on. What we are focused on at the Treasury, as right across the Government, is getting



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the best possible deal for our future relationship. It is important to note that it is going to be a bespoke relationship where we are looking for frictionless arrangements for trade at the border and free trade across that border, but also looking for better relationships with countries right across the world.

Q85 Wes Streeting: I understand that, but you are the Chief Secretary to the Treasury. Our future economic relationship is going to have a significant economic impact—positively or negatively—on tax revenues and public spending. I am surprised that a senior Minister in Government, with the kinds of responsibilities that you have, has not seen that kind of modelling. Who does get to see this kind of information?

Elizabeth Truss: What my focus is on is making sure that we have the right budgets in place for 2018-19 and 2019-20, working on the spending review that is going to take place next year on public spending. The matter of the overall Brexit modelling is for those who are involved in the direct negotiations with the European Union. I am not part of those negotiations.

Wes Streeting: Okay, so we have a very tight circle of people with access of information.

Chair: Including BuzzFeed.

Q86 Wes Streeting: Not including BuzzFeed, but you have led me neatly on to my next question, which was about the BuzzFeed leaks. This afternoon, the House of Commons has agreed that the modelling that was leaked to BuzzFeed will be released to Members of Parliament. Dr Phillip Lee, a member of the Government, has said that the next phase of Brexit has to be all about the evidence. We cannot just dismiss this and move on. I assume, as someone who believes very strongly in evidence-based policy and analysis, that you agree with Dr Lee.

Elizabeth Truss: I absolutely believe in evidence, but it is very important to remember—and we were discussing this in the context of childcare—that no one has an accurate forecast of the future. This is about making sure that we get the best possible deal, in line with what people voted for in the referendum. That is what we are focused on. My specific role, as Chief Secretary to the Treasury, is making sure that we get the budget right for the implementation and that we make sure we are prepared for all eventualities, and that is what I am focused on.

Q87 Wes Streeting: I am glad you mentioned forecasts. We accept, around this table, that forecasting is exactly that: it is forecasting based on the best evidence available and making some assumptions and judgments, and hoping that gives us a means through which we can better plan for future scenarios and possibilities. Forecasts will not always be right. I wondered whether you agreed with one of your colleagues, Philip Davies, when he said yesterday that there were “London-centric Remoaners” in the Civil Service who “put together some dodgy figures to back up their



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case". That is a pretty strident attack on the Civil Service. I wonder what you, as a member of the Cabinet, thought about that.

Elizabeth Truss: I work with Treasury civil servants. They are very effective civil servants who do an excellent job at what they do.

Q88 **Wes Streeting:** Julian Lewis said, "History has shown time and time again that economic forecasts are not worth the paper they are written on". Do you think, as a Treasury Minister, that there is value in forecasting?

Elizabeth Truss: There is value in forecasting, but it is dangerous to think that forecasts are a definite projection of the future. Sometimes we can be too fixated on forecasts. The Chancellor said a few months ago that we have the power to shape our own future. The work we are doing at the Treasury is about making sure we get the best possible deal so that we have the frictionless border and trade that we want. It is also working to improve our country's productivity so that we can see our economy grow faster and make sure people are able to earn higher wages and, ultimately, that is what is going to have the effect on Britain's future economy. There is a limited role that forecasts have. We should not think they are definite projections of the future. If you look back through forecasts, you can see how many of them have been exactly right.

Q89 **Wes Streeting:** I do not think people would particularly dispute that. There are two things that I would really like to get greater clarity from you before handing on, because I am conscious of the time, including your time. First, there has been some pretty robust trash-talking of the Treasury and the quality of its analysis and forecasting, not just by Members of Parliament but by members of the Government at various points, during the referendum campaign and also more recently. I wonder what stock you believe that this Committee and all of us should put in the quality of analysis from the Treasury.

Secondly, all of us, at this stage, want to make sure that whatever future relationship we get with the European Union works in our national interest. I am one of those remainers who voted to trigger Article 50 with the expectation that the Government would negotiate the best possible deal, but I am increasingly worried that the best possible deal—single market membership and customs union membership—is being ruled out by the Government. I wonder if you can give some cause for optimism for those of us who are too often described as "Remoaners" that we can be optimistic, because the Government are looking to strike a deal that gives us as good or better benefits from our relationship with the European Union than we are currently enjoying through the single market and the customs union?

Elizabeth Truss: On this subject of Treasury officials, I have found them to be incredibly hardworking, professional, and very accurate in all they do, as well as very self-effacing people, who do not like to big themselves



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up but do a really great job. It has been a great pleasure working with them at the Treasury.

The issue is about forecasting. I am a great fan of people understanding more about economics and how these things work. Sometimes the media reports forecasts and projections as though they are the truth. I do not think that is helpful. Analysis is useful but you have to understand the context of the analysis, and what statistics and probabilities mean, rather than taking things just at face value. Everybody has a role in terms of clarifying that. What I do not like to see is these tools used as political footballs, because I do not think it is helpful. We are in very serious negotiations with the European Union. This is really important for the future of our country; getting the best possible terms is what is important. Focusing on this issue of the forecasts, rather than the contents of the negotiation, is problematic.

On the subject of the single market and the customs union, we were very clear—and I think it was very clear from the message of the referendum—that freedom of movement had to end for the UK. That is a very clear message sent out. Being a member of the single market means free movement of people so those things are not compatible. We have to move on. That is why we are seeking a bespoke arrangement with the European Union.

Likewise, I am concerned, on the subject of the customs union, that remaining a member of the customs union will not give us the flexibility that we need to negotiate trade deals with the likes of the US, which present some of the biggest potential economic benefits of leaving the EU. People have made a choice to leave the European Union. We must respect that choice. There are huge opportunities that have opened up as a result of leaving, such as securing a deal with the US. My concern is that these things are batted backwards and forwards, rather than having a really serious discussion about what the genuine parameters are of our negotiations. I do not believe that those include remaining in the single market or the customs union. That was a clear decision as a result of the referendum.

Q90 Wes Streeting: I find this a slightly implausible position for a Treasury Minister to hold in terms of the economics of it. I appreciate your candour about freedom of movement, because it reinforces the fears that many of us have that political factors are now torpedoing our economic interests. Not only is the European Union our single biggest trading partner, but through the European Union we have trade deals with other countries across the world. Did Lord Bilimoria not have it right in the House of Lords debate yesterday that the Government are making a judgement that no businessman or woman ever would, which is to sacrifice the trade agreements we have with 70% in order to pursue trade deals with the remaining 30%? How on earth is this genuinely pursuing the national interest when it comes to the economy?



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Elizabeth Truss: As I have already said, we want to secure a good trade deal with the European Union. That is very important. It is a very important market. We also want to secure good trade deals around the world. It should be a serious political discussion. You cannot say that politics is irrelevant when there has been a referendum; there was a huge political debate across the country. These issues were aired in full at the time of that political debate. People made a decision about the level of sovereignty we want to have here in the UK and the control we want to have over our borders; that decision has been made. Within those parameters, we now need to seek the best possible deal with the EU, which is what we are working on. A lot of this talk is trying to re-fight a previous battle that has already been had.

Q91 **Chair:** I want to come on to a completely different issue. It may well be that this is something you want to write to us on. There are other Ministers involved in this as well. This is the issue of the payment of the national minimum wage or living wage for sleep-in shifts, which I think you are aware of. The Government have accepted for many years—not just this Government but other Governments—that the cost of sleep-in shifts and services for disabled people are funded by the state. The Government have also accepted that they inadvertently provided misleading guidance to employers about the application of national minimum wage or living wage to sleep-in shifts, which has led to staff being underpaid. This is an issue of relevance to many people across the country, many organisations, and many smaller charities as well. I know a number of colleagues are concerned about it.

My understanding is that the collective liability, according to a survey done by Deloitte, for backdated payments is at least £400 million. I wonder whether you are in a position to update us on discussions that you have had, or where this is sitting in Government, and if there is any hint of timescales in terms of resolving it, because that is a large amount of money, which many organisations are really going to struggle to pay.

Elizabeth Truss: I am very much aware of the issues and I have been involved in cross-government discussions on the issues, but, if you do not mind, I will write to you with further details on what we can say at this stage.

Q92 **Catherine McKinnell:** You have mentioned the £220 million figure over 13 years, in terms of running the childcare voucher scheme. I understand £35 million has been invested so far in setting up the tax-free childcare. I would be interested to know what the annual running costs of that are going to be going forward. I appreciate you may need to write to me on that figure.

Nick Lodge: I can pick that up for you. The ongoing predicted costs, once we have done the development and everything else, will be about £30 million for 2018-19. We are back in the realms of forecasting the costs, but it is £30 million for 2018-19 and then £42 million for the year after.



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Q93 **Catherine McKinnell:** Could I suggest, therefore, that that is significantly more than the cost of running the childcare voucher scheme? I understand that they are two different schemes?

Elizabeth Truss: I believe it is £220 million a year.

Beth Russell: This is the tax relief that goes to employers.

Q94 **Catherine McKinnell:** Is the tax relief actually paid out? It would be helpful if you could clarify what the comparative costs are, given that is one of the key reasons the Government cite.

Elizabeth Truss: We can clarify it. This is employers' NI relief, which goes to employers but is partly paid to the childcare providers to provide the service. That £220 million is money that is leaving the Treasury and not going to childcare providers every year. What was it we spent?

Beth Russell: About £800 million a year.

Elizabeth Truss: So of the £800 million a year, £220 million does not go to childcare providers. In my view, that is a wasteful system.

Chair: Thank you very much indeed. Can I thank all three of you for the evidence you have given this afternoon? You have been very helpful.