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Friday 27th June 2014

Dear Sir/Madam,

Re: Tax-Free Childcare – Consultation on Childcare Account Provision

4Children welcomes the opportunity to respond to HMRC and HM Treasury's consultation on account provision within the new Tax-Free Childcare scheme.

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

The mechanism for providing childcare accounts represents an important part of the architecture around the Tax-Free Childcare scheme, and we recognise that HMRC and HM Treasury are particularly keen to get this aspect of the design right in order to ensure that it works effectively for parents and childcare providers.

In our response to the original consultation on the design and implementation of Tax-Free Childcare, 4Children did not express a preference for a specific type of account delivery model, and this remains the case. In principle, we are open to any system that meets parents' needs and provides a high quality and reliable service. However, we would highlight four particular priorities that, in our view, should underpin the final decision on account delivery. These are:

- Parents should not be charged for voucher accounts (we recognise that all the options put forward in the consultation on account provision currently meet this requirement).
- The scheme should be rolled out to all eligible children within the first year, fulfilling the commitment made by Government in March 2014.
- Parents' money should be secure, as should their personal data.
- The scheme should be simple and effective for parents to use.

We would be supportive of any account system which successfully meets all of these criteria. However, we would also emphasise that, in our opinion, each of the four options for account provision set out in the consultation (Government provider, single provider, small/fixed number of contracts, open market) carry potential issues which will need to be properly managed if the scheme is to deliver the quality of service that parents will expect.

Therefore, regardless of which option is ultimately chosen, it will be important for Government to ensure that sufficient measures and commitments are in place to mitigate these potential problems. We offer detailed thoughts on this for each of the options in the consultation in the sections below.

Government Provider/Single Provider

One of the major concerns with both the Government provider and single provider options is that, given parents will only have one route for accessing accounts, the integrity of the entire scheme will depend on the quality of the systems developed by Government or the single provider. In essence, these options both mean that “all eggs are in one basket”, and if the system fails parents will have nowhere else to go.

This is a particular concern for us in terms of realising the “go live” date of autumn 2015, and ensuring full roll-out within the first year. In our view, given the rapid escalation in the cost of childcare, support for parents needs to come on-stream as quickly as possible, and it is therefore crucial that the established dates for “go live” and roll-out are met. If a Government or single provider option is ultimately chosen, but the system architecture is not ready in time, this will place parents in a very difficult position, as they will have been led to expect support at a certain point (and potentially planned their finances accordingly), but find this is unavailable and have no other way of accessing help with costs.

We would therefore stress that were a Government or single provider model selected then it would be vital to ensure, as an absolute minimum, that appropriate contingency plans were in place in case the system did not initially work, so that the fundamental commitments of providing parents with up to £2,000 of childcare support from autumn 2015, and rolling this out to all eligible children within the first year, could still be met.

We are also aware that within the Government or single provider models, the simplicity and effectiveness of the scheme will depend entirely on the ease of use of the interface designed by the chosen provider, and if parents ultimately find this difficult to navigate and utilise it will potentially detract from their experience of, and possibly confidence in, the scheme. In our view, it will therefore be essential for the system to be comprehensively tested before it goes live in autumn 2015, and for parents to be strongly involved in this process, to ensure the system meets their needs and is simple and effective for them to use.

In addition to these core concerns, we would also raise two further points at this stage. Firstly, during our discussions at a meeting with officials on Thursday 5th June, a valuable point was raised concerning the importance of trying to replicate competitive dynamics if a Government or single provider model is used. It was suggested that, if there is only one provider and no market forces to drive improvements in areas such as service standards, Government should give due consideration to what sorts of mechanisms could be put in place to replicate the effects of such forces, such as ensuring there is a meaningful process to enable user feedback to shape the design of the system. We would echo this sentiment, and feel that this is something that should be explored if a Government or single provider model is selected.

Secondly, there is a prospective issue around the security of parents' funds in instances of insolvency on the part of a single private provider. We will discuss the issue of provider insolvency in greater detail in the next section, as well as the measures we believe Government needs to take to mitigate the associated risks to parents, but at this stage wish to highlight that we recognise this is a potential problem within the single provider option as well as in multiple provider models.

Small Number of Contracts/Open Market

With respect to the multiple provider options set out in the consultation (defined as models with a small/fixed number of contracts or an open market), we would raise four specific concerns – these are the security of parents' money in the event of provider insolvency; data security within account systems; the need for a viable and robust market to be operational by autumn 2015; and the importance of the framework procurement mechanism within the open market model.

Firstly, in terms of the security of parents' funds, the consultation document notes that under private provider models "there would be a degree of risk of an account provider becoming insolvent and parents losing their money" (paragraph 4.21). In our view, it would be completely unacceptable for parents to be placed in a position where they potentially pay thousands of pounds of their own money into a Tax-Free Childcare account, only to lose this through no fault of their own if a provider were to become insolvent. Therefore, were a system based on multiple private providers to be selected, we believe the Government should give an upfront reassurance that it would stand behind any provider that failed, and guarantee all the money that parents had paid into the scheme in good faith.

We appreciate from discussions with officials that there are issues that surround the capacity to offer such a guarantee, and that there could for example be complexities if the Government of the day was different at the point at which a provider failed. From a parents' perspective however, we believe that the security of the money they pay into the system will be of fundamental importance, and it is likely that at least some parents will implicitly assume that there is state guarantee behind the money they pay in, even if in

reality there is not (this is was a point raised by several delegates at the meeting we attended on Thursday 5th June, and we feel it is worth reiterating).

At the very least, parents must be enabled to make an informed decision about whether to use Tax-Free Childcare, so if a multiple private provider model were selected but no state guarantee put in place there would need to be very clear messaging around this. However, we would emphasise that in our view, placing parents in a position where they could lose money through no fault of their own is far from ideal, and should a multiple private provider model be chosen we would expect Government to explore every available option for ensuring adequate protection for the money parents pay in.

As stated previously, we also recognise that issues around the security of funds are potentially relevant within the single provider model as well, should a contract be tendered to a private organisation which subsequently becomes insolvent. In this context, the need to enable informed choice and ideally provide a state guarantee is arguably even more significant, as the single provider would hold the collective funds of all parents using the scheme, not just a portion of the market. Therefore, we believe it is crucial for Government to factor these issues into its considerations of the single provider model as well.

Secondly, turning to the issue of data security, this will also be an important concern for many parents. We understand that the more extensive the data flows between HMRC and external agencies, the more inherent opportunity there will be for data security to be compromised. We would therefore emphasise that should a multiple provider option be selected, in which the number of data flows will naturally be quite large, it will be important for Government to ensure that data security is a high priority within system designs.

Thirdly, should a multiple private provider option ultimately be employed, we would also highlight the importance of a viable and robust account market being in place by autumn 2015, which can be extended to cover all eligible children within the first year of the scheme. As stated in the previous section, parents are under significant and rising pressure when it comes to childcare costs, so support needs to come on-stream as quickly as possible. It will therefore be vital for the market to be operational by the established “go live” date, and that the account systems built by market entrants during this timescale are capable of being rolled out to all eligible children within the first year, as well as being sufficiently robust and secure to meet parents’ needs.

We recognise that the risk of account systems not being operational by autumn 2015 are inherently lower than in a Government or single provider models, and that to some extent the market would guarantee that at least one functioning account was available at “go live”, but believe it is important to highlight this issue nonetheless given parents’ continuing need for support with childcare costs.

As a final point, we would also refer briefly to the issue of parental charging within the open market model. We very much welcome the Government’s commitment to ensuring

that parents will not be charged for the administration of Tax-Free Childcare accounts, and believe that this is fundamental to enabling parents to get full value from the scheme. We therefore appreciate that, within the consultation, the “open market” model has been deliberately structured to ensure that parents will not be liable for administration costs through the use of a framework procurement mechanism. Consequently, were the open market model to be selected, we would reiterate the importance of ensuring that this structure was ultimately realised when implementing the design, so that Government’s previous commitments around charging are delivered in full.

Review of Provision

It is clear that selecting the right model of account provision will be crucial to ensuring the success of Tax-Free Childcare, and that this will be fundamental to how parents engage with and utilise the scheme. Given that, as made clear in this response, all options carry some potential risks that will need to be effectively managed if the scheme is to deliver for parents, we feel it may be prudent for Government to undertake a mandatory review of account provision after the scheme is up and running (perhaps 3 to 5 years after initial implementation) to ensure that the option which is ultimately selected is meeting parents’ needs. In addition, should a model be selected which requires a contract to be tendered for provision, we would of course expect this to include all appropriate review and break clauses.

In conclusion, we would reiterate that in principle we are open to any of the account models proposed in the consultation document, provided that they meet the four priorities set out at the start of our response. However, as discussed in this submission, we believe that there are certain issues that would need to be addressed regardless of the final option that is chosen, and hope that Government will give due consideration to these when making its decision.

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

Yours sincerely,



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