



Education Committee

House of Commons London SW1A 0AA

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From Mr Robin Walker MP, Chair

Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ
By email

19 October 2023

Dear Jeremy,

As you may be aware, this year the Education Committee held an [inquiry](#) into Support for childcare and the early years. Between January and July, we received over 1380 pieces of written evidence, and held five oral evidence sessions. We heard from parents, carers, trade unions, charitable organisations and practitioners over the course of the inquiry, and published our [report](#) on the 26th of July. The Government's [response](#) to our report was published on 17 October 2023. We write this letter due to two specific issues that are of relevance to HM Treasury.

Business Rates and VAT

Business rates were an important issue raised to us by early years settings and practitioners. The National Education Union submitted written evidence, stating that “Business rates for nursery schools can be over £100,000 in some areas”, and the National Day Nurseries Association stated in their written evidence that providers have reported bill increases of 40-50%.¹ Gemma Rolstone, Director of Quality, Puffins Childcare, told the Committee in an oral evidence session that business rates for four of her settings would rise from £55,936 to £84,096.²

Many childcare businesses pointed out to the Committee that the size of their premises was not of choice but of meeting regulatory standards required by Government and Ofsted guidelines.³ They therefore had to pay more in business rates not as a result of a commercial decision to expand but as a result of meeting the space standards set by public bodies.⁴

We were also informed of the effect of VAT on Private, Voluntary and Independent (PVI) childcare settings, with many settings expressing how VAT charges drive up costs, and called for reform. Worcestershire Independent Providers told us that VAT charges had prevented them from moving ahead with a planned property extension.⁵ Little Faces Childcare argued that full relief from VAT would allow providers to pass on savings to parents.⁶

We made the following recommendation to the Department of Education:

¹ National Education Union ([CEY1306](#)); National Day Nurseries Association ([CEY1568](#))

² [\[Q72\]](#)

³ Department for Education, [Statutory framework for the early years foundation stage](#) (March 2021), p 35

⁴ Little Jungle – School of Early Childhood ([CEY0008](#)); The Day Nursery Peterborough Ltd ([CEY0885](#))

⁵ Alice J Bennett (Chair at Worcestershire Independent Providers) ([CEY1725](#))

⁶ Little Faces Childcare Ltd ([CEY0012](#))

The Government will soon be funding up to 80% of all childcare places in England, up from 50% before the Spring Budget. In recognition of this, and the public benefit that the whole early years sector is providing, the HM Treasury should grant all early years providers an exemption from business rates. Private, Voluntary and Independent (PVI) settings should also be zero-rated for VAT. We heard that VAT costs and business rates facing ECEC settings are taken into account in the DfE's process of setting funding rates. Following these proposed changes, DfE should not account for any cost savings gained from VAT and business rate exemptions in their calculation of the funding allocations for local authorities. This would allow savings to be channelled back into the settings in recognition for the need for a more qualified (and therefore expensive) workforce. The benefits to retention and development of staff, affordability for parents and expansion of places for children will substantially outweigh the costs of these changes. (Paragraph 48)

The Department for Education rejected this recommendation, informing us that “Government currently has no plans to make changes to the business rates support provided to early years businesses or the VAT exemption which nurseries currently enjoy.” Therefore, we are writing to you to highlight this important issue, and to please consider it when drafting the upcoming Autumn Statement.

Tax-Free Childcare

The Committee also heard evidence concerning [Tax-Free Childcare](#), a scheme that allows parents to claim £500 every 3 months for each of their children to help with childcare costs. Many parents submitting written evidence to the inquiry wrote of their difficulties with Tax-Free Childcare, labelling it “confusing and onerous to use and complicated to calculate”, with “very limited and unclear” messaging around it.⁷ In an online roundtable with childminders, the Committee were told that “Not enough parents know about Tax-Free-Childcare, especially not the self-employed” and that “Many parents also find it very difficult to set up the payments.”⁸ [Data](#) from HM Revenue and Customs shows that 43% of surveyed parents found the name ‘Tax-free childcare’ confusing or unclear, with 58% of these saying it preventing them from looking into it. The Institute for Fiscal Studies [estimated](#) in May 2022 that in the four years after introducing Tax-Free Childcare, the Government underspent by £2.3 billion.

The Committee made the following recommendation:

However, the Government must do much more to ensure the support available for tax-free childcare is better understood and easier to access. We recommend HM Treasury conduct a fundamental review of tax-free Childcare with a view to making it simpler and easier to use and ensure it is delivering effectively for eligible families. In doing so it should carefully analyse why so many parents who have gone to the trouble of setting up an account do not use it and seek to monitor ongoing take up and usage of the scheme. Following this review and any changes to the system, the Government should launch a large-scale public campaign to improve awareness. (Paragraph 99)

The Department for Education stated that Tax-Free Childcare policy is “continually” under review, and that they are “continually” looking to improve the Tax-Free Childcare service. However, they did

⁷ Summary of written evidence submitted by parents ([CEY1716](#))

⁸ Childminder Roundtable Summary ([CEY1724](#))

not commit to a fundamental review followed by a better-informed large scale public campaign. Therefore, we ask the Treasury that they consider undertaking this fundamental review, so that Tax-Free Childcare policy can be made simpler and easier to use for parents and families, and that Government money can be used most effectively.

We would be grateful for a response by 31 October 2023. In line with usual practice, I expect that the Committee would publish both this letter and your response.

With best wishes.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Robin Walker', written in a cursive style.

Mr Robin Walker MP
Chair of the Education Committee