



Llywodraeth Cymru
Welsh Government

CHILDCARE FUNDING (WALES) **BILL**

Explanatory Memorandum
incorporating the
Regulatory Impact Assessment and
Explanatory Notes

November 2018

The Childcare Funding (Wales) Bill

Explanatory Memorandum to the Childcare Funding (Wales) Bill

This Explanatory Memorandum has been prepared by the Education and Public Services Group of the Welsh Government and is laid before the National Assembly for Wales.

Member's Declaration

In my view the provisions of the Childcare Funding (Wales) Bill, introduced by me on 16 April 2018 would be within the legislative competence of the National Assembly for Wales.

Huw Irranca-Davies AM

Minister for Children and Social Care
Assembly Member in charge of the Bill

27 November 2018

Contents Page

PART 1 – EXPLANATORY MEMORANDUM

1. Description	4
2. Legislative Competence	5
3. Purpose and intended effect of the legislation	8
4. Consultation	14
5. Power to make subordinate legislation	16
6. Regulatory Impact Assessment (RIA)	21

PART 2 – IMPACT ASSESSMENT

7. Options	29
8. Costs and benefits	38
9. Summary of Specific Impact Assessments	61
10. Post implementation Review	67

ANNEX 1 - Explanatory Notes	69
ANNEX 2 - Index of Standing Orders	75
ANNEX 3 - Schedule of Amendments	78
ANNEX 4 - RIA Cost model components and definitions	82
ANNEX 5 - RIA Option 1 Costings	85
ANNEX 6 - RIA Option 2 Costings	93
ANNEX 7 - RIA Option 3 Costings	99
ANNEX 8 - RIA Option 4 Costings	106
ANNEX 9 – RIA Option 5 Costings	113

1 Description

- 1.1 The Childcare Funding (Wales) Bill (“the Bill”) gives the Welsh Ministers the power to provide funding for childcare for qualifying children of working parents and to make regulations about the arrangements for administering and operating such funding.
- 1.2 The Bill will require applicants to provide information to enable an assessment of their eligibility for the funding to be undertaken and will make it possible for relevant UK Government departments to share information with the Welsh Ministers for the purposes of determining a person’s eligibility. The data sharing gateway is an integral part of the process whereby qualifying parents can apply for funding and provide evidence of their eligibility by way of a primarily digital system.

2 Legislative Competence

2.1 The Wales Act 2017 (the 2017 Act) introduces a reserved powers model of legislative competence for Wales, and amends the Government of Wales Act 2016 (GOWA) to substitute a new section 108A (legislative competence) for the existing section 108 and new Schedules 7A (reserved matters) and 7B (general restrictions) for the existing Schedule 7¹. Under this reserved powers model the Assembly will be assumed to have competence to legislate unless a provision:

- extends otherwise than in relation to England and Wales;
- applies etc. otherwise than in relation to Wales
 - unless ancillary to a provision within competence; and
 - has no greater effect otherwise than in relation to Wales than is necessary
- relates to reserved matters (provision set out in Schedule 7A to GOWA);
- breaches any restrictions in Schedule 7B;
- is compatible with Convention rights or EU law.

2.2 Part 1 of Schedule 7A lists the general reservations from competence, Part 2 the specific reservations from competence, which like those listed in Part 1 of Schedule 7A, are reserved matters. It is not considered that the provision made by the Bill will fall within the reservations contained in Part 2 of Schedule 7A, in particular section F1 of Head F – social security, child support, pensions and compensation.

2.3 Schedule 7B to GOWA contains the general restrictions from the Assembly's competence. Paragraph 1 of Part 1 of Schedule 7B provides that a provision of an Act of the Assembly cannot make modifications of, or confer power by subordinate legislation to make modifications of, the law on "reserved matters". "Reserved matters" is defined by paragraph 2 of Schedule 7B to mean:

- any enactment with a reserved subject matter (within the reservations set out in Schedule 7A) (except for GOWA);
- any rule of law not in an enactment but where the subject matter is a reserved matter.

2.4 Paragraph 2 of Schedule 7B contains an exception to the restriction in paragraph 1 so that a provision may be within competence if the modification:

- is ancillary to a provision made which does not relate to reserved matters; and
- has no greater effect on those matters than is necessary to give effect to the purpose of the provision.

¹ Paragraph 108 A and Schedules 7A and 7B were inserted into GOWA by section 3 of the Wales Act 2017 (c. 4) and came into force on 1 April 2018.

- 2.5** Section 8 of the Bill, contains an amendment to section 18 of the Commissioners for Revenue and Customs Act 2005² (the 2005 Act) and is therefore considered to engage the restriction in paragraph 1 of Part 1 of Schedule 7B because the amendment modifies the law on reserved matters (by amending an enactment which comes within the Schedule 7A, section A1 reservation in relation to fiscal economic and monetary policy). However, it is considered that the provision falls within the exception to the restriction (which is in paragraph 2 of Schedule 7B).
- 2.6** In order to fall within this exception a provision must satisfy both limbs of the test. The first limb of the test (set out in paragraph 2(1)(a) of Schedule 7B) is that the provision is ancillary to a provision which does not relate to reserved matters.
- 2.7** Section 108A(7) of GOWA confirms that a provision is ancillary to another provision if it provides for the enforcement of the other provision or is incidental to, or consequential on, that provision.
- 2.8** It is considered that the amendment to section 18 of the 2005 Act is ancillary to both section 1 of the Bill (the Welsh Ministers' power to fund childcare) or sections 2 and 4 of the Bill (the power to make regulations about the administration and operation of a childcare scheme and in particular the power to enable HMRC to provide qualifying information to the Welsh Ministers). These provisions have a devolved purpose and in order to make those provisions effective HMRC must be able to share information with the Welsh Ministers lawfully. Without the amendment to section 18 of the 2005 Act HMRC could not disclose relevant information to the Welsh Ministers for the purposes of the administration of the funding, and on this basis it is considered that the amendment to section 18 of the 2005 Act is ancillary to the provisions referred to above and therefore satisfies the first limb of the test in paragraph 2(1)(a).
- 2.9** The second limb of the test (contained in paragraph 2(1)(b) of Schedule 7B) is that the provision has no greater effect than is necessary to give effect to the purpose of the devolved provision. Section 18 of the 2005 Act acts as a bar to disclosure, it would not be possible for the Welsh Ministers to operate a digital application and eligibility checking system using HMRC-held information without the ability to access that information lawfully and therefore without the amendment to section 18 of the 2005 Act which is contained in section 8 of the Bill
- 2.10** When giving consideration to what is necessary for the purposes of paragraph 2(1)(b) of Schedule 7B it is not relevant that the UK Parliament could itself have enacted the provision. It is therefore considered that the amendment to section 18 of the 2005 Act which is made by section 8 of the Bill has no greater effect on the law on reserved matters than is necessary to give effect to the purpose of the provision made in sections 1, 2 and 4 of the Bill.

² 2005 c. 11.

2.11 The Assembly therefore has competence to amend section 18 of the Commissioners for Revenue and Customs Act 2005 on the basis that this amendment is ancillary to provisions made in the Bill and is necessary to give effect to the purposes of the provisions.

3 Purpose and intended effect of the legislation

Policy background

- 3.1 This Bill is intended to facilitate the delivery of a key commitment in the Welsh Labour manifesto *Together for Wales* (2016)³, which is to provide 30 hours per week of government funded early education and childcare to the working parents of three and four year olds in Wales for up to 48 weeks per year.
- 3.2 This commitment was set out in *Taking Wales Forward*⁴ and expanded on in *Prosperity for All*⁵. The 30 hour offer also features in the *Economic Action Plan*⁶.
- 3.3 All eligible 3 and 4 year old children (from the term after their third birthday) are entitled to a minimum of 10 hours early education per week during term time over 39 weeks of the year. The Offer **builds** on this universal entitlement and provides up to a total of 30 hours early education and care per week over 48 weeks of the year for the 3 and 4 year olds of working parents.
- 3.4 The Bill and this Explanatory Memorandum relate to the childcare element of the Offer (from here on in referred to as “the Offer”) and are therefore concerned with the funding that will be provided in respect of the eligible children of working parents.

Policy objectives

- 3.5 The primary purpose of this Bill is to support the Welsh economy, by helping parents, particularly mothers, to return to work or increase the hours they work. This will both increase the size of the workforce, and improve the employability of parents, especially mothers.
- 3.6 The Bill will also support a number of additional purposes, including increasing parents employment choices, particularly those of mothers and improving the social wellbeing of children and parents, with improvements to the quality of family life and childhood experiences that come with an increased disposable income.

³ The Welsh Labour Manifesto 2016 can be found at <http://d3n8a8pro7vhmx.cloudfront.net/themes/56f26ee2ebad64d813000001/attachments/original/1460733418/Welsh-Labour-Manifesto2016.pdf?1460733418>

⁴Welsh Government - Taking Wales Forward 2016-2021:

<http://gov.wales/docs/strategies/160920-taking-wales-forward-en.pdf>

⁵ Welsh Government – Prosperity for All: the national strategy :

<http://gov.wales/docs/strategies/170919-prosperity-for-all-en.pdf>

⁶ Welsh Government- Prosperity for All: economic action plan :

<http://gov.wales/docs/det/publications/171213-economic-action-plan-en.pdf>

- 3.7** Evidence shows the cost of childcare is a major concern for working parents, influencing household finances and the family's quality of life. We have listened to these concerns and to parents who say these costs are acting as a barrier, preventing them from returning to work or progressing in work.
- 3.8** The provision of affordable, accessible, quality early years provision, available at the times parents need it, plays an essential role in the expansion of our economy, helping and enabling parents, especially mothers, to work and/or increase the hours that they work. Dual-earning (for couple households) or employment (for single parent households) have been demonstrated to be the best route out of poverty and to help tackle "in work poverty". This, in turn, will increase household income and raise the standard of living of the whole family. Reducing the number of families living in workless households is also a priority, as children living in workless households are particularly at risk of living in poverty.
- 3.9** Our childcare offer will help families by providing them with options and support. It will ensure children have a safe and interesting place to thrive, learn and grow and that home life is better due to less financial pressure on families. In supporting working parents with the costs of childcare, we remove one of the potential barriers to employment, increase employability choices and influence disposable income.

Eligibility for childcare funding

- 3.10** The Bill sets out the high level eligibility criteria for the funding. Regulations and an administrative scheme will provide further detail about the administration and operation of the Offer. Statements of Policy Intent in relation to both the regulations and the scheme have been made available for scrutiny by the Assembly.
- 3.11** Funding will be available from the term after the child's third birthday until the September after their fourth birthday:
- where both parents are working or where the sole parent is working in lone parent families;
 - where each parent is earning, on average, a weekly minimum equivalent to 16 hours at national minimum wage (NMW) or national living wage (NLW);
 - for self-employed parents and parents on zero hours contracts, providing their average earnings meet the minimum earnings criteria over a 3 month period; and
- 3.12** If at least one parent in a household earns £100,000 or more a year (gross), that family will not be eligible to receive the additional hours of funded childcare provided through the Offer.

3.13 Recognising that there are many types of family groupings and their situations and circumstances can sometimes be complex, the funding will be available in other exceptional circumstances, including:

- where both parents are employed (and earning the equivalent of at least 16 hours at NLW or NMW per week) but one or both parents are temporarily away from the workplace on statutory parental, maternity, paternity or adoption leave; or
- where both parents are employed (and earning the equivalent of at least 16 hours at NLW or NMW per week) but one or both parents are temporarily away from the workplace on statutory sick pay;
- where one parent is employed (and earning the equivalent of at least 16 hours at NLW or NMW per week) and one parent is disabled or incapacitated based on receipt of specific benefits or has substantial caring responsibilities based on specific benefits received for caring. This includes families where one parent meets the eligibility criteria and the other parent is in receipt of one of the following benefits:
 - Incapacity benefit
 - Carers allowance
 - Severe disablement allowance
 - Income-based Employment and support allowance
- the first 12 months in which a parent is newly self-employed and their business is in the initial start up period. Parents will need to register their business with Her Majesty's Revenue and Customs (HMRC) and provide evidence that they are self employed in order to qualify, but will not need to meet the minimum earnings criteria during this time;
- to kinship carers where they meet the definition of a working parent.

Testing of the scheme

3.14 Early implementation of the Offer began in September 2017 in Anglesey, Gwynedd, Blaenau Gwent, Caerphilly, Flintshire, Rhondda Cynon Taff and Swansea. Since September 2018, these authorities have been joined by Ceredigion, Neath Port Talbot, Newport, Wrexham, Conwy and Torfaen, with Cardiff joining from October 2018, We are planning to roll out to other authorities in 2019.

3.15 We have introduced a change in delivery arrangements for the second year of early implementation. In the first year, each local authority undertook the full process themselves, including the assessment of applications and processing of payments to childcare providers. For the remaining period of early implementation, local authorities will be working in partnership, with one authority accepting and processing applications on behalf of others and making relevant payments.

3.16 As a result of these new arrangements, we have added a fifth option to the Regulatory Impact Assessment.

Evaluation

- 3.17** An independent evaluation and monitoring contract is in place which will provide feedback and valuable learning from the early implementation of the Offer. This evaluation will consider:
- how effectively the Offer is being delivered to children and parents in the early implementer areas;
 - the impact that the Offer is having on parental employability, wellbeing and disposable income; and
 - the impact of the Offer on the childcare sector, looking at the effect on different types of childcare providers, changes to business practices and the effect of intervention on the childcare market.
- 3.18** Alignment of the childcare and early education elements of the 30 hours, and any unintended consequences, will also be evaluated.
- 3.19** The Responsible Committee received a confidential briefing on some of the key findings of the evaluation on 24 October to support their scrutiny of the Bill. It is anticipated that the evaluation report will be published on or around 22 November 2018.
- 3.20** A separate independent evaluation of national roll out will be commissioned; further details about this are given in Section 10 - Post Implementation Review.

Purpose of the legislation

- 3.21** The purpose of the legislation is to confer a power on the Welsh Ministers to provide funding for childcare for qualifying children of working parents. The Bill contains a power to make regulations about the arrangements for administering and operating the funding scheme.
- 3.22** The primary focus of the Bill is to enable the collection and consideration of data pertinent to the determination of a person's eligibility for the Offer. To that end it is intended that regulations made under the Bill will make it possible for relevant UK Government departments to share information with the Welsh Ministers or with persons providing services to the Welsh Ministers for the purposes of determining a person's eligibility and for the onward transmission of relevant data and determinations as required.
- 3.23** The Bill will also permit the making of arrangements for imposing penalties in situations where applicants provide false or misleading information or behave dishonestly. Regulations made under the Bill will provide arrangements for applicants to ask for a penalty or a decision made about their eligibility to be reviewed and establish a process for appeals against a penalty or in relation to a decision about eligibility.

- 3.24** The Bill also gives the power to make provision within the regulations to create criminal sanctions for the wrongful disclosure of information that relates to a particular person, recognising the requirement for on-going confidentiality of information supplied by third parties and applicants.
- 3.25** The end result will be one consistent, national online application and eligibility checking system that applicants can use to apply for childcare funding for their child, as well as a telephone line for those who are not able to access the online system. This should help avoid a situation in Wales where local authorities approach the task of eligibility checking in a different way and will mean that all applicants across Wales have access to the same service and that the rules of the scheme are applied consistently across the board.
- 3.26** Applicants will be able to log on to a web portal where they will be asked to enter information about themselves and their child. The “relevant authority” will check the circumstances of the parent and child against various data sets, including real time data and make a determination on whether or not a child of that parent is eligible for childcare funding. In the most straightforward of cases, applicants will find out quickly if they are eligible or not for childcare funding.
- 3.27** There will be penalties should applicants make false claims or provide false information but it will be possible to request that these penalties be reviewed and there will be a route of appeal. Furthermore, the Bill will make it possible for applicants to ask for decisions relating to their eligibility to be reviewed and appeal against decisions.
- 3.28** Five options for the delivery of a national application and eligibility checking system were considered and the associated costs and benefits are considered in the Regulatory Impact Assessment. As a result, it is envisaged that the application and eligibility checking system will be operated by HMRC (as the “relevant authority” of choice), utilising their Childcare Service, which has links to relevant corroborative data sets and represents the best value for money. Applications for the childcare funding scheme will work in a very similar way to the system currently operating in England in respect of their Childcare Offer, which has been tried and tested since 2017, and Tax Free Childcare (TFC).
- 3.29** The intention is to adapt this system to meet the needs of the Welsh Offer. Using HMRC’s system has a number of advantages, including:
- enabling eligibility checks to be made against real-time data; providing a consistent system and approach across the whole of Wales;
 - providing quick decisions to parents regarding their eligibility;
 - reducing the risk around data security and fraud; and

- The experience of HMRC through their Childcare Service, of administering the eligibility checks for both TFC and the English Childcare Offer. By full roll-out of our Offer, they will have three years experience and learning.

4 Consultation

- 4.1** The Welsh Government has undertaken significant engagement with parents, providers and Local Authorities on the Offer and lessons learned from early implementation will influence and inform aspects of the longer term policy.
- 4.2** In August 2016, Welsh Government launched the #TalkChildcare campaign (phase 1). This campaign targeted parents and childcare providers to understand in greater depth the barriers parents face in accessing childcare, what is important to them about the Offer and to ensure that providers were aware of and understood the Offer. The campaign surveyed parents and invited questions. In addition, face to face engagement was undertaken with roadshows hosted in childcare settings in 15 towns across Wales. A number of regional events, focus groups and webinars were held to engage childcare providers. The Welsh Government also commissioned a set of in-depth focus groups with parents to understand current access to childcare and their thoughts about the Offer.
- 4.3** As at August 2017, over 6000 people including parents and childcare providers have engaged with Welsh Government in relation to the Offer. The Welsh Government has subsequently published the key messages received from stakeholders and outlined the intended action in relation to the points raised⁷.
- 4.4** In July 2016, Local Authorities were invited to express an interest to pilot the Offer. The EILAs were selected based on this information, and monthly workshops were held to co-produce the details of the Offer. Applications opened to parents in the EILAs in July 2017, and in September 2017, the pilot commenced.
- 4.5** The Welsh Government is working closely with the EILAs to seek regular feedback and is engaging other Local Authorities in preparation for wider roll out. EILAs are the test bed for this Offer and remain important stakeholders as the Offer moves forward. They provide Welsh Government valuable feedback on how the Offer is being delivered and any impacts it is having.
- 4.6** To maintain engagement, phase 2 of the #TalkChildcare campaign was launched in October 2017. The focus of this phase is on (but not limited to) childcare providers to ensure that a good awareness of the Offer is maintained but with a focus on a national level. It also captures the learning and views of those involved in early implementation. 5 provider events were held over the Summer of 2018, with a further 4 planned for the Autumn. The second phase of the #TalkChildcare campaign will also seek to engage with harder to reach communities.

⁷ <http://gov.wales/topics/people-and-communities/people/children-and-young-people/childcare/talk-childcare/?lang=en>

- 4.7** Members of the Childcare Offer Stakeholder Reference Group were invited to an engagement session on 23 November 2017 to discuss some of the options available to Welsh Government in terms of administering the application and eligibility checking system for childcare funding. This session afforded an opportunity to discuss with key stakeholders, including the Children’s Commissioner; Care Inspectorate Wales, CWLWM⁸ and Local Authority representatives, some of the advantages and disadvantages of the five options for implementation outlined in the Regulatory Impact Assessment and the purpose of the proposed Bill. The Stakeholder Reference Group have received regular updates on the Bill throughout 2018. A “lessons learned” session was also held with EILAs on 17 January 2018 which proved useful in understanding some of the challenges and issues associated with the current approach to eligibility checking for childcare funding and alternative ways of achieving this policy objective.
- 4.8** Given the technical nature of the Bill and its limited appeal to the wider public, it was not felt appropriate to undertake an open consultation on a draft Bill. The policy objectives of the Bill were discussed in some detail with members of the Childcare Offer Stakeholder Reference Group in November 2017 and the “contents” page of the Bill shared with members of the same group in March 2018. This provided an opportunity for officials to explain to key interested parties the scope of the Bill, why legislation was necessary and what the Welsh Government was seeking to achieve through the different sections of the Bill.
- 4.9** Welsh Government has consulted appropriately with the stakeholders directly affected by the Bill, particularly HMRC, Office of the Secretary of State for Wales, Department for Education and the Treasury. HMRC, in particular, as a key partner, has been involved at every stage of the process of developing the Bill and this will continue. Full drafts of the Bill have been shared with HMRC, the Wales Office and the Ministry of Justice. Amendments have been made to address HMRC requirements, particularly in respect of the nature of the information gateway and provisions for wrongful disclosure of its customer information. Government amendments were also tabled during Stage 2 of the Bill in light of feedback from the Department for Work and Pensions with a view to ensuring that the provisions in section 4 of the Bill relating to the provision of “qualifying information” to the Welsh Ministers by third parties were consistent.
- 4.10** There has been specific engagement with the Ministry of Justice on the impact of the Bill on the justice system.

⁸ Cwlwm brings together the five leading childcare organisations in Wales to deliver a bilingual integrated service that seeks to ensure the best possible outcomes for children and families across Wales. Cwlwm partner organisations are: Mudiad Meithrin; Clybiau Plant Cymru Kids’ Club; National Day Nurseries Association Cymru; Professional Association for Childcare and Early Years (PACEY Cymru) and Wales Pre-School Providers Association.

5 Power to make subordinate legislation

5.1 The Bill contains provisions to make subordinate legislation. Table 5.1 (subordinate legislation)) sets out in relation to these:

(i).the person upon whom, or the body upon which, the power is conferred;

(ii).the form in which the power is to be exercised;

(iii).the appropriateness of the delegated power;

(iv).the applied procedure; that is, whether it is “affirmative”, “negative”, or “no procedure”, together with reasons why it is considered appropriate.

5.2 The Welsh Government will consult on the content of the subordinate legislation where it is considered appropriate to do so. The precise nature of the consultation (if any) will be decided when the proposals have been formalised.

Table 5.1: Summary of powers to make subordinate legislation in the provisions of the Childcare Funding (Wales) Bill

Section	Power conferred on	Form	Appropriateness of delegated power	Procedure	Reason for procedure
1(2)(a) 1(2)(b) 1(2)(c) 1(2)(d) 1(6)	Welsh Ministers	Regulations	<p>The regulation-making powers in this section allow the Welsh Ministers to make regulations which, among other things, will set out the detailed provision about who is a “qualifying child of working parents” (sections 1(2)(a) and 1(2)(b) or specify any other conditions which must be met in order to be eligible to receive funding (section 1(2)(c).</p> <p>The power in section 1(2)(d) allows the Welsh Ministers to make provision to require a person making an application to make a declaration that any requirements specified in regulations are met and continue to be met.</p> <p>The power in section 1(6) allows the Welsh Ministers to make further provision about the eligibility of applicants for funding such as</p>	Affirmative	The affirmative procedure is appropriate given that these regulations will set out the detailed eligibility criteria for the Offer and as such will have significant policy implications.

Section	Power conferred on	Form	Appropriateness of delegated power	Procedure	Reason for procedure
			<p>specifying when a child is to be regarded as being in Wales; who is a “partner” and when a person is considered to be carrying out “paid work”, etc.</p> <p>Given the plethora of different circumstances that must be covered it would not be appropriate to set out all the detail in the Bill.</p> <p>The use of regulations will permit a timely and flexible response by Welsh Ministers and will ensure that the legislation does not become outdated or require early amendment by way of primary legislation.</p>		
2(1)	Welsh Ministers	Regulations	<p>This section contains a power for the Welsh Ministers to make regulations which will prescribe the arrangements for the administration of the funding.</p> <p>These regulations may (amongst other things) include provision about</p>	Affirmative	The affirmative procedure is appropriate for regulations made under this power. The regulations may, for example, make provision which will deal with the sharing of parental

Section	Power conferred on	Form	Appropriateness of delegated power	Procedure	Reason for procedure
			<p>the matters which are referred to in sections 3-7 of the Bill. It is anticipated they will make provision, for example, about the sharing of information to enable determinations of eligibility to be made promptly; about the onward disclosure of information and reviews of determinations and appeals to the First Tier Tribunal.</p> <p>In particular, section 7 provides that that the regulations which the Welsh Ministers may make under section 2(1) may also confer powers or impose obligations on local authorities (section 7(1)). Section 7(2) provides that the regulations made under section 2(1) may confer power on the Welsh Ministers to issue guidance and may also make provision requiring local authorities to have regard to any guidance issued in accordance with that power.</p>		<p>information and will also create a criminal offence for unlawful sharing of such information that relates to a particular person.</p> <p>They may also confer powers and duties on local authorities.</p> <p>Such considerations are of importance to the governance of the Offer and are therefore suitable for the affirmative procedure.</p>

Section	Power conferred on	Form	Appropriateness of delegated power	Procedure	Reason for procedure
			The arrangements need to be sufficiently flexible to take into account any lessons learned from early implementation of the Offer in some local authority areas in Wales. The power to make regulations will ensure that Welsh Ministers are able to respond quickly where an evidenced-based need for change is demonstrated.		
10	Welsh Ministers	Regulations	This section enables the amendment of the maximum amount of a financial penalty which is referred to in section 3(6).	Affirmative	The affirmative procedure is appropriate for regulations made under this power as it would involve the amendment of primary legislation and result in an increase in a financial penalty.
12(2)	Welsh Ministers	Order	Suitable for order because this provision enables Welsh Ministers to provide for commencement of the Bill.	No procedure	Commencement orders are technical in nature.

6. Regulatory Impact Assessment

- 6.1. A Regulatory Impact Assessment has been completed for the Bill and it follows below.
- 6.2. There are no specific provisions in the Bill which charge expenditure on the Welsh Consolidated Fund.

PART 2 - REGULATORY IMPACT ASSESSMENT

SUMMARY – REGULATORY IMPACT ASSESSMENT (RIA)

ADMINISTRATION OF CHILDCARE FUNDING (WALES) BILL		
<p>Preferred option: Her Majesty's Revenue and Customs (HMRC) receiving applications for the Offer, checking eligibility of applicants, and notifying applicants of the outcome on behalf of the Welsh Government. Details of the option are outlined on pages 31-33 of the RIA, details of associated costs are outlined in Annex 5-8.</p>		
Stage: Draft Bill	Appraisal period: 2019/20 - 2024/25	Price base year: 2017/18
Total Cost Total: £ 10,526,000 Present value: £9,516,000	Total Benefits Total: £0 Present value: £0	Net Present Value (NPV): £9,516,000

Administrative Cost

<p>Costs: The administrative costs of HMRC undertaking an electronic application and eligibility checking function for the Offer would involve; transitional costs of adapting the current system to accept Welsh applications and issue Wales specific outputs, and the associated set up of support functions such as a bilingual helpdesk. Of the £3,585,000 transitional cost, £3,174,000 is a capital cost and £411,000 is a revenue cost. Recurrent costs would also be incurred for the checks to take place, maintenance and hosting of the system and ongoing support function. These costs would be met by Welsh Government.</p>			
Transitional: £3,585,000	Recurrent: £5,533,000	Total: £9,118,000	PV: £8,288,000
<p>Cost-savings: The cost of HMRC undertaking an application and eligibility checking function on the Welsh Government's behalf has been measured against the baseline option of Local Authorities manually processing applications and checking the eligibility of applicants as this is the option currently used within the Early Implementation phase of the Offer. As is set out in the RIA, the cost of the HMRC option is expected to be lower than the baseline option. However, this is not reflected in the figures in this summary sheet because that would result in a negative cost being presented and this could be regarded as misleading.</p>			
Transitional: 0	Recurrent: 0	Total: 0	PV: £0
Net administrative cost: £9,118,000			

Compliance Costs

Compliance costs are the administrative burden faced by applicants in terms of the time spent completing an application through the HMRC process. The time has been quantified as a monetary value (method outlined on page 36). Penalties are not expected (see para 6.9), so the cost is estimated to be £0.

Transitional: 0	Recurrent: £1,408,000	Total: £1,408,000	PV: £1,228,000
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Other Costs

No other costs have been quantified in the analysis.

Transitional: £0	Recurrent: £0	Total: £0	PV: £0
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Unquantified Costs and disbenefits

1 – The existing HMRC system, the Childcare Service, was originally developed to undertake eligibility checks in respect of Tax Free Childcare(TFC), a Department for Work and Pensions (DWP) scheme, and then adapted to undertake eligibility checks for the English childcare offer administered by the Department for Education (DfE). Therefore, there is a risk that DWP and DfE are viewed as the primary customers and act as the driver for any future developments.

2 – Baseline eligibility criteria is based on the English policy – any deviation from this eligibility criteria would incur cost and potential delay.

3 – Performance issues with the TFC system at the point of full roll out – until these have been rectified; there is a risk of using a system with performance issues.

4 – HMRC system would not administer the applications for the 10 hours of education that all 3-4 year olds are entitled to. Therefore, a two-strand application process will be necessary, with all parents applying to their Local Authority for an education place and eligible parents applying through HMRC for the Offer.

Benefits

1 – Through their Childcare Service, HMRC have been administering the eligibility checks for both TFC and the English Childcare Offer since mid 2017, and will have three years of experience in handling queries and concerns by the date of roll out of the Offer.

2 - Data access protocols and agreements have already been confirmed between HMRC and other relevant departments and are operating effectively.

3 – Data security issues are significantly reduced from other options as no documentary evidence is required to be submitted.

4 – Fraud risk is significantly reduced as eligibility can be checked on a live basis with data that cannot be misrepresented or altered by parents endeavouring to make a fraudulent claim of eligibility. Reconfirmation of eligibility can also be undertaken on a regular basis for all participants, not just a 20% sample as in Option 1.

Total: NA

PV: NA

Key evidence, assumptions and uncertainties

The key evidence supporting this work consists of the cost models provided by independent consultants⁹. The details of these are included in the annexes. The consultants have worked with assumptions and estimates of the size of the programme, the application process and IT platforms to be used. Their cost models are created using industry benchmarked cost estimates, HMRC supplied data and assumptions based on interviews with the Welsh Government and project members and Local Authorities

⁹ Gartner Consulting

RIA introduction

- 6.3. The Childcare Funding (Wales) Bill will confer a power on the Welsh Ministers to provide funding for childcare for qualifying children of working parents. The Bill contains a power to make regulations about the arrangements for administering and operating the funding scheme, and specifically for the collection and consideration of data pertinent to the determination of a person's eligibility for the Offer.
- 6.4. There are a number of options for the establishment of a system that would both accept and consider applications from parents, and confirm a person's eligibility for the Offer. To ensure the clearest assessment of the options an independent consultancy¹⁰ was commissioned to provide costs and benefits. Initially they assessed four options for considering applications and confirming eligibility. Later, a fifth option was considered which reflects early implementation plans¹¹. This has been considered in this revised assessment (see Option 5). The consultancy used a range of data sources, including industry standards and information supplied by HMRC and Early Implementer Local Authorities to produce their costing model and the figures used throughout this assessment.
- 6.5. An appraisal period of six years has been used in the analysis covering the period 2019-20 to 2024-25. This period is considered sufficient to capture the upfront transitional costs and to demonstrate the ongoing annual costs. All costs in the RIA have been rounded to the nearest £1,000, some of the totals in tables may not sum due to this rounding. Costs have been discounted using HM Treasury's central discount rate of 3.5%.

Eligibility

- 6.6. The Bill sets out the high level eligibility criteria for the funding. The regulations and an administrative scheme will provide further detail about the administration and operation of the Offer. Section 3, Part 1 of this document details the purpose and effect of the intended Legislation. Eligibility is detailed at paragraph 3.10.
- 6.7. This RIA assumes that the eligibility of parents will need to be checked against these eligibility criteria and any complex or exceptional cases will be dealt with in accordance with the guidance.

Appeals

¹⁰ Gartner Consulting were appointed. Gartner provides research insight and benchmarking industry data to enable them to create cost models for IT projects for business.

¹¹ Early implementation in a sample of geographical areas is intended to test delivery of the Offer. This is being evaluated to provide lessons to inform policy and operational decisions.

- 6.8. If found to be ineligible, all applicants will have the right to appeal the decision. In each of the five options, appeals would first involve a review of the case which has been included in the cost model.
- 6.9. Should the case be required to be taken further, a referral to the relevant authority would be initiated. This may take the form of appeals to the First-tier Tribunal in the case of HMRC or appeal panels in the case of Local Authorities.
- 6.10. For both TFC and the English childcare offer appeals are directed to the First Tier Tribunal. After considering the numbers of appeals and the associated costs, and scaling them in relation to the likely numbers of eligible parents and children in Wales, the numbers of appeals referred through this process is thought to be 1 case per 6 months and as the associated cost is considered negligible, this has not been referenced separately within the costings. While the cost of the appeals has not been quantified (and is therefore unknown), it is not expected to differ between options.

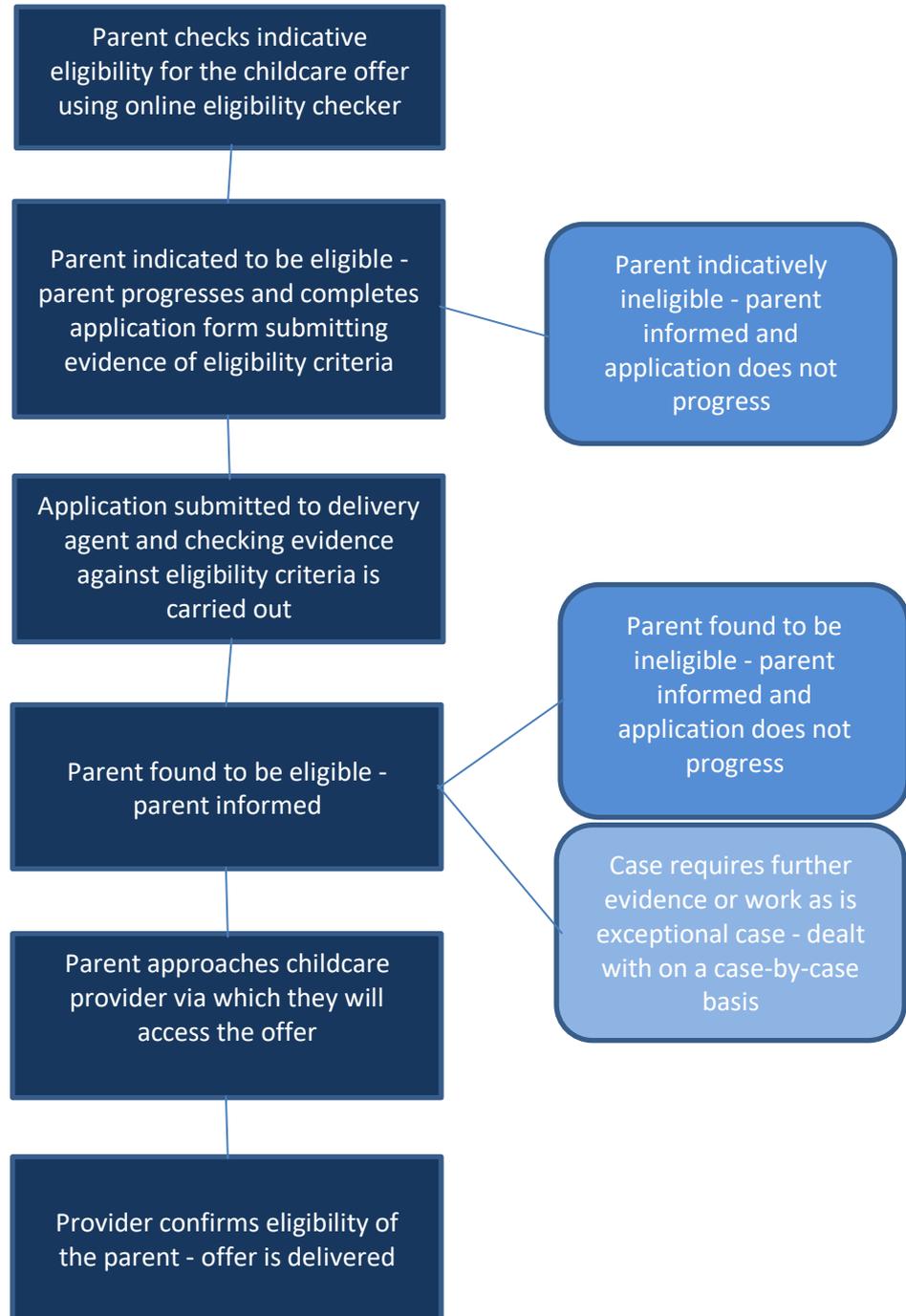
Penalties

- 6.11. There have not been any civil penalties for providing false or misleading information in relation to the English Offer at the time of writing. Given the population of Wales is far smaller than England; we have assumed it is highly unlikely there will be any civil penalties in Wales and the associated cost is therefore expected to be zero.

Scope of the RIA

6.12. Each option outlined and considered by the RIA follows a similar application and eligibility checking process which is mapped out below.

Figure 1: Application and Eligibility Process Diagram



6.13. As figure 1 illustrates, the process starts at the point where a parent applies to take part in the Offer, and checks their eligibility using the eligibility online checker. As part of the application process, the eligibility of the parent and child is checked against evidence, whether this is submitted in documentary form by parents or using existing admin data sources such as PAYE, benefits or council tax data.

- 6.14. Once parental eligibility has been determined, the parent is informed of the outcome. In some cases, confirming eligibility will be a straightforward process and the parent will be able to be informed quickly. In other more complex circumstances, the parent may be asked for additional information to prove their eligibility for example, when dealing with cases with eligibility criteria which are considered exceptional.
- 6.15. Once informed, the parent will be given a form of confirmation to take to a childcare provider to demonstrate their eligibility to take part in the Offer.
- 6.16. The system also needs a mechanism to confirm the continued eligibility of parents accessing the Offer. Re-checks will be required termly for all applicants. It is not expected that applicants will need to re-submit full applications as part of this process, nor will all applicants be expected to provide documentary evidence in support of their continued eligibility. However it is expected that random spot checks will be undertaken on a minimum of 20% of those parents who re-confirm their eligibility, where further evidence will be sought in respect of their continued eligibility.
- 6.17. The process also requires a mechanism for appeals should the parents disagree with the eligibility decision which has been made.
- 6.18. The scope of this RIA follows this process – it starts at the point where a parent begins an application and ends at the point where a parents eligibility is confirmed or denied.
- 6.19. The steps of the process whereby the parents chosen childcare provider is able to confirm the child’s eligibility is not within the scope of this RIA.
- 6.20. In England, the stage where a childcare provider can check the eligibility of a parent for funding under their childcare offer is owned and run by DfE. They have a validation system, whereby Local Authorities and some providers can confirm a parents eligibility remains valid prior to either offering the childcare or making payments in respect of childcare. This is one potential option available for the Welsh Government to explore for this part of the process. However, a decision is not required in the scope of this Bill and is therefore not considered in the RIA as alternative options have not yet been fully explored.

7 Options

- 7.1 The five options all follow the process set out in figure 1 but the delivery mechanisms and delivery agent are different. These options are:

- Option 1** – Local Authorities accept applications and check eligibility
- Option 2** – HMRC accept applications and check eligibility
- Option 3** – Welsh Government accepts applications and check eligibility
- Option 4** – Contracted party accept applications and check eligibility
- Option 5** – 10 Delivery Authorities accept applications and check eligibility on behalf of all local authorities

7.2 The preferred option is Option 2, which involves HMRC accepting applications and undertaking eligibility checks.

Option 5 has been added to this updated version of the RIA to reflect current early implementation plans. This addition was initially drafted by analysts from the Welsh Government but the approach and final figures were revised following discussions with the independent consultancy. For consistency, a change to case management costs were also made to Option 1 following the advice of the independent consultants (this is explained below). Option 5 is now considered the baseline option.

Option 1 – Local Authorities accept applications and check eligibility

7.3 Option 1 was originally considered the ‘do nothing’ option. Option 1 remains a viable option, but is not the intended approach for early implementation prior to national roll out (set out in Option 5 – which is now considered the ‘do nothing’ option). Should no legislation be taken forward, Option 1 could still be taken forward. This is likely if the approach we are testing (Option 5) is found less favourable.

7.4 Although each authority would conduct the application and eligibility checking individually, they would be required to follow the same process illustrated in figure 2.

7.5 Each authority would set up a bilingual online application with an indicative eligibility checker. Parents would declare their situation against each of the eligibility criteria to assess their eligibility.

7.6 If the eligibility checker found them to be eligible, they would be required to complete the application and submit proof of eligibility criteria to the Local Authority in either hard-copy form or digitally alongside the application.

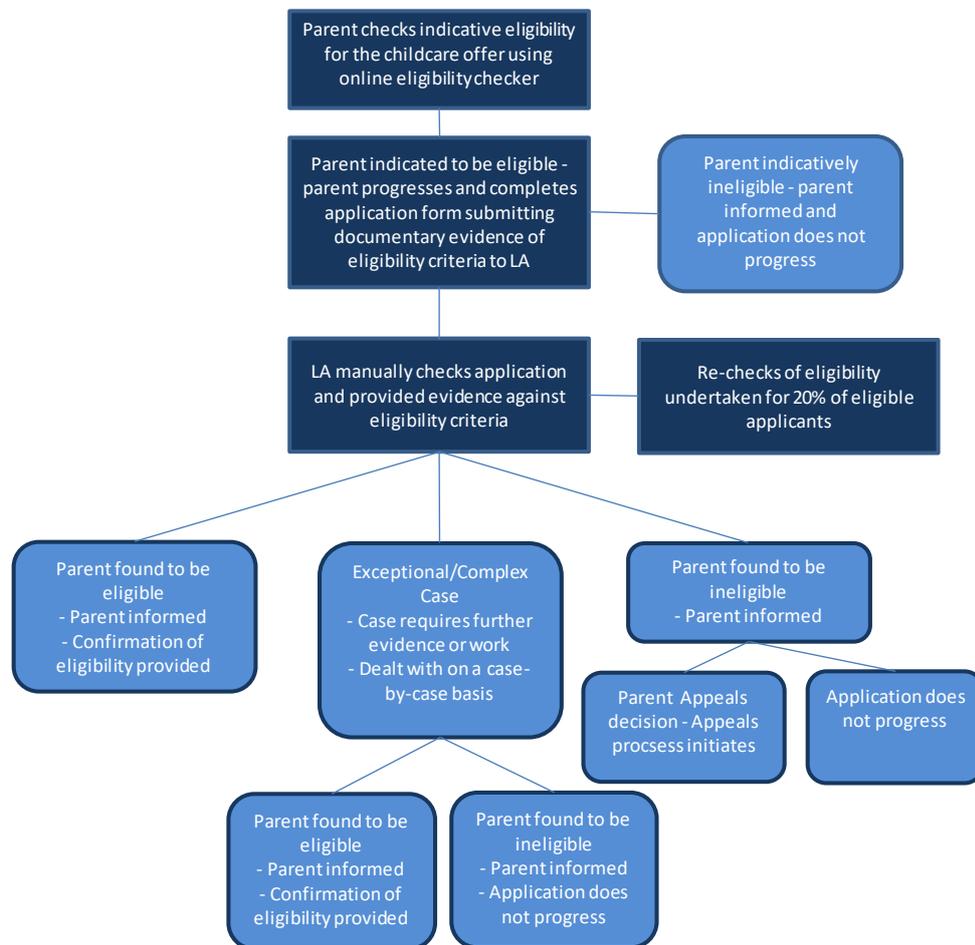
7.7 Each Local Authority would then be responsible for manually checking the documents against the applications and eligibility criteria to establish parents’ eligibility.

7.8 Once eligibility has been confirmed or rejected, parents would be informed via email and this confirmation would be used to take to a provider as proof of eligibility.

7.9 Each parent would be asked to re-affirm their eligibility on a termly basis, usually via email. Of those that declared their continued eligibility, spot checks of 20% must be undertaken with the re-submission of up-to-date evidentiary documents. As before, these must be checked manually against the eligibility criteria and parents informed of the outcome.

7.10 Each Local Authority would need to provide a bilingual support helpline which would likely be via the Family Information Services. As they would be undertaking this service on behalf of the Welsh Government, compliance with the Welsh Language Standards would be necessary, and specifically with the compliance notice issued to the Welsh Ministers.

Figure 2: Process map for option 1 – Local Authorities accept applications and check eligibility



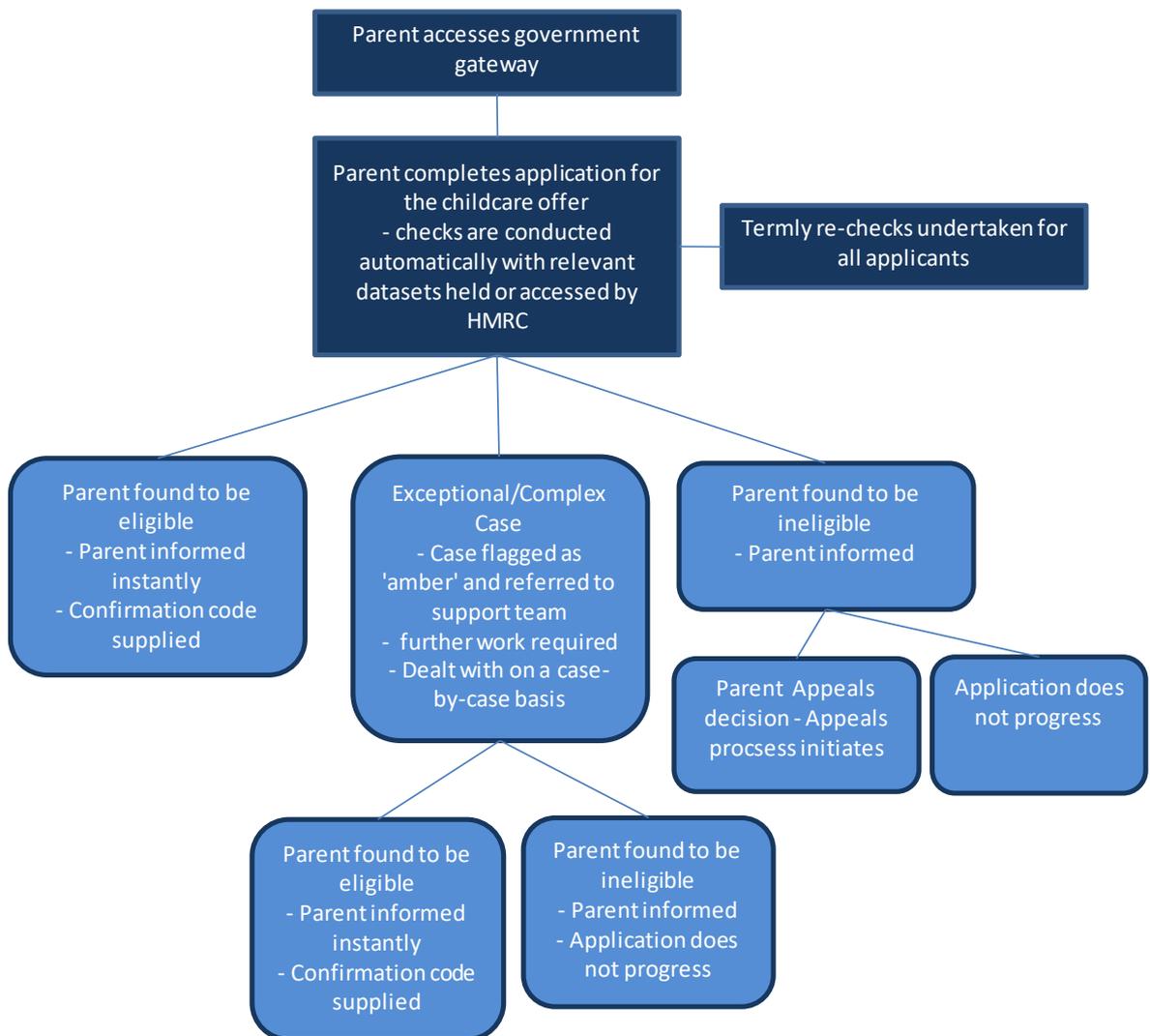
7.11 Seven local authorities tested delivery of the Offer in the first year of early implementation. As a result, they have already invested time in setting up systems and processes. This initial investment will reduce their transition costs. Local authority costs that have already been incurred and cannot be recovered are considered in more detail below.

Option 2 – HMRC to accept applications and conduct eligibility checks

- 7.12 Option two considers HMRC taking bilingual applications via the Childcare Service online portal used for the English equivalent of the childcare offer (administered by the Department for Education) and the national Tax-Free Childcare (TFC) scheme. **This is the preferred option.**
- 7.13 Parents would apply for the scheme via the government gateway through an application process managed by HMRC with parents entering their details which can be checked to approve eligibility.
- 7.14 The eligibility criteria would then be checked in real time against a number of other government data sources such as PAYE data, birth registrations, benefit data etc to confirm both the parents and child's eligibility.
- 7.15 If a parent is found to be eligible, they will be provided with a code (specific to Welsh applicants) which parents can take to providers to prove their eligibility. The confirmation or rejection for a straightforward case would be given instantly.
- 7.16 If the case was complex and needed further information, it is flagged as 'amber'. This triggers the support centre to contact the parent to clarify circumstances and proof of eligibility provided if required.
- 7.17 A parent could then approach a childcare provider to take up their place in the Offer. Providers would be able to confirm the validity of the code and eligibility of the parent before delivering the childcare by logging into either the DfE administered ECS, or a dedicated Welsh equivalent. This offers assurance to the provider in real time that the parent is eligible and therefore the place will be paid for.
- 7.18 On a termly basis, each participating family would be prompted to log into the HMRC portal and re-confirm their eligibility to the Offer. Another check against the relevant datasets would then be undertaken to confirm their status. This would be undertaken for all parents, not just a sample of 20% of applicants as in option 1.
- 7.19 Although HMRC currently offer a bilingual service for their other national services, such as Tax-Free Childcare, by administering the Offer application process on behalf of the Welsh Government, they would need to deliver the service in line with the Welsh Language Standards, and specifically the compliance notice issued to the Welsh Ministers. This may result in an uplift in the level of bilingual services available for TFC, for example.

- 7.20 A bilingual customer and technical support telephone line would need to be provided by HMRC both to assist those using the online service and to provide a method through which those who are digitally excluded can apply.
- 7.21 The appeals process would be dealt with through existing HMRC processes as used for the equivalent offer in England and Tax-Free Childcare.

Figure 3: Process map for option 2 – HMRC to accept applications and conduct eligibility checks

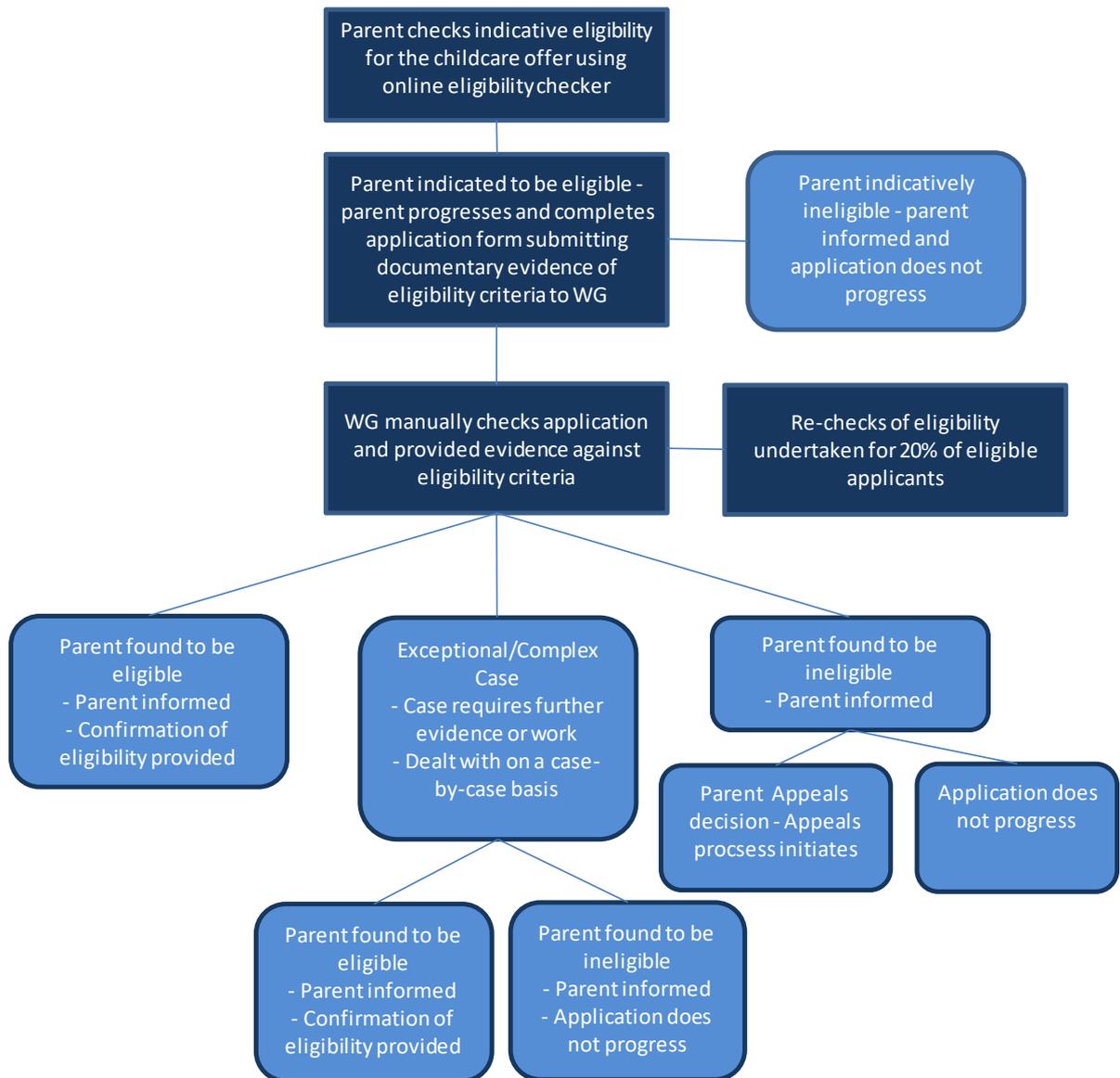


- 7.22 HMRC have already spent time considering what would be required for transition. This means that some transition costs have already been incurred and cannot be recovered. These sunk costs are considered further below.

Option 3 – The Welsh Government to accept applications and manually check eligibility

- 7.23 Option three entails the Welsh Government creating an online bilingual application form to be used nationally to accept applications and the eligibility would be checked through scrutinising evidence of eligibility provided by the parent.
- 7.24 The Welsh Government would need to design and implement an online application system which would include an initial eligibility checker. Parents would use this eligibility checker to self declare their eligibility against the list of criteria. If found to be eligible, they would continue to complete the rest of the application form with their personal details.
- 7.25 If the eligibility checker found them to be eligible, they would be required to manually submit proof of eligibility criteria to the Welsh Government in either hard-copy form or digitally submitted alongside the application.
- 7.26 A dedicated Welsh Government team would then manually check these documents against the eligibility criteria to approve or reject the application.
- 7.27 Once eligibility has been confirmed or rejected, parents would be informed via email and confirmation allocated to them to take to a provider. Providers would be able to check the validity of this code directly with the Welsh Government.
- 7.28 Each parent would be prompted to re-affirm their eligibility on a termly basis through the application portal. Of those that declared their continued eligibility, spot checks of 20% must be undertaken with the re-submission of up-to-date evidentiary documents. As before, these must be checked manually against the eligibility criteria and parents informed of the outcome.
- 7.29 The service operated by the Welsh Government would be fully bilingual and compliant with the Welsh Language Standards. A bilingual customer and technical support telephone line would need to be provided both to assist those using the online service and to provide a method through which those who are digitally excluded can apply.

Figure 4: Process map for option 3 – Welsh Government to accept applications and conduct eligibility checks



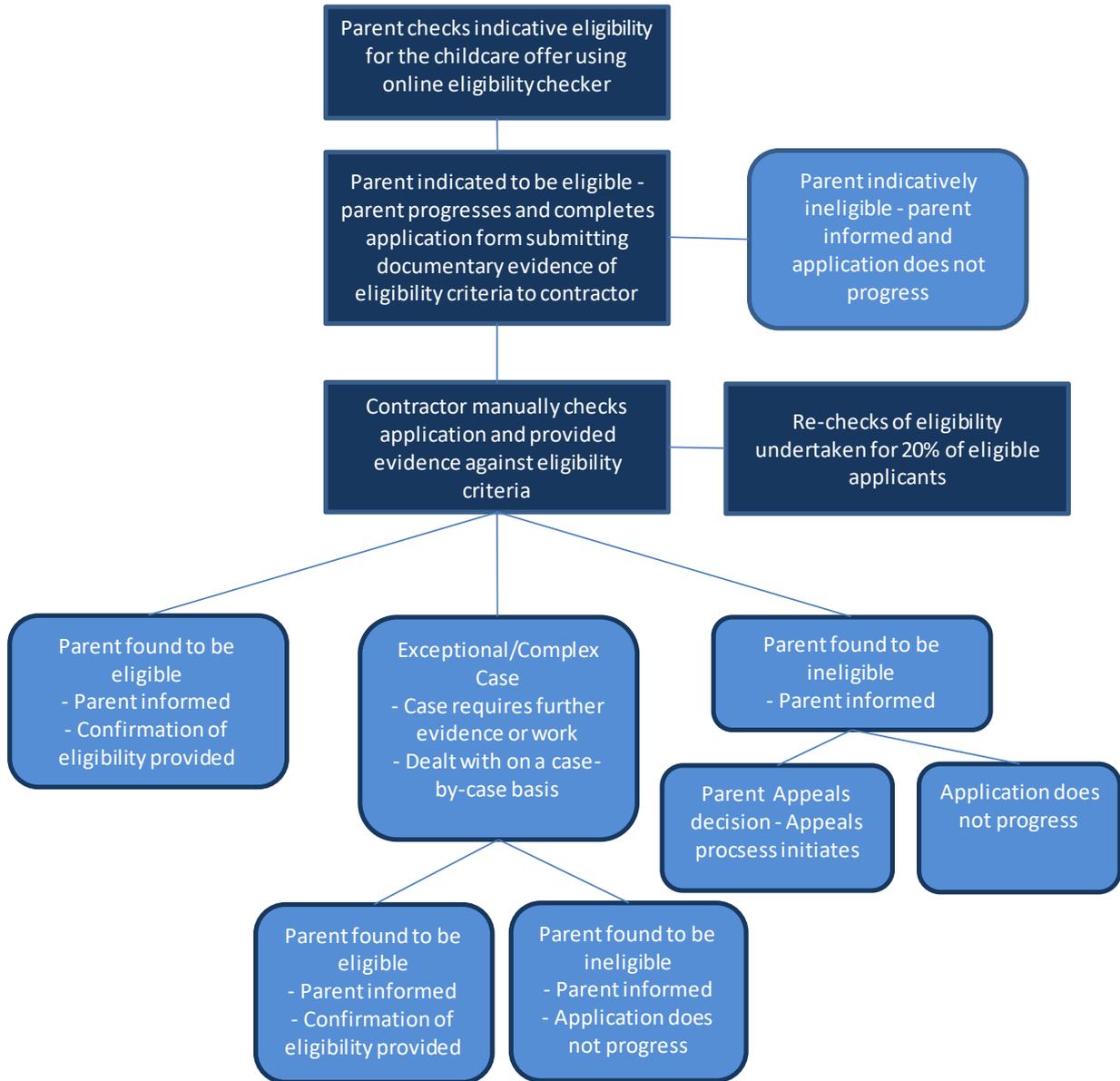
Option 4 – Contracted party accept applications and check eligibility includes option of recruited one authority to conduct these checks

7.30 Option 4 explores a contracted third party accepting applications on behalf of the Welsh Government and checking the eligibility of parents. This option would allow one Local Authority to run the Offer application and

eligibility process for the whole of the country or see an independent third party taking over the service, for example as is the case with student loans where the Student Loans Company administers loans on behalf of government.

- 7.31 The contracted party would need to design and implement an online application system which would include an initial eligibility checker. Parents would use this eligibility checker to self declare their eligibility against the list of criteria. If found to be eligible, parents would progress to complete the rest of the application form with their personal details.
- 7.32 If the eligibility checker found them to be eligible, they would be required to manually submit proof of eligibility criteria to the contracted party in either hard-copy form or digitally submitted alongside the application.
- 7.33 The contracted party would then manually check these documents against the eligibility criteria to approve or reject the application.
- 7.34 Once eligibility has been confirmed or rejected, parents would be informed via email and confirmation allocated to them to take to a provider.
- 7.35 Each parent would be prompted by email or text to re-affirm their eligibility on a termly basis through the application portal. Of those that declared their continued eligibility, spot checks of 20% must be undertaken with the re-submission of up-to-date evidentiary documents. As before, these must be checked manually against the eligibility criteria and parents informed of the outcome.
- 7.36 The service operated by the contracted party would need to be fully bilingual and compliant with the Welsh Language Standards and the compliance notice issued to the Welsh Ministers. A bilingual customer and technical support telephone line would need to be provided both to assist those using the online service and to provide a method through which those who are digitally excluded can apply.
- 7.37 An appeals process would need to be established to deal with parents contesting the outcome of the eligibility decision. This process would also need to adhere to Welsh language standards.

Figure 5: Process map for option 4 – Contracted party to accept applications and conduct eligibility checks



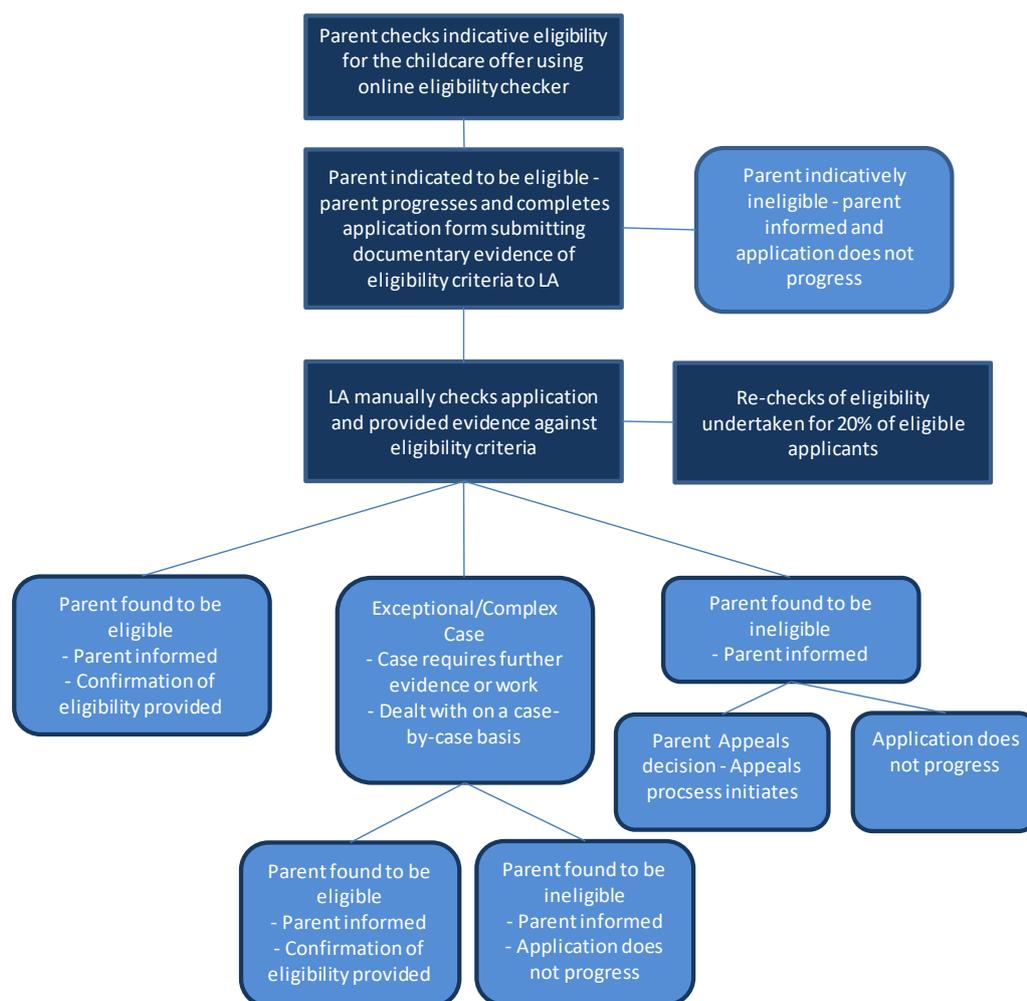
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Option 5 – Delivery Authorities accept applications and check eligibility (current delivery plan / do nothing option)

- 7.38 This option reflects our current delivery plan for early implementation. It is intended that 10 local authorities will act as delivery authorities, and administer the offer on behalf of all local government (the 22 local authorities). Should no legislation be taken forward, this option is expected to continue.
- 7.39 Each of the 10 delivery authorities are expected to conduct the application and eligibility checking individually, and would be required to follow the same process illustrated in figure 6. The process for Option 1 and Option 5 are expected to be the same, but for Option 5 some local authorities will be delivering on behalf of other local authorities.
- 7.40 Each Delivery Authority would set up a bilingual online application with an indicative eligibility checker. Parents would declare their situation against each of the eligibility criteria to assess their eligibility.
- 7.41 If the eligibility checker found them to be eligible, they would be required to complete the application and submit proof of eligibility criteria to the relevant Delivery Authority in either hard-copy form or digitally alongside the application.
- 7.42 Each Delivery Authority would then be responsible for manually checking the documents against the applications and eligibility criteria to establish parents' eligibility.
- 7.43 Once eligibility has been confirmed or rejected, parents would be informed via email and this confirmation would be used to take to a provider as proof of eligibility.
- 7.44 Each parent would be asked to re-affirm their eligibility on a termly basis, usually via email. Of those that declared their continued eligibility, spot checks of 20% must be undertaken with the re-submission of up-to-date evidentiary documents. As before, these must be checked manually against the eligibility criteria and parents informed of the outcome.
- 7.45 Each Delivery Authority would need to provide a bilingual support helpline which would likely be via the Family Information Services. As they would be undertaking this service on behalf of the Welsh Government, compliance with the Welsh Language Standards would be necessary, and specifically with the compliance notice issued to the Welsh Ministers.

Figure 6: Process map for option 5 – Delivery Authorities accept applications and check eligibility (the same process would be undertaken in each Delivery Authority)

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7.46 As Option 5 reflects our current early implementation delivery plans, some of the costs associated with transition are sunk costs (they have already been incurred and cannot be recovered). Sunk costs are considered in more detail below.

8 Costs and Benefits

8.1 Chapter 3 outlined the purpose and intended effect of the legislation. The Bill is intended to address a significant barrier to enable more parents to work and improve the outcomes for children later in life through the provision of high quality education and childcare. Building on the £10m we invested in 2017-18 the draft Budget increased that investment to £25m in 2018-19 rising to £45m in 2019-20 to support the extension of the Offer in Wales.

8.2 The full roll out of the Offer will be shaped by the findings from the independent evaluation of the early implementation. This will include an

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assessment of overall take-up of the offer by eligible working parents, and consider the impact of legislation¹².

- 8.3 It is important to note that the cost of providing childcare under the Offer will not change under any of the options considered for checking the eligibility of applicants and notifying applicants of the outcome.

Methodology

Parental Burden

- 8.4 In each option, there will be a cost to parents and guardians associated with the time involved in checking eligibility and submitting an application with supporting documentation (where required). While not necessarily a cash-cost, this time burden is monetised for the purposes of the RIA. HMRC¹³ have devised a methodology to calculate the cost of time spent by customers on the application process. For their purposes, the method looked at addressing the monetary value of time customers spent interacting with HMRC. This methodology is directly applicable to this RIA as the preferred option would see parents interacting with HMRC in this way.
- 8.5 The methodology outlined by HMRC uses average hourly earnings data taken from the 2008 Annual Survey of Hours and Earnings (ASHE), chosen for its large coverage of the population (around 150,000 respondents). A weakness of the ASHE survey is that it doesn't cover those who are self-employed – the inclusion of self employed is estimated to reduce the value of customer time estimated in this manner by a small amount.
- 8.6 From the 2008 survey, HMRC used the mean gross hourly pay. The equivalent provisional UK 2017 figure for mean gross hourly pay excluding overtime is £16.25.
- 8.7 The HMRC method goes onto factor in the proxy wages for non-working individuals. As the Offer is only available to those parents who are working, it is appropriate to use the ASHE hourly wage without a separate calculation for non-working individuals.
- 8.8 By valuing the customers time using wage data, we are in a sense valuing the burden faced by customers interacting with HMRC as 'unpaid' work. Using gross wages as the basis for estimates, HMRC have adjusted these to account for the other employment overheads such as estate costs,

¹² The cost of evaluation is not included in this document. This is because this is a technical piece of legislation which only covers eligibility checking and that it's effectiveness will be assessed as part of the full evaluation of the Offer.

¹³ Hill, A and Noti, J, HMRC (2009) Costing Customer Time Research Time https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330346/cost-of-time.pdf

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superannuation etc. The HMRC methodology paper states that the UK Standard Cost Model (SCM) Manual put together by the Better Regulation Executive, Cabinet Office, 2005 estimates employment overheads as 30% of wages.

Mean Gross Hourly Pay (excluding overtime) – ASHE 2017p	£16.25
30% uplift to convert hourly wage to total wage cost	£21.13

Cost Modelling

8.9 An independent consultancy¹⁴ were contracted to develop rough order of magnitude (ROM) costs. On our behalf, the consultants developed a central high level design based on the frequently used components in similar systems.

System Components for all options

8.10 Core to all successful systems is case management. These systems act as the 'brain' of the service controlling and co-ordinating parent applications from initial application, through to eligibility and finally the potential to facilitate payments.

8.11 All systems assume the use of a web based front end for citizen interaction whilst more esoteric instances also use mobile applications.

8.12 A robust master data management capability and content management provide a trustworthy foundation upon which to set up parent accounts.

8.13 Simple but effective Management Information within a strong security wrapper complete the system.

Assumptions and approach

8.14 The consultants used this design concept model to shape and develop the assumptions and high level costs for each option. They have considered the components and costs for both the implementation of the options (developing and setting up the system) and the ongoing costs including personnel costs where manual intervention is required.

8.15 As requirements are not currently clearly defined, it has been necessary to make assumptions as to what the processes and accompanying system requirements will look like and the associated cost.

Gartner Consulting were appointed.

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- 8.16 Assumptions around the use of the system were made based on interviews with both the Welsh Government officials working on the Offer and members of staff from the EILAs. High level information about potential service delivery and associated costings have been gained from HMRC although these are just indicative at this stage.
- 8.17 All assumptions have been presented in the cost model for each option. Benchmarked industry rates have been used for staff costs such as day rates for professionals and standardised system components. Where costs have been derived from another source, this is included in the cost model.
- 8.18 Given the current uncertainty around the requirements for the options and the delivery schedule, costs have been estimated at the upper boundary to account for it.
- 8.19 The cost model includes transition (implementation costs) and recurrent (ongoing costs) for the five years of delivery.
- 8.20 The components considered and costed for each option are outlined and defined in table 1.0 in annex 4.
- 8.21 Each of the five options uses different aspects of these components and in different ways.

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Cost Model presented in the options

8.22 The cost model for each option including the assumptions and components included in each are outlined below, with the full detailed cost tables for each option in the Annexes of the report.

Option 1 – Local Authorities accept applications and check eligibility

8.23 Option 1 would see no change to current legislation. Should the phased roll out of the Offer continue to happen naturally, the resulting model would see each Local Authority manage and process applications independently. This model has been used for the delivery of the Offer in year one of the pilot exercise. Option 5 has been added in this revised version to reflect the delivery model for year 2 of early implementation (see below for more detail), this is now considered as the baseline ('do nothing') option.

8.24 The following is a summary of the administrative costs associated with this option. A more detailed breakdown of the requirements, assumptions and associated costs for this option is presented in table 1.1 in [Annex 5](#).

8.25 A cost summary table for this option is as follows;

Option 1 – Local Authorities accept applications and check eligibility: Administrative Cost Summary

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Option	Transition Cost (2019/20)	2020/21	2021/2022	2022/23	2023/24	2024/25	TOTAL
Revenue Costs to Welsh Government	£0	£0	£0	£0	£0	£0	£0
Capital Costs to Welsh Government	£0	£0	£0	£0	£0	£0	£0
Revenue Cost to Local Authorities	£847,000	£3,107,000	£3,107,000	£3,108,000	£3,109,000	£3,110,000	£16,388,000
Capital Costs to Local Authorities	£11,431,000	£0	£0	£0	£0	£0	£11,431,000
TOTAL	£12,278,000	£3,107,000	£3,107,000	£3,108,000	£3,109,000	£3,110,000	£27,819,000

8.26 This option has the highest transition cost of all the options. There will be more than one system set up to accept applications and conduct the eligibility checks as each Local Authority would be delivering the service.

8.27 In this revised RIA the costs for case management set up in Option 1 have been changed. The time taken for this is likely to vary significantly depending on whether an authority buys a system, or develops their own. The revised costs consider this, as set out in Annex 5.

8.28 It is good practice to add a risk premium¹⁵. In the early stages of an appraisal such as this, this risk premium may be encompassed by a general uplift to a project's net present value, to offset and adjust for undue optimism. The uplift applied here significantly increases the transition cost. It includes an uplift of the average transition costs for a single entity, as the independent consultancy's research shows that a single entity has additional costs for the first year of running depending on the complexity of the technology. As this option has not one single entity, but several Local Authorities delivering the service the upper boundary of this uplift is added.

8.29 There is evidence that project appraisers have a tendency to be overly optimistic when developing business cases for IT projects (as well as other types of capital projects), with the result that costs and timescales are underestimated and benefits over-estimated. This is known as

¹⁵ P.30: HM Treasury Green Book.
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

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optimism bias. HM Treasury guidance states explicit adjustments should be made to the estimates of a project's costs, benefits and duration, which should be based on data from past or similar projects, and adjusted for the unique characteristics of the project in hand.¹⁶ The optimism bias for this option is set at the maximum as described by the HM Treasury Green Book. This is because Local Authorities do not have experience of this work and there are a large number of unknowns for this option, which increases the risk of increases to the initial transition cost.

8.30 The year on year running costs are significantly higher for this option than any other. The year on year running costs increase slightly due to costs around integration set up of any systems which will steadily increase each year. The rest of the ongoing costs remain the same year on year i.e for checking the applications, appeals, helpdesk as the eligibility criteria remain unchanged so no changes would need to be made.

Applicant Burden

8.31 There is a time burden for parent and guardian applicants to check their eligibility and to submit their applications and the supporting documentation. This time burden is monetised for the purposes of the RIA. HMRC¹⁷ have devised a methodology to calculate the monetary value of time customers spent interacting with HMRC. This is directly applicable to the process laid out in each of the options as the preferred option would see parents interacting with HMRC in this way and the way time is valued is applicable for the other four options also. Given similar processes would be followed in each of the options considered in this paper, the value of time per unit is the same and calculated using the same methodology (summarised in 8.1.1). However, the estimated length of time spent by parents applying will vary and subsequently the incurred cost by parents.

8.32 The value of time for working individuals to interact with HMRC in 2017 has been estimated at £21.13/hour.

8.33 User testing of the HMRC TFC system estimates a standard application takes 20 minutes for the parent, providing they have an existing government gateway profile through which to access the HMRC portal.

8.34 Option one requires applicants to submit documentary evidence in addition to the standard details collected via the HMRC application and therefore, the process has been estimated to take 1 hour in this option.

8.35 Therefore the cost of applicant burden for this option would be:

¹⁶ <https://www.gov.uk/government/publications/green-book-supplementary-guidance-optimism-bias>

¹⁷ Hill, A and Noti, J, HMRC (2009) Costing Customer Time Research Time https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330346/cost-of-time.pdf

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Cost of applicant burden

= value of one hour of time for working individuals
= £21.13

8.36 It is anticipated there will be 40,000 applicants per year, giving a total annual cost of:

Total annual cost of applicant burden = £21.13 x 40,000 = £845,200

Overall Cost and Savings

8.37 This option would see neither a cost implication positively or negatively as it is the 'do nothing' option. This cost is used as the benchmark cost upon which the costs of other options are evaluated.

8.38 Overall costs and potential savings are summarised in table 1.2.

Table 1.2 – Five year cost summary for option one	
Total cost of implementing option 1 over 5 years	£27,819,000
Value of time cost to applicants over 5 years	£845,200 x 5 years = £4,226,000
Total overall cost of delivering option 1 over 5 years	£32,044,000

8.39 The present value of costs in this option is £29,109,000.

8.40 Some local authorities are already delivering the Offer, as explained further in Option 5 below. It is likely therefore that some costs will already have been incurred and cannot be recovered (e.g. the cost of staff time spent developing systems and processes for parents to apply and to check their eligibility). However, sensitivity analysis shows that even if we considered 100% of transitions costs as spent and unrecoverable (which is certainly not the case), this Option remains more expensive than our preferred option (by £10 million).

Risks and Benefits

8.41 There are some additional key non-quantifiable benefits and risks which could be realised through this option:

Benefits

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1	Local authorities have strong working relationships with providers, communities and families, which can help them to target the offer appropriately and compliment their wider responsibilities (e.g. childcare sufficiency and nursery/school admissions)
2	Some local authorities are already successfully delivering the Offer in early implementation areas.

Risks	
1	Local authorities do not have the legal gateway to check eligibility against government administrative data, and therefore the system is more open to the risk of fraud.
2	Without the ability to check government administrative records, the system and processes which are put in place are likely to burden parents with the requirement to evidence their eligibility and some may be unable to take full advantage of the Offer if they find this difficult or time consuming to do (e.g. obtaining pay slips to evidence their employment and pay).
3	The evidence parents are likely to be required to provide will be personal and sensitive; this creates potential data security risks.
4	All 10 local authorities could create different systems, which would be inefficient and could create confusion in the application process (e.g. where parents work in a different area to where they live).

Option 2 – HMRC accept applications and check eligibility

8.42 Option 2 involves the development of a Welsh application and eligibility checking system within the HMRC tax-free childcare platform. The costs incurred by developing and delivering this service would be met by the Welsh Government.

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8.43 The table below presents a summary of the administrative costs for this option. The full requirements, assumptions and associated costs for this option are outline in table 1.3 in [Annex 6](#).

Option 2 – HMRC accept applications and check eligibility: Administrative Cost Summary

Option	Transition Cost (2019/20)	2020/21	2021/2022	2022/23	2023/24	2024/25	TOTAL
Revenue Costs to Welsh Government	£411,000	£1,089,000	£1,096,000	£1,105,000	£1,115,000	£1,129,000	£5,945,000
Capital Costs to Welsh Government	£3,174,000	£0	£0	£0	£0	£0	£3,174,000
Revenue Cost to Local Authorities	£0	£0	£0	£0	£0	£0	£0
Capital Costs to Local Authorities	£0	£0	£0	£0	£0	£0	£0
TOTAL	£3,585,000	£1,089,000	£1,096,000	£1,105,000	£1,115,000	£1,129,000	£9,118,000

8.44 This option involves adapting a single, existing HMRC system and as such the upfront capital costs are significantly lower than Option 1. In addition, because there are fewer uncertainties with this option, the uplift applied to the transition costs is much lower. The total transition costs are the lowest for this option.

8.45 HMRC have done some initial transition work to ensure they could check eligibility and process applications efficiently and effectively for Wales. This means that some of the transition costs have been incurred and would not be recoverable. Option 2 is the cheapest option overall, and for transition. If sunk costs were deducted from this assessment, this option becomes even cheaper.

8.46 Similarly to the transition costs, the ongoing costs over the following years are lowest of the options as the existing HMRC system, once adapted, is used to run digital checks. The reason for the increase over the years is as per all the options in that the integrations set-up cost increase slightly each year.

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Applicant Burden

8.47 User testing of the HMRC TFC system estimates a standard application takes 20 minutes for the parent to complete, providing they have an existing government gateway profile through which to access the HMRC portal.

8.48 Therefore the cost of applicant burden for this option would be:

$$\begin{aligned} \text{Cost of applicant burden} &= \frac{\text{value of one hour of time for working individuals}}{3} = \frac{\pounds 21.13}{3} \\ &= \pounds 7.04 \end{aligned}$$

8.49 Based on the estimate of 40,000 applicants per year, this gives a total annual cost of:

$$\text{Total annual cost of applicant burden} = \pounds 7.04 \times 40,000 = \pounds 281,600$$

8.50 This represents a monetised saving of £563,600 per annum when compared to Option 1.

Overall Cost and Savings

8.51 Option 2 provides an administrative cost-saving when compared to Option 1 and the costs are incurred by Welsh Government rather than Local Authorities.

8.52 Overall costs and potential savings are summarised in table 1.4.

Table 1.4 – Five year cost summary for option two

	5-year cost for Option 2	Cost-saving relative to Option 5
Total administrative cost	£9,118,000	£11,513,000
Monetised time burden for applicants	£1,408,000	£2,818,000
Total cost	£10,526,000	£14,331,000

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The present value of costs in this option is £9,516,000

Risks and Benefits

8.53 There are some additional key non-quantifiable benefits and risks which could be realised through this option:

Benefits	
1	As HMRC hold or have facilitated access to all data sets required to confirm eligibility of parents, data access protocols and agreements have already been confirmed and are operating effectively. This reduces administrative burden and data security risks significantly.
2	Data security issues surrounding the handling and storage of the documentary evidence submitted to the organisation conducting the checks by parents is eradicated as no documentary evidence will be submitted for a standard case.
3	Parental burden is significantly reduced as illustrated by the reduced cost to parents above in the calculation for applicant burden.
4	HMRC have existing links to NS&I payment systems through tax-free childcare and the Eligibility Checking system owned by DfE which enables confirmation of parental eligibility. These existing links to systems which are able to facilitate payment gives us options when considering potential payment options for childcare providers. However, this is likely to be limited due to HMRC resource limitation.
5	Fraud risk is significantly reduced as eligibility can be checked on a live basis with data that cannot be misrepresented or altered by parents endeavouring to make a fraudulent claim of eligibility. Reconfirmation of eligibility can also be undertaken on a regular basis for all participants, not just a 20% sample as in option 1.

Risks	
1	The use of the tax-free childcare system has been led, to date, by the Department for Education (DfE) and therefore there is a risk they would be seen as the primary customer and therefore act as the driver for any future developments.

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2	As the DfE led the use of the TFC system, the baseline eligibility criteria is based on the English policy – any deviation from this eligibility criteria would incur cost and potential delay.
3	There have been performance issues with the TFC system at the point of full roll out – until these have been rectified; there is a risk of using a system with performance issues.

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Option 3 – The Welsh Government accepts applications and check eligibility

8.54 Option 3 would see a bespoke Welsh application and eligibility checking system developed and delivered by the Welsh Government.

8.55 The table presents a summary of the administrative costs for this option. The requirements, assumptions and associated costs for this option are presented in full in table 1.5 within [annex 7](#).

Option 3 – The Welsh Government accepts applications and check eligibility: Administrative Cost Summary

Option	Transition Cost (2019/20)	2020/21	2021/2022	2022/23	2023/24	2024/25	TOTAL
Revenue Costs to Welsh Government	£433,000	£1,913,000	£1,933,000	£1,958,000	£1,989,000	£2,028,000	£10,254,000
Capital Costs to Welsh Government	£5,299,000	£0	£0	£0	£0	£0	£5,299,000
Revenue Cost to Local Authorities	£0	£0	£0	£0	£0	£0	£0
Capital Costs to Local Authorities	£0	£0	£0	£0	£0	£0	£0
TOTAL	£5,732,000	£1,913,000	£1,933,000	£1,958,000	£1,989,000	£2,028,000	£15,551,000

8.56 The capital cost associated with this option is the lowest of all the options, before applying any uplift. It is assumed existing software within the Welsh Government could be adapted for the purposes of an application and eligibility checking system.

8.57 The uplift applied to these transitional costs is high, due again to the high with the level of uncertainty with this option and the number of assumptions made about the available resource and technology systems available. In accordance with the Green Book, and as with option one, because of these unknowns the maximum optimism bias has been applied to this option.

8.58 The ongoing costs are lower than option one, as not the same level of manual checks would be required as option one. However, ongoing costs

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are higher than option two as more manual checks would need to be undertaken in this option.

Applicant Burden

8.59 User testing of the HMRC TFC system estimates a standard application takes 20 minutes for the parent, providing they have an existing government gateway profile through which to access the HMRC portal.

8.60 Option three requires parents to submit documentary evidence in addition to the standard details collected via the HMRC application and therefore, it has been estimated to take 40 minutes to submit a standard application to the Welsh Government. This has been estimated as longer than HMRC option as parents would need to submit documentary evidence to Welsh Government, however it is anticipated that the system would be more robust and efficient than the Local Authority option due to a consistent system design and economies of scale.

8.61 Therefore the cost of applicant burden for this option would be:

$$\begin{aligned} & \textit{Cost of applicant burden} \\ &= \frac{\textit{value of one hour of time for working individuals}}{3} \times 2 \\ &= \frac{\pounds 21.13}{3} \times 2 = \pounds 14.09 \end{aligned}$$

8.62 Based on the estimate of 40,000 applicants per year, this would give a total annual cost of:

$$\textit{Total annual cost of applicant burden} = \pounds 14.09 \times 40,000 = \pounds 563,600$$

8.63 This represents a monetised time saving to applicants of £281,600 per annum (relative to Option 1).

Overall Cost and Savings

8.64 Option 3 provides an administrative cost-saving when compared to Option 1, with the costs incurred by Welsh Government rather than Local Authorities. However, the cost-savings are lower than for Option 2.

8.65 Overall costs and potential savings are summarised in table 1.6.

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Table 1.6– Five year cost summary for option three

	5-year cost for Option 3	Cost-saving relative to Option 1
Total administrative cost	£15,551,000	£5,080,000
Monetised time burden for applicants	£2,818,000	£1,408,000
Total cost	£18,369,000	£6,488,000

8.66 The present value of costs in this option is £16,555,000.

Risks and Benefits

8.67 There are some additional key non-financial benefits and risks which could be realised through this option:

Benefits	
1	A Welsh Government administered system would provide a single portal for all eligible parents to apply for the government-funded childcare, as opposed to 10 local systems developed and administered individually by the Local Authorities.
2	There would be a single appeals system in place for parents who were unhappy with a decision about their eligibility, with a single approach to the initial review and a single relevant authority, such as the First Tier Tribunal, for the further consideration of appeals.
3	The Welsh Government would have greater control over the administration of the application and eligibility checking system.

Risks	
1	The Welsh Government would be responsible for handling and storing large amounts of sensitive personal information from parents. Stringent data protection measures would need to be put in place but this therefore increases the risk of a potential data loss or breach.
2	As with option 2, a Welsh Government owned and run system would administer eligibility checking for the childcare component of the Offer. It would not administer the 10 hours of education that all 3-4 year olds are entitled to. Therefore, there would be a two-strand application process for parents where they would have to apply to their Local Authority for an education place and directly to Welsh Government for the childcare place. This would therefore increase the parental burden and complicate the application process.
3	A Welsh Government bespoke option would be resource intensive both in terms of the build of a digital system, where expertise would likely need to be brought into the organisation, but it would also be administratively resource intensive requiring an admin team as well as a technical and support helpdesk.

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Option 4 – Contracted party accept applications and check eligibility

8.68 Option 4 would see a bespoke Welsh application and eligibility checking system developed and delivered by a third party provider.

8.69 The table below presents a summary of the administrative costs for this option. The full requirements, assumptions and associated costs for this option are outlined in [table 1.7](#) within Annex 8.

Option 4 – Contracted party accept applications and check eligibility: Cost Summary

Option	Transition Cost (2019/20)	2020/21	2021/2022	2022/23	2023/24	2024/25	TOTAL
Revenue Costs to Welsh Government	£266,000	£2,817,000	£2,837,000	£2,862,000	£2,893,000	£2,932,000	£14,607,000
Capital Costs to Welsh Government	£3,927,000	£0	£0	£0	£0	£0	£3,927,000
Revenue Cost to Local Authorities	£0	£0	£0	£0	£0	£0	£0
Capital Costs to Local Authorities	£0	£0	£0	£0	£0	£0	£0
TOTAL	£4,193,000	£2,817,000	£2,837,000	£2,862,000	£2,893,000	£2,932,000	£18,534,000

8.70 The transition costs under this option are based on a contracted party replicating the minimum systems required to run eligibility checking in HMRC.

8.71 The estimated cost is higher than for option 2 for several reasons including procurement costs, and issues such as the contracted party not having as easy access to stakeholders during setup and configuration.

8.72 The uplift applied to the transition costs is lower for this option than option 1 as a contractor would be assumed to have some experience of developing such systems. In addition, the Green Book recommends that the upper bound adjustment for optimism bias is lower for outsourced IT projects than those undertaken in-house.

8.73 The year on year running costs are the second highest for this option due to the manual check of documentary evidence which would need to be

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undertaken. The year on year running costs increase steadily each year due to integration costs.

Applicant Burden

8.74 User testing of the HMRC TFC system estimates a standard application takes 20 minutes for the parent, providing they have an existing government gateway profile through which to access the HMRC portal.

8.75 Option four requires parents to submit documentary evidence in addition to the standard details collected via the HMRC application and therefore, it has been estimated to take 40 minutes to submit a standard application to a contracted party. This has been estimated as significantly longer than HMRC option as parents would need to submit documentary evidence to the contractor, however it is anticipated that the system would be more robust and efficient than the Local Authority option due to a consistent system design and economies of scale.

8.76 Therefore the cost of applicant burden for this option would be:

$$\begin{aligned} \text{Cost of applicant burden} &= \frac{\text{value of one hour of time for working individuals}}{3} \times 2 \\ &= \frac{\pounds 21.13}{3} \times 2 = \pounds 14.09 \end{aligned}$$

8.77 Based on the assumption of 40,000 applicants per year, this gives a total annual cost of:

$$\text{Total annual cost of applicant burden} = \pounds 14.09 \times 40,000 = \pounds 563,600$$

8.78 This represents a monetised time saving to applicants of £281,600 per annum (relative to Option 1).

Overall Cost and Savings

8.79 Option 3 provides an administrative cost-saving when compared to Option 1, with the costs incurred by Welsh Government rather than Local Authorities. However, the cost-savings are lower than for Option 2.

8.80 Overall costs and potential savings are summarised in table 1.8.

Table 1.8 – Five year cost summary for option four

	5-year cost for Option 4	Cost-saving relative to Option 1
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Please note: this document has been prepared solely to assist people in understanding the Childcare Funding (Wales) Bill. It should not be relied on for any other purpose.

Total administrative cost	£18,535,000	£2,096,000
Monetised time burden for applicants	£2,818,000	£1,408,000
Total cost	£21,353,000	£3,504,000

8.81 The present value of costs in this option is £19,014,000.

Risks and Benefits

8.82 There are some additional key non-financial benefits and risks which could be realised through this option:

Benefits	
1	A system administered by a contacted party would provide a single portal for all eligible parents to apply for the government-funded childcare, as opposed to 10 local systems developed and administered individually by the Local Authorities.
2	There would be a single appeals system in place for parents who were unhappy with a decision about their eligibility, with a single approach to the initial review and a single relevant authority, such as the First Tier Tribunal, for the further consideration of appeals.
3	By contracting a third party provider to deliver the application and eligibility checking for the Offer, the Welsh Government would pass data security liability to the contracted party. However, it would be essential that GDPR compliance was adhered to and Welsh Government were assured of this.

Risks	
2	The Welsh Government would have a contract management role with the contracted party and a complex service level agreement set up.
2	A contract of this scale would require complex procurement arrangements with a lengthy tendering exercise, both to ensure compliance with relevant financial rules and transparency and value for money in respect of public funds. This would also be time limited, in contrast to a system run by Local Authorities under Option 1, where they could put processes in place relatively quickly and on an ongoing basis.
3	As with option 2, a system owned and run by a contracted third party would administer eligibility checking for the childcare component of the Offer. It would not administer the 10 hours of education that all 3-4 year olds are entitled to. Therefore, there would be a two-strand application process for parents where they would have to apply to their Local Authority for an education place and directly to Welsh Government for the childcare place. This would therefore increase the parental burden and complicate the application process.

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Option 5 – Delivery Authorities accept applications and check eligibility (current delivery plan / do nothing option)

8.83 This option would see no change to current legislation. Should the phased roll out of the Offer continue to happen as planned, the resulting model would see each Delivery Authority manage and process applications independently. This model will be operational from September 2019 for early implementation testing of the Offer.

8.84 The following is a summary of the administrative costs associated with this option. A more detailed breakdown of the requirements, assumptions and associated costs for this option is presented in table 1.9 in [Annex 9](#).

8.85 A cost summary table for this option is as follows:

Option 5 – Delivery Authorities accept applications and check eligibility: Administrative Cost Summary

Option	Transition Cost (2019/20)	2020/21	2021/2022	2022/23	2023/24	2024/25	TOTAL
Revenue Costs to Welsh Government	£0	£0	£0	£0	£0	£0	£0
Capital Costs to Welsh Government	£0	£0	£0	£0	£0	£0	£0
Revenue Cost to Local Authorities	£587,000	£2,422,000	£2,423,000	£2,424,000	£2,424,000	£2,425,000	£12,705,000
Capital Costs to Local Authorities	£7,926,000	£0	£0	£0	£0	£0	£7,926,000
TOTAL	£8,513,000	£2,422,000	£2,423,000	£2,424,000	£2,424,000	£2,425,000	£20,631,000

8.86 This option has one of the highest transition cost of all the options; only all 22 local authorities administering the offer is a higher cost option. This is because there will be more than one system set up to accept applications and conduct the eligibility checks as each Delivery Authority would be delivering the service.

- 8.87 However, as Option 5 reflects our current early implementation delivery plans, some of the costs associated with transition are sunk costs (they have already been incurred and cannot be recovered). For instance, the cost of staff time spent developing systems and processes for parents to apply and to check their eligibility, or the initial purchase cost of an IT system. However, sensitivity analysis shows that even if we considered 100% of transitions costs as spent and unrecoverable (which is certainly not the case), this Option remains more expensive than our preferred option (by £7 million).
- 8.88 As explained earlier in this document, it is good practice to add a risk premium¹⁸. In the early stages of an appraisal such as this, this risk premium may be encompassed by a general uplift to a project's net present value, to offset and adjust for undue optimism. The uplift applied here significantly increases the transition cost. It includes an uplift of the average transition costs for a single entity, as the independent consultancy's research shows that a single entity has additional costs for the first year of running depending on the complexity of the technology. As this option has not one single entity, but 10 Delivery Authorities delivering the service the upper boundary of this uplift is added.
- 8.89 There is evidence that project appraisers have a tendency to be overly optimistic when developing business cases for IT projects (as well as other types of capital projects), with the result that costs and timescales are underestimated and benefits over-estimated. This is known as optimism bias. HM Treasury guidance states explicit adjustments should be made to the estimates of a project's costs, benefits and duration, which should be based on data from past or similar projects, and adjusted for the unique characteristics of the project in hand.¹⁹ The optimism bias for this option is set at the maximum as described by the HM Treasury Green Book. This is because the Delivery Authorities have very limited experience (less than 2 years at most) of this work and there are a large number of unknowns for this option, which increases the risk of increases to the initial transition cost.
- 8.90 The year on year running costs are also higher than any other option apart from all 22 local authorities delivering individually. The year on year running costs increase slightly due to costs around integration set up of any systems which will steadily increase each year. The rest of the ongoing costs remain the same year on year i.e for checking the applications, appeals, helpdesk as the eligibility criteria remain unchanged so no changes would need to be made.

¹⁸ P.30: HM Treasury Green Book.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

¹⁹ <https://www.gov.uk/government/publications/green-book-supplementary-guidance-optimism-bias>

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Applicant Burden

8.91 There is a time burden for parent and guardian applicants to check their eligibility and to submit their applications and the supporting documentation. This time burden is monetised for the purposes of the RIA. We have approached the assessment of the time burden to parents and guardians in Option 5 to be the same as for Option 1. This is because parents experience of the system will be the same. This option requires applicants to submit documentary evidence in addition to the standard details collected via the HMRC application and therefore, the process has been estimated to take 1 hour in this option.

8.92 Therefore the cost of applicant burden for this option would be:

$$\begin{aligned} \text{Cost of applicant burden} \\ &= \text{value of one hour of time for working individuals} \\ &= \text{£21.13} \end{aligned}$$

8.93 It is anticipated there will be 40,000 applicants per year, giving a total annual cost of:

$$\text{Total annual cost of applicant burden} = \text{£21.13} \times 40,000 = \text{£845,200}$$

Overall Cost and Savings

8.94 Overall costs and potential savings are summarised in table 1.10.

Table 1.10 – Five year cost summary for option five	
Total cost of implementing option 1 over 5 years	£20,631,000
Value of time cost to applicants over 5 years	£845,200 x 5 years = £4,226,000
Total overall cost of delivering option 1 over 5 years	£24,857,000

8.95 The present value of costs in this option is £22,484,000.

Risks and Benefits

8.96 This is the baseline and so, just as there are no additional costs, there are no additional benefits associated with this option.

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Risks	
1	The local authorities do not have the legal gateway to check eligibility against government administrative data, and therefore the system is more open to the risk of fraud.
2	Without the ability to check government administrative records, the system and processes which are put in place are likely to burden parents with the requirement to evidence their eligibility and some may be unable to take full advantage of the Offer if they find this difficult or time consuming to do (e.g. obtaining pay slips to evidence their employment and pay).
3	The evidence parents are likely to be required to provide will be personal and sensitive; this creates potential data security risks.
4	All 10 delivery authorities could create different systems, which would be inefficient and could create confusion in the application process (e.g. where parents work in a different area to where they live).

Summary of the preferred option

8.97 Our preferred option is HMRC receiving the applications for the Offer, checking eligibility of applicants, and notifying applicants of the outcome on behalf of the Welsh Government. As explained above, this is primarily because their experience administering the English childcare offer means they are set up to provide services more efficiently, with less risk due to their experience and their access to administrative records, and therefore provide the greatest value for money.

9 Specific Impact Assessments

Well-being of Future Generations Act (2015)

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- 9.1 The Bill is key in enabling the development of a national application and eligibility checking system for the Offer. It therefore plays an important part in supporting the general principle of the *Well-Being of Future Generations (Wales) Act 2015* which is about making positive interventions now in order to benefit people living their lives in Wales in the future. The Bill will contribute, to a lesser or greater extent, to each of the Act's seven goals and both the Offer and this Bill have been developed and continue to be developed in accordance with the five ways of working - with a focus on the long term, prevention, integration, collaboration and involvement.

Impact Assessments

- 9.2 A range of specific impact assessments and screening activities have been undertaken to support the Bill's passage through the National Assembly. These include:

- Equalities Impact Assessment
- Rights of the Child Impact Assessment
- Welsh Language Impact Assessment
- Biodiversity Assessment
- Rural Proofing Assessment
- Health Impact Assessment
- State Aid Assessment
- Competition Assessment
- Privacy Impact Assessment
- Justice Assessment
- Sustainable Development Impact Assessment
- Climate Change Impact Assessment

Equalities Impact Assessment

- 9.3 A full Equalities Impact Assessment was conducted in relation to the Bill. It is considered that the Bill and the service which it seeks to provide will impact positively on eligible children and eligible parents. In many other respects, the Bill will have a neutral impact on equalities as the system it will enable will be accessible to all – either online or by telephone and it is anticipated that service levels and standards for both routes will be the same.
- 9.4 We know from the National Survey for Wales that digital exclusion is relatively low (15%) amongst the adult population as a whole (16+) but higher amongst disabled people (25%) and people aged 50 and over (27%). The proposed application and eligibility checking system will be supported by a telephone helpline to meet the needs of applicants unable to access an online system and this will help mitigate any potential adverse impacts on the digitally excluded.

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- 9.5 The Bill will help advance good relations and community cohesion by providing for one consistent, national system for applications and eligibility checking for the Offer across the whole of Wales. It will also lead to the development of a system akin to the model currently being operated in England. This should help avoid a situation in Wales where Local Authorities approach the task of eligibility checking in a different way and will mean that all applicants across England and Wales have access to the same service and that the same rules apply.
- 9.6 A published copy of this impact assessment is available here:
<http://gov.wales/docs/dsjlg/publications/cyp/181411-childcare-funding-eia-en.pdf>

Rights of the Child Impact Assessment

- 9.7 A full impact assessment was conducted in relation to the Bill. It is envisaged that the Bill and the new national system that it will enable will have a positive impact on children's rights, giving eligible children quick and easy access to Government-funded childcare.
- 9.8 All types of families will be able to interact with the digital system and submit an application for free childcare as there will be two inbound channels, online and telephone.
- 9.9 The Bill will enable the delivery of a system which will support the principles of article 18 of the United Nations Convention on the Rights of the Child which states that the Government should support parents in helping to look after children, particularly when both parents work. Other articles are supported by the Bill and the Offer as a whole.
- 9.10 A published copy of this impact assessment is available here:
<http://gov.wales/docs/dsjlg/publications/cyp/181411-childcare-funding-crypia-en.pdf>

Welsh Language Impact Assessment

- 9.11 A full impact assessment was conducted in relation to the Bill.
- 9.12 The Regulatory Impact Assessment (RIA) details the preferred option of Her Majesty's Revenue and Customs (HMRC) operating the application

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and eligibility checking system on behalf of Welsh Ministers. This means that the Welsh Language Standards will apply.

- 9.13 The impacts identified focus on ensuring that the Welsh language will be promoted and facilitated and that the service provider works towards ensuring that the language is treated no less favourably than the English language when service delivery activity is carried out.
- 9.14 The Bill and what it seeks to achieve links closely with the aspirations of *Cymraeg 2050- A million Welsh Speakers*. Both this strategy and the Well Being of Future Generations (Wales) Act state that the Welsh language is a strategic priority for Welsh Government. The Welsh Government's vision is to see the Welsh language thrive, with an increase in the number of people who both speak and use the language in their daily lives. By creating a bilingual application and eligibility checking system, the Bill will help promote the use of Welsh language in every day life.
- 9.15 Steps will be taken to work with the service provider to promote use of the Welsh Language during the application and eligibility checking process and to ensure compliance with the Welsh Language Standards.
- 9.16 A published copy of this impact assessment is available here:
<http://gov.wales/docs/ds/jlg/publications/cyp/181411-childcare-funding-wlia-en.pdf>

Biodiversity Assessment

- 9.17 A Biodiversity screening assessment was conducted in relation to the Bill.
- 9.18 Having considered the Bill against the objectives of the Nature Recovery Action Plan, there are no impacts on biodiversity. There will be no likely significant impacts on Special Area of Conservation or Special Protection area for Birds. Therefore a full Habitats Regulation impact assessment has not been undertaken.

Rural Proofing Assessment

- 9.19 A rural proofing screening assessment was conducted in relation to the Bill.
- 9.20 The effect of the Bill and the proposed national application and eligibility checking system on rural areas is considered to be neutral. A full impact

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assessment is deemed as not required and therefore has not been undertaken.

Health Impact Assessment

9.21 A Health impact screening assessment was conducted in relation to the Bill.

9.22 The screening detailed no negative impact as the Bill is largely technical in nature and primarily concerned with enabling the development of a national application and eligibility checking system for the Offer.

9.23 A full impact assessment is deemed as not required and therefore has not been undertaken.

State Aid Assessment

9.24 A State Aid screening assessment was conducted in relation to the Bill. The Regulatory Impact Assessment's preferred option would be for another Public Body to administer the application and eligibility checking system on behalf of Welsh Ministers. It is therefore unlikely that there would be State Aid implications as HMRC would be acting in their capacity as a Public Authority.

9.25 A full impact assessment is deemed as not required and therefore has not been undertaken.

9.26 A State Competition screening assessment was conducted in respect of The Childcare Funding (Wales) Bill. The Bill will not affect business, or charities and/or the voluntary sector in any ways which raise issues related to competition. The proposed change in legislation, if passed, would not impact on competition.

The competition filter test	Answer
Question	yes or no
Q1: In the market(s) affected by the new regulation, does any firm have more than 10% market share?	No

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Q2: In the market(s) affected by the new regulation, does any firm have more than 20% market share?	No
Q3: In the market(s) affected by the new regulation, do the largest three firms together have at least 50% market share?	No
Q4: Would the costs of the regulation affect some firms substantially more than others?	No
Q5: Is the regulation likely to affect the market structure, changing the number or size of firms?	No
Q6: Would the regulation lead to higher set-up costs for new or potential suppliers that existing suppliers do not have to meet?	No
Q7: Would the regulation lead to higher ongoing costs for new or potential suppliers that existing suppliers do not have to meet?	No
Q8: Is the sector characterised by rapid technological change?	No
Q9: Would the regulation restrict the ability of suppliers to choose the price, quality, range or location of their products?	No

9.27 A full impact assessment is deemed as not required and therefore has not been undertaken.

Privacy Impact Assessment

9.28 A Privacy Impact screening assessment was conducted in relation to the Bill.

9.29 The Bill itself will not be a receiver of information but rather will provide the legislative basis for relevant information to be shared between UK Government departments and the Welsh Ministers.

9.30 A full impact assessment is deemed as not required and therefore has not been undertaken.

Justice Assessment

9.31 There has been consultation with the Ministry of Justice on the potential impact of the Childcare Funding (Wales) Bill on the justice system. The Bill includes provisions for civil penalties and criminal sanctions and provides applicants with a route of appeal to the First-Tier Tribunal. In arriving at our assessment of impact on the Justice System, case volumes and analogous offences in respect of the equivalent system operating in England have been considered. Given the low volume of cases anticipated as a result of the Bill, it is estimated that the impact on tribunals over the period from implementation in 2019/20 will be negligible (1 case per 6 months is expected). Therefore for 2019/20 and thereafter, the tribunals hearings will be reviewed and costed on a case by case basis and that there will be minimal impact in terms of the criminal justice system, criminal income and criminal legal aid. No impact is anticipated in respect of prisons and probation, courts criminal enforcement and civil and family courts and no adverse impact is expected on Crime IT systems, although operational issues will depend on the final drafting of the Bill.

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9.32 A published copy of this impact assessment is available here:

<http://gov.wales/docs/dsjlg/publications/cyp/181411-childcare-funding-ia-en.pdf>

Sustainable Development Impact Assessment

9.33 A Sustainable Development screening assessment was conducted in relation to the Bill.

9.34 The Bill will not have an affect on agriculture, forestry, fisheries, energy, industry, transport, waste management, water management, tourism, town and country planning or land use.

9.35 A full impact assessment is deemed as not required and therefore has not been undertaken.

Climate Change Impact Assessment

9.36 The Impact of the Bill on Climate Change has been assessed through the Welsh Government screening process.

9.37 Having considered the Welsh Government Climate Change Strategy published in October 2010 it has been considered that the proposed Bill is carbon neutral and that no ways have been identified to support the reduction of carbon emissions.

9.38 A full impact assessment is deemed as not required and therefore has not been undertaken.

Third sector

9.39 It is not considered that the Bill will impact on the third sector.

Poverty

9.40 Opportunities to address poverty have been identified in the Equalities Impact Assessment and the Rights of the Child Impact Assessment.

10 Post-implementation Review

10.1 In this section we set out our intended approach for reviewing the legislation.

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- 10.2 The Welsh Government recognises the importance of considering the financial implications of the legislation in a post implementation review and this will be included as part of the wider national review of the Childcare Offer policy and implementation.
- 10.3 This wider review will evaluate the efficiency, effectiveness and impact of the Childcare Offer as a whole, but in doing so the technical legislation relating to eligibility checking and processing and the associated costs will be considered in detail too.
- 10.4 The outturn costs, savings, benefits and dis-benefits of the legislation will be investigated and explained as part of the evaluation. Any significant differences between actual costs and benefits and the forecasts presented in this RIA will be explained.
- 10.5 It is expected that the evaluation of the Childcare Offer will be led by a member of one of the analytical professions, most likely the Head of Policy Analysis from the Childcare Offer Team (from the Government Social Research Service profession).
- 10.6 An Evaluation Steering Group involving key stakeholders will be established to guide the review, but also importantly to ensure 'buy-in' to evaluation lessons and to support dissemination of learning across the sector and more widely. The Economic Appraisal Team and Knowledge and Analytical Services (KAS) will also be invited to join the Evaluation Steering Group and will be involved in agreeing the methodological detail for the review and subsequent outputs.
- 10.7 The review of the Childcare Offer will be independently commissioned, in line with Official Journal of the European Union (OJEU) and the Welsh Government procurement procedures.
- 10.8 The independent evaluation of pilot delivery is providing lessons on monitoring systems and data, which we are feeding in to ensure the required level of information will be available for the post implementation review of national delivery. The independent evaluators will be appointed at an early stage and this will further help to ensure adequate arrangements are in place to collect detailed cost information for the review.
- 10.9 The cost of post implementation review is not included in this document. This is because this is a technical piece of legislation which only covers eligibility checking and processing and its effectiveness will be assessed as part of the full evaluation of the Offer. The additional data collection, analysis and reporting required to review this technical legislation is considered negligible (<£5k) in the context of the cost of the national evaluation (£350k assumed).
- 10.10 The national review of the Childcare Offer will be commissioned in summer 2020. An interim report will follow in December 2020 (primarily

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considering the efficiency and effectiveness of transition) and a final summative report will be available in summer 2023. Three years of full roll out is considered necessary to allow for delivery to embed and for a true indication of on-going costs to be understood.

1. Annex 1

CHILDCARE FUNDING (WALES) ACT

EXPLANATORY NOTES

INTRODUCTION

1. These Explanatory Notes are for the Childcare Funding (Wales) Act, announced in the First Minister's Legislative Statement in July 2017, introduced on 16 April 2018 and which received Royal Assent on [XXXX]. They have been prepared by the Education and Public Services Group of the Welsh Government in order to assist the reader of the Act.
2. The Explanatory Notes should be read in conjunction with the Act but are not part of it. They are not meant to be a comprehensive description of the Act and where an individual section does not seem to require any explanation or comment, none is given.

OVERVIEW OF THE ACT

3. The Act confers on the Welsh Ministers the power to fund childcare for the children of working parents, as long as the children and parents meet specific eligibility criteria. The Act also gives the Welsh Ministers power to make regulations to make arrangements for the establishment of a national application and eligibility checking system for the childcare funding scheme and will permit the making of provision to allow for the sharing of data between specified persons (for example, Her Majesty's Revenue and Customs (HMRC) and other UK Government Departments) to facilitate this.

POLICY BACKGROUND

4. The Act is intended to secure the delivery of a key commitment in the Welsh Labour manifesto *Together for Wales (2016)*, which is to provide 30 hours per week of government funded early education and childcare to the working parents of eligible three and four year olds in Wales for up to 48 weeks per year.
5. Evidence shows the cost of childcare is a major concern for working parents, influencing household finances and the family's quality of life. The Government has listened to these concerns and to parents who say these costs are acting as a barrier, preventing them from returning to work or progressing in work.
6. The childcare offer will help families by providing them with options and support. It will ensure children have a safe and interesting place to thrive, learn and grow and that home life is better due to less financial pressure on families. In supporting working parents with the costs of childcare, the childcare offer aims to remove one of the potential barriers to employment, increase employability choices and influence disposable income.

7. The Act makes the legislative changes needed to facilitate the delivery of the childcare offer. It provides the Welsh Ministers with the necessary powers to establish a national application and eligibility checking system so that parents who meet the criteria can apply for Government-funded childcare. An on-line system for applications and eligibility checking will enable applicants to be provided with a quick decision on their entitlement to receive the funding.

TERRITORIAL EXTENT AND APPLICATION

8. The provisions in the Act extend to England and Wales (as one legal jurisdiction). The Act applies to children in Wales only.

COMMENTARY ON SECTIONS

Section 1 -Funding of childcare for children of working parents

9. Section 1(1) gives the Welsh Ministers the power to provide funding to any person in order to secure childcare for qualifying children of working parents Section 1(2) provides high level information about who an eligible child would be, making it clear that eligible children will be under compulsory school age and in Wales. This section also gives the Welsh Ministers the power to make regulations which will specify in more detail who are “qualifying children” and “working parents” for the purposes of providing such funding.
10. Regulations made under this section will set out the description of a “qualifying child”, this description may, for example, relate to the age at which a child will be considered eligible for Government-funded childcare and will make provision about who is a working parent for the purposes of receiving the funding. They will also require a person to make a declaration that all elements of the eligibility criteria are satisfied as part of their application for funding. Regulations may also be made in order to clarify when a child is regarded to be “in Wales”; the circumstances in which a person is regarded as a “person’s partner” and to explain what is meant by the term “parent” and “carrying out paid work”. For example, they may specify that a person who is temporarily away from the workplace in certain circumstances, such as parental leave, will be considered to be in work for the purposes of determining their eligibility to receive the funding.

Section 2 - Power to make provision about administration etc. of funding

11. This section gives the Welsh Ministers the power to make regulations setting out the arrangement for administering and operating the funding scheme established by virtue of section 1. These regulations may, for example, include details of the arrangements in respect of the way a parent, or partner of a parent of an eligible child, can apply for the funding and how eligibility checks will be undertaken. Sections 3 to 7 of the Act contain a non-exhaustive list of the provision which may be made in the Regulations made under this section.

Section 3 - Requirement for parents etc. to provide information

12. This section states that any regulations made under section 2 of the Act may include provision to require applicants who are making or have made a declaration by virtue of section 1(d) to provide information and documents considered necessary to make a decision about their eligibility. For example a person may be required to provide

details of their employment status and evidence of their earnings, or a child's birth certificate to verify the child's age. This information can be required to be provided to the Welsh Ministers or to a person providing services to the Welsh Ministers.

13. The regulations may also make provision about the imposition of financial penalties in connection with false or misleading statements made, or information provided by a person in connection with an application for funding. Section 3(4) clarifies what is meant by "false and misleading" and confirms that it means false or misleading in a material particular. This means that a person would only be liable to have a penalty imposed upon them if the false or misleading information provided was considered to have a bearing on whether or not a person would be eligible for the offer, such as details of their earnings, the age of the child etc. Section 3(5) ensures that a person will not be liable to a financial penalty imposed in accordance with any regulations made under section 2 if they have been convicted separately of an offence in relation to the same incident.
14. Section 3(6) provides that the maximum amount of any financial penalty that can be levied in regulations made under section 2 is £3,000. The Welsh Ministers have power to amend this maximum amount in regulations (see section 10 of the Act).

Section 4 - Provision of information by third parties

15. Section 4 of the Act specifies that the regulations (which may be made under section 2) may make provision about the sharing of specified information required in order to administer and operate the childcare funding scheme. The Welsh Ministers must specify what is "qualifying information" for the purposes of this section but may only use this power to specify information which is required to determine eligibility for funding under section 1 of the Act.
16. The regulations may make provision that permits HMRC, a government department or a Minister of the Crown (or a person providing services to HMRC, a government department or a Minister of the Crown) to provide the Welsh Ministers (or a person providing services to the Welsh Ministers) with any qualifying information that is relevant to making a decision about a person's eligibility to receive Government-funded childcare. Welsh Ministers may also permit or require the provision of information from a local authority to the Welsh Ministers, or a person providing services to the Welsh Ministers.
17. However, any regulations that make provision about the disclosure of information in accordance with this provision will be subject to a requirement that the appropriate Minister consents to the provision (section 4(5)). Section 4(6) sets out who is the appropriate Minister.

Section 5 - Onward disclosure of information disclosed by virtue of section 3 or 4

18. Section 5 makes provision about the onward disclosure of information that has been disclosed by virtue of section 3 or 4. Section 5(2) requires the appropriate Minister to give consent to any regulations which contain provision about the onward disclosure of information provided by HMRC, a Minister of the Crown, a government department or a person providing services to any of these persons. "Appropriate Minister" has the same meaning in this section as in section 4, namely

the Treasury in relation to HMRC and the Secretary of State for a government department or a Minister of the Crown.

19. Section 5(3) enables any regulations relating to the onward disclosure of information to make provision for criminal offences in connection with the unauthorised onward disclosure of information has been shared for the purposes of making a decision about a person's eligibility to receive Government-funded childcare.
20. In accordance with section 5(4) the maximum penalty which may attach to any criminal offence created by virtue of this section cannot exceed a 2 year prison sentence (whether or not accompanied with a fine).

Section 6 - Reviews of determinations and appeals to the First-tier Tribunal

21. Section 6 of the Act specifies that regulations which may be made under section 2 may make provision about what happens when a person wants to challenge a determination about their eligibility for funding. The regulations may make provision about reviews of decisions and for appeals to the First-Tier Tribunal. If regulations are made under section 2 of the Act which make provision about the imposition of financial penalties (in accordance with section 3) then section 6(2) requires that they must also make provision to enable a person to challenge the imposition or the amount of any financial penalty imposed.

Section 7 - Power to confer functions on local authorities

22. Section 7 gives the Welsh Ministers the power to make provision in the regulations that may be made under section 2 to confer power or impose obligations on Local Authorities and may also make provision which requires Local Authorities to have regard to any guidance issued by the Welsh Ministers to support the administration and operation of the funding scheme.

Section 8 - Consequential amendment to the Commissioners for Revenue and Customs Act 2005

23. Section 8 of the Act contains an amendment to section 18 of the Commissioners for Revenue and Customs Act 2005 ("the 2005 Act") which makes provision about HMRC's duty of confidentiality. Section 18 of the 2005 Act lays down the code of confidentiality for HMRC and its officials in relation to the information held by HMRC in connection with a function of HMRC and specifies the circumstances in which disclosures can be made.
24. The amendment to the 2005 Act, which is contained in section 8, will insert a new paragraph into section 18(2) of that Act which will enable HMRC to disclose information which is required for the purposes of any regulations made under this Act to the Welsh Ministers (or to a person providing services to the Welsh Ministers).
25. The 2005 Act forms part of the law of the United Kingdom's three legal jurisdictions: that of England and Wales; that of Scotland; and that of Northern Ireland (see section 56 of the 2005 Act for the provision specifying the Act's UK-wide extent).

26. Section 108A(2)(b) of the Government of Wales Act 2006, which sets out the rules governing the limits of the National Assembly's legislative competence, restricts the extent of Assembly Acts, including amendments to other legislation made by those Acts, to the jurisdiction of England and Wales.
27. This means that the amendment to section 18 of the 2005 Act will have a more limited extent than those provisions of the 2005 Act which extend across the UK. So section 18 of the 2005 Act, as it extends to the jurisdictions of Scotland and Northern Ireland, will exist without the amendment contained in section 8 of the Act. But the amendment will have effect for the purposes of the jurisdiction of England and Wales.

Section 10 - Power to change amount of financial penalty for provision of false or misleading information

28. This section gives the Welsh Ministers a regulation making power to vary the maximum penalty of £3,000 specified in section 3(6) by making an amendment to that section.

Section 11 - Supplementary provision about regulations under this Act

29. This section explains that powers to make regulations under the Act are to be exercised by statutory instrument (which means that certain procedural and other requirements contained in the Statutory Instruments Act 1946 apply in relation to regulations made under the Act) and specifies that the affirmative procedure will apply to each use of the regulation-making powers. This means that any regulations made under the Act are subject to the express approval of the National Assembly for Wales.
30. Section 11 also makes it clear that any regulations made under the Act may confer a discretion on any person. The power to confer a discretion is necessary in order to give the Welsh Ministers flexibility in the operational arrangements to be made for administering any funding provided in accordance with section 1, for example, when making a decision whether to impose a penalty for the provision of false or misleading information provided by a person in connection with their application for funding. A person exercising a discretion in such circumstances must exercise reasonable judgement in order to determine whether or not to impose a penalty and, if a penalty is imposed, the amount of that penalty.
31. Any regulations made under the Act may also confer discretion on a person and may make different provision for different purposes, make consequential, incidental, supplementary, transitory, transitional or saving provision.

Section 12 - Coming into force

32. Section 12(1) sets out the provisions of the Act that will come into force one day after the Act receives Royal Assent.
33. Any sections of the Act that are not mentioned in subsection (1) will come into force on a day specified in a commencement order (or orders) made by the Welsh Ministers in accordance with subsection (2). The Welsh Ministers have power to specify

different commencement dates and may commence provisions for different purposes or in relation to specified areas.

Section 13 - Short title

34. This section states that the short title of this Act will be the Childcare Funding (Wales) Act[2018]

RECORD OF PROCEEDINGS IN NATIONAL ASSEMBLY FOR WALES

35. The following table sets out the dates for each stage of the Act's passage through the National Assembly for Wales. The Record of Proceedings and further information on the passage of this Act can be found on the National Assembly for Wales' website at: <http://www.senedd.assembly.wales/mgIssueHistoryHome.aspx?IId=21394&Opt=0>

Stage	Date
Introduced	16 April 2018
Stage 1 - Debate	17 July 2018
Stage 2 Scrutiny Committee - consideration of amendments	18 October 2018
Stage 3 Plenary - consideration of amendments	5 December 2018
Stage 4 Approved by the Assembly	12 December 2018
Royal Assent	January 2019

Annex 2

Index of Standing Order requirements

Standing order		Section	pages/ paragraphs
26.6(i)	Statement the provisions of the Bill would be within the legislative competence of the Assembly	Member's declaration	Page 2
26.6(ii)	Set out the policy objectives of the Bill	Chapter 3 - Purpose and intended effect of the legislation	Page 8
26.6(iii)	Set out whether alternative ways of achieving the policy objectives were considered and, if so, why the approach taken in the Bill was adopted	Part 2 – Regulatory Impact Assessment	Page 21
26.6(iv)	Set out the consultation, if any, which was undertaken on: (a) the policy objectives of the Bill and the ways of meeting them; (b) the detail of the Bill, and (c) a draft Bill, either in full or in part (and if in part, which parts)	Chapter 4 – Consultation	Pages 14-15
26.6(v)	Set out a summary of the outcome of that consultation, including how and why any draft Bill has been amended	Chapter 4 – Consultation	Page 15, Para 4.9
26.6(vi)	If the bill, or part of the Bill, was not previously published as a draft, state the reasons for that decision	Chapter 4 - Consultation -	Page 14

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	Standing order	Section	pages/ paragraphs
26.6(vii)	Summarise objectively what each of the provisions of the Bill is intended to do (to the extent that it requires explanation or comment) and give other information necessary to explain the effect of the Bill	Annex 1 – Explanatory Notes	Pages 69-74. A summary of provisions is set out in the Explanatory Notes
26.6(viii)	Set out the best estimates of: (a) the gross administrative, compliance and other costs to which the provisions of the Bill would give rise; (b) the administrative savings arising from the Bill; (c) net administrative costs of the Bill’s provisions; (d) the timescales over which such costs and savings would be expected to arise; and (e) on whom the costs would fall	Section 6 – Regulatory Impact assessment	Page 22
26.6(ix)	Any environmental and social benefits and dis-benefits arising from the Bill that cannot be quantified financially	Part 2 – Section 9 Regulatory impact assessment	Pages 61-66
26.6(x)	Where the Bill contains any provision conferring power to make subordinate legislation, set out, in relation to each such provision: (a) the person upon whom, or the body upon which, the power is conferred and the form in which the power is to be exercised; (b) why it is considered appropriate to delegate the power; and	Section 5- Page 16 - Power to make subordinate legislation	Pages 15-19.

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	Standing order	Section	pages/ paragraphs
	(c) the Assembly procedure (if any) to which the subordinate legislation made or to be made in the exercise of the power is to be subject, and why it was considered appropriate to make it subject to that procedure (and not to make it subject to any other procedure);		
26.6(xi)	Where the Bill contains any provision charging expenditure on the Welsh Consolidated Fund, incorporate a report of the Auditor General setting out his or her views on whether the charge is appropriate	The requirement of Standing Order 26.6(xi) does not apply to this Bill	N/A
26.6B	Where provisions of the Bill are derived from existing primary legislation, whether for the purposes of amendment or consolidation, the Explanatory Memorandum must be accompanied by a table of derivations that explain clearly how the Bill relates to the existing legal framework	The requirement in Standing Order 26.6B for a Table of Derivations is not applicable.	N/A
26.6C	Where the Bill proposes to significantly amend existing legislation, the Explanatory Memorandum must be accompanied by a schedule setting out the wording of existing legislation amended by the Bill, and setting out clearly how that wording is amended by the Bill.	Appendix 3- Page 78 – Schedule of Amendments	N/A

Annex 3

Schedule of amendments

[Commissioners for Revenue and Customs Act 2005]

AMENDMENTS TO BE MADE BY THE [CHILDCARE FUNDING] (WALES) BILL

This document is intended to show how the provisions of the Commissioners for Revenue and Customs Act -2005 as they applied in relation to Wales on [16 April 2018] would look as amended by the Childcare Funding (Wales) Bill (if enacted as introduced on 16 April 2018).

Material to be deleted by the [Childcare Funding (Wales) Bill] is in strikethrough, e.g. ~~omitted material looks like this~~. Material to be added by the [insert name of Bill] (Wales) Bill is underlined, e.g. added material looks like this. References to the relevant amending provisions of the Bill are provided in the right hand column on each page.

A number of related provisions from the Act, although not being amended, are included to aid understanding of the proposed amendments.

Warning

This text has been prepared by officials of the Department for Education and Public Services of the Welsh Government. Although efforts have been taken to ensure that it is accurate, it should not be relied on as a definitive text of the Act or the Bill.

It has been produced solely to help people understand the effect of the Childcare Funding (Wales) Bill. It is not intended for use in any other context.

Commissioners for Revenue and Customs Act 2005

*Amending
section of
the
Childcare
Funding
(Wales) Bill*

- (1) Revenue and Customs officials may not disclose information which is held by the Revenue and Customs in connection with a function of the Revenue and Customs.
- (2) But subsection (1) does not apply to a disclosure—
- (a) which—
- (i) is made for the purposes of a function of the Revenue and Customs, and
- (ii) does not contravene any restriction imposed by the Commissioners,
- (b) which is made in accordance with section 20 or 21,
- (c) which is made for the purposes of civil proceedings (whether or not within the United Kingdom) relating to a matter in respect of which the Revenue and Customs have functions,
- (d) which is made for the purposes of a criminal investigation or criminal proceedings (whether or not within the United Kingdom) relating to a matter in respect of which the Revenue and Customs have functions,
- (e) which is made in pursuance of an order of a court,
- (f) which is made to Her Majesty's Inspectors of Constabulary, the Scottish inspectors or the Northern Ireland inspectors for the purpose of an inspection by virtue of section 27,
- (g) which is made to the [Director General of the Independent Office for Police Conduct] , or a person acting on [the Director General's] behalf, for the purpose of the exercise of a function by virtue of section 28, [...]
- (h) which is made with the consent of each person to whom the information relates [, [...]]

[

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(i) which is made to [Revenue Scotland] in connection with the collection and management of a devolved tax within the meaning of the Scotland Act 1998, [...]]

Section 8

(ia) which is made to the Welsh Ministers by virtue of regulations made under the Childcare (Funding) (Wales) Act 2018,

] [

(j) which is made to the Welsh Ministers in connection with the collection and management of a devolved tax within the meaning of the Government of Wales Act 2006[, or]

] [

(k) which is made in connection with (or with anything done with a view to) the making or implementation of an agreement referred to in section 64A(1) or (2) of the Scotland Act 1998 (assignment of VAT).

] [...]

[

(2A) Information disclosed in reliance on subsection (2)(k) may not be further disclosed without the consent of the Commissioners (which may be general or specific).

] [

(3) Subsection (1) is subject to any other enactment permitting disclosure.

(4) In this section—

(a) a reference to Revenue and Customs officials is a reference to any person who is or was—

(i) a Commissioner,

(ii) an officer of Revenue and Customs,

(iii) a person acting on behalf of the Commissioners or an officer of Revenue and Customs, or

(iv) a member of a committee established by the Commissioners,

(b) a reference to the Revenue and Customs has the same meaning as in section 17,

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(c) a reference to a function of the Revenue and Customs is a reference to a function of—

(i) the Commissioners, or

(ii) an officer of Revenue and Customs,

(d) a reference to the Scottish inspectors or the Northern Ireland inspectors has the same meaning as in section 27, and

(e) a reference to an enactment does not include—

(i) an Act of the Scottish Parliament or an instrument made under such an Act, [...]

[

(ia) an Act of the National Assembly for Wales or an instrument made under such an Act, or

]

(ii) an Act of the Northern Ireland Assembly or an instrument made under such an Act.

Annex 4

Table 1.0: Cost model components and definitions

Table 1: Cost model components and definitions	
Component	Definitions
Implementation	
Customer front-end	The customer front-end covers the portal through which parents can apply, including the application form, eligibility checker (if applicable) and helpdesk to support parents in completing the applications and facilitate applications from those that are digitally-excluded. For all options, the customer front-end is assumed to be a primarily digital solution which is web-based. Some options will require only tweaks to existing systems and some will require a complete build of suitable application system.
ID Verification	In order to assure the identity of applicants, an ID verification process ²⁰ is required as part of the application. Options for this can vary in security levels and could be done manually or digitally.
Eligibility check system	An Eligibility Checking System would allow the eligibility of applicants to be checked in an automated way. This would require data provided by applicants to be automatically checked against other datasets to provide a decision on their eligibility. This option is only realistically feasible for the Option 2 – HMRC as they are able to facilitate access to datasets such as PAYE data which would give us live information on the amount earned by applicants. Other options would likely be more manual processes as a result of being unable to access some of these datasets from HMRC and therefore would not require a system to be built to conduct these automated checks.
Rule Engine	A rules engine defines the business rules on which an applicant would be deemed eligible – in this case it would be the eligibility criteria of the Offer. If using a digital approach to applications, these rules could be coded into the processing of applications to give a eligibility outcome which can be recorded and passed onto parents.
Case management system	A case management system is a way to digitally store and track customer records. For the Offer, a case management system will be integral to managing the cases of each applicant through the application stage until they are no longer eligible.
Case Management Set Up	Case management set up costs explore the costs to set up a fit-for-purpose case management system for each option.

²⁰ <https://www.ddc.uk.net/dbs-id-checks/for-registered-bodies/>

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Case Management Implementation	Case management implementation explores the costs to actually operate the system.
Case Management license	Case management license is the cost charged by the company providing the case management system to access the software.
Master Data Management	Master data management (MDM) is a system mechanism which allows all of the data to be linked to one file, called the master file. This provides a common point of reference and allows streamlined data sharing and record keeping.
Management Information, Reporting and Analytics	Management information, reporting and analytics is the information about the applications and case management which allow delivery progress to be assessed e.g. number of applications.
Enterprise Content management	Enterprise content management is a formalized means of organizing and storing an organization's documents, and other content, that relate to the organization's processes. At this stage of development, there are too many unknowns to judge requirements and complexity for each option to be able to put a cost figure on. Therefore each option has been given a zero value.
Helpdesk	The helpdesk is to support technical problems from applicants such as issues accessing their case or completing their application. The costs associated with this in the initiation phase are around setting up this helpdesk or amending existing helpdesks to take on the service for The Offer.
Integration set-up	Integration set up looks at the process of bringing together the component sub-systems into one system (an aggregation of subsystems cooperating so that the system is able to deliver the overarching functionality) and ensuring that the subsystems function together as a system. This can be done using application programming interfaces (APIs).
Architecture Initial Set Up	Architecture set up explores the costs around the way in which the various systems to process and manage applications and cases for the Offer interact and operate.
Security Implementation – set up	Security implementation is concerned with the creation of protection against data loss given the sensitive nature of the data submitted by parents to apply.
Transition Costs	Gartner research shows that average transition costs for a single entity are an additional 2-15% of first year run costs, depending on the complexity of the technology. Suggest upper boundary due to amount of unknowns
Margin	Profit margin applied to costs
Contingency	Contingency factor added to costs to take account of potential risks
Legal and procurement activities	Administration of conducting legal and procurement activities e.g new contracts
Training / Communications	Cost of training and communications required to implement a new system within a workforce

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Programme costs	Administration costs of running a programme such as governance and project management.
Optimism bias	According to The Green Book, the upper bound optimism bias for capital expenditure for outsourced projects is 41% and for development projects is 200%. There are a large number of unknowns, so maximum optimism bias applied – as these are clarified the optimism bias may reduce
Ongoing	
Hosting Options	Hosting options look at the cost of server hosting – this refers to the outsourcing of an organization’s server placement and platform to a third-party Managed Hosting Provider (MSP).
Eligibility Checks	Eligibility checks covers the checks, whether manual or automated digital checks that would need to be conducted to ensure an applicant’s eligibility for the Offer.
Eligibility tax compliance	Eligibility tax compliance checks would need to be undertaken to ensure that all applicants were tax compliant as an additional check. These would need to be undertaken either manually or digitally.
Eligibility Appeal	An appeals process needs to be in place for applicants to appeal against the decision on eligibility. This would most likely result in teams reviewing the case and the checks conducted.
Helpdesk/ call centre	The running of the helpdesk/call centre dealing with technical and application queries
Maintain Integration	Work to maintain the integration of the system over time. This varies by complexity of the system and incurs incremental cost.
Environments	Various environments for the system need to be available over time such as live, test and development environments through which to update systems.
General Data Protection Regulation (GDPR) Compliance	GDPR protocol is being implemented in 2018. It is assumed for each of the options that implementing GDPR was a whole organisation cost not an Offer specific cost. Therefore it is assumed that the cost for these options includes GDPR compliance in overall costs.
Ongoing Security	Ongoing maintenance of security for the system and processes – the cost varies depending on the level of security needed within each option.
Operational Costs – Industry Average	Annual IT application development and support investment

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Annex 5

Table 1.1 – Option 1 –Option Costings

Table 1.1			
OPTION 1 – LOCAL AUTHORITIES ACCEPT APPLICATIONS AND CONDUCT ELIGIBILITY CHECKS MANUALLY			
IMPLEMENTATION COSTS			
Component	Assumptions	Volume	Cost
Customer front-end	<ul style="list-style-type: none"> • Estimated 5 days per Local Authority to compile front end system • Minor changes to existing Local Authority websites • Assumes junior programmer resource • Includes facility for the digitally excluded to apply via an alternative method 	110 days (5 days x 22 Local Authorities)	£49,280
ID Verification	<ul style="list-style-type: none"> • Included in the ‘simple check’ of the eligibility checking process • ID verification would be done as part of the manual document checks 	Estimated up to 40,000 individual applications per year nationally	
Rule Engine	<ul style="list-style-type: none"> • Definition of rules and configuration of rules engine • Estimated 20 days to compile rule engine 	20 days	£9,120

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	<p>across Local Authorities – small amount as generally a manual process</p> <ul style="list-style-type: none"> • Assumes Business Analyst resource 		
Case Management			
LA Case Management Implementation	<ul style="list-style-type: none"> • Implementation of case management system in each LA • Assumes £17,000 per Local Authority 	22	£374,000
LA Case Management Set Up	<ul style="list-style-type: none"> • Assume half of authorities will develop their own system, and half will purchase systems • Capita One system for purchased system approach Using learning from this implementation assume 20 days per Local Authority. • 	1,100 days (20 days x 11 LA's + 80 days x 11 LA's)	£252,560
LA Case Management license	<ul style="list-style-type: none"> • Capita One system for purchased system approach • Based on costs for EILAs • Assumes £30,000 per Local Authority 	11	£330,000

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Master Data Management	<ul style="list-style-type: none"> • New complex master national data management system • Upper quartile function points (high complexity) • Data management needs to be properly implemented & robustly managed to ensure GDPR compliance 	1	£215,000
Management Information, Reporting and Analytics	<ul style="list-style-type: none"> • New national management information system – high complexity • Upper quartile function points 	1	£715,000
Helpdesk	<ul style="list-style-type: none"> • Assume 5 days of Business Analyst resource to set up in each Local Authority 	110 days (5 days x 22 Local Authorities)	£50,160
Integration platform and data flow orchestration			
Low Integration complexity	<ul style="list-style-type: none"> • Existing API that can be called • Assumes 20 days of Applications Development Analyst resource per Local Authority 	440 days (20 days x 22 Local Authorities)	£285,560
Additional components			

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Architecture Initial Set Up	<ul style="list-style-type: none"> Assumes 20 days of solutions architect resource per Local Authority to set up 	440 days (20 days x 22 Local Authorities)	£420,640
Security Implementation – set up	<ul style="list-style-type: none"> Assumes 10 days of security analyst resource per Local Authority to set up 	220 days (10 days x 22 Local Authorities)	£121,220
Implementation Subtotal			£2,822,540
UPLIFT FOR IMPLEMENTATION TRANSITION			
Transition Costs	<ul style="list-style-type: none"> Gartner research shows that average transition costs for a single entity are an additional 2-15% of first year run costs, depending on the complexity of the technology upper boundary assumed in this cost model due to the amount of unknowns 	15%	£423,381
Training	<ul style="list-style-type: none"> 4% of implementation cost is average from key metrics Manual option would be higher, therefore increased to 13% for this option 	13%	£366,930
Programme Costs – Project Management	<ul style="list-style-type: none"> Staffing distribution for Government 	17%	£479,832

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and Quality Management							
Optimism Bias – Development Project	<ul style="list-style-type: none"> • According to The Green Book, the upper bound optimism bias for capital expenditure for development projects is 200% • There are a large number of unknowns for this option, therefore maximum optimism bias is applied – as these are clarified the optimism bias may reduce 	200%	£8,185,366				
Total Implementation Cost			£12,278,049				
ONGOING COSTS							
Component	Assumptions	Volume	Cost				
			Year 1	Year 2	Year 3	Year 4	Year 5
Eligibility							
Simple Check	<ul style="list-style-type: none"> • Manual check of documentary evidence by Local Authority staff for a straightforward case • Assumes 6 minutes per application (learned from Early Implementer processing time for straightforward applications) 	Estimated up to 20,000 individual applications per year	£34,125	£34,125	£34,125	£34,125	£34,125

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	<ul style="list-style-type: none"> • Uses Local Authority blended staff rate 						
Exception Check	<ul style="list-style-type: none"> • Manual check of documentary evidence by Local Authority staff for applications who have eligibility exceptions • Assumes 1 hour processing time per application (learned from Early Implementer processing time for straightforward applications) • Uses Local Authority blended staff rate 	2,000 individual applications per year	£34,125	£34,125	£34,125	£34,125	£34,125
Complex Check	<ul style="list-style-type: none"> • Manual check of documentary evidence for applicants with complex circumstances • Assumes 30 minutes processing time per application (learned from Early Implementer processing time for straightforward applications) • Uses LA blended staff rate 	18,000 individual applications per year	£153,563	£153,563	£153,563	£153,563	£153,563
Hosting Options	<ul style="list-style-type: none"> • Capita One software maintenance 	22	£550,000	£550,000	£550,000	£550,000	£550,000

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	<ul style="list-style-type: none"> • £25,000 per Local Authority 						
Eligibility tax compliance	<ul style="list-style-type: none"> • Manual tax compliance check with Department for Work and Pensions • Assumes 15 minutes processing time per application 	Estimated up to 40,000 individual applications per year	£856,250	£856,250	£856,250	£856,250	£856,250
Eligibility Appeal	<ul style="list-style-type: none"> • Conduct manual checks of cases where applicants have appealed the eligibility decision • Assumes 15 minutes processing time per application • Assume 2.5% of applicants appeal the eligibility decision – therefore around 1,000 a year nationally • Uses Local Authority blended staff rate 	Estimated up to 1,000 individual applications per year	£17,063	£17,063	£17,063	£17,063	£17,063
Helpdesk – LA Query	<ul style="list-style-type: none"> • Deals with technical and application queries • Bilingual service • Assumes 1 member of full time equivalent staff manning helpdesk to handle calls in each LA • Uses LA blended staff rate 	4400 days (200 days per FTE x 22 Local Authorities)	£600,600	£600,600	£600,600	£600,600	£600,600

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Maintain integration							
Low Integration complexity	<ul style="list-style-type: none"> Percentage value of Integration set-up that will increase each year 5% of transition cost 	440 days (20 days x 22 Local Authorities)	£14,278	£14,992	£15,741	£16,529	£17,355
UPLIFT FOR ONGOING TRANSITION							
Ongoing Security	<ul style="list-style-type: none"> Security requirements are not known at this stage However it will involve transfer of sensitive data, therefore assume a 12% security uplift 	12%	£338,704.80	£338,704.80	£338,704.80	£338,704.80	£338,704.80
Operational Costs – Industry Average	<ul style="list-style-type: none"> Annual IT application development and support investment is roughly 38% of total IT spending 48% of that investment is for new development projects Industry average is 18% - therefore will use this figure 	18%	£508,057.20	£508,057.20	£508,057.20	£508,057.20	£508,057.20
Total Ongoing Cost			£3,106,766	£3,107,480	£3,108,229	£3,109,017	£3,109,843

Annex 6

Option 2 – HMRC accepts applications and checks eligibility – Option Costings

Table 1.3 – OPTION 2 – HMRC ACCEPT APPLICATIONS AND CHECK ELIGIBILITY			
IMPLEMENTATION COSTS			
Component	Assumptions	Volume	Cost
Customer front-end	<ul style="list-style-type: none"> • Customer application portal provided for HMRC by National savings & Investments • This cost estimate Includes updates to meet specific Welsh requirements • Call centre for digitally excluded and Welsh means their current provision becomes more complex • Risk factor for Welsh specific specification changes added at 20% 	1	£840,000
Eligibility check system	<ul style="list-style-type: none"> • Exists already for equivalent English childcare offer and TFC but risk factor for creating new APIs etc added at 20% 	1	£366,000
Rule Engine	<ul style="list-style-type: none"> • Define business rules for HMRC to input • Rule engine configured to take in Welsh rules 	60 days	£45,000

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	<ul style="list-style-type: none"> Assumes 60 days senior developer resource to define rules 		
Master Data Management	<ul style="list-style-type: none"> Assumes Master Data Management is already intrinsic in HMRC capability offered Average quartile function points 	1	£170,000
Management Information, Reporting and Analytics	<ul style="list-style-type: none"> TFC management information system 20% risk factor added for Welsh specification changes 	1	£132,000
Helpdesk	<ul style="list-style-type: none"> Deals with technical and application queries Assume 20 days of Business Analyst support to set up 	20 days	£9,120
Integration platform and data flow orchestration			
Integration of Tax-Free Childcare System	<ul style="list-style-type: none"> Integration engine currently used for TFC 	1	£100,000
High Integration complexity	<ul style="list-style-type: none"> No API, package has not been integrated previously, will need integration at the data layer Need to investigate data model, and build API that will not damage data model 	160 days	£103,840

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	<ul style="list-style-type: none"> Assumes Applications Development Analyst resource 		
Medium Integration complexity	<ul style="list-style-type: none"> No existing API, but able to integrate without impacting the data model Assumes Applications Development Analyst resource 	80 days	£51,920
Low Integration complexity	<ul style="list-style-type: none"> Existing API that can be called Assumes Applications Development Analyst resource 	80 days	£51,920
Additional components			
Architecture Initial Set Up	<ul style="list-style-type: none"> Assumes solutions architect resource to set up 	80 days	£76,480
Security Implementation – set up	<ul style="list-style-type: none"> Assumes security analyst resource to set up 	20 days	£11,020
Implementation Subtotal			£1,957,300
UPLIFT FOR IMPLEMENTATION TRANSITION			
Transition Costs	<ul style="list-style-type: none"> Gartner research shows that average transition costs for a single entity are an additional 2-15% of first year run costs, depending on the complexity of the technology 5% used as existing system being adapted 	5%	£97,865

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Margin	<ul style="list-style-type: none"> Any third party would apply significant margin to expected costs, particularly given the limited economies of scale Although HMRC a government department, some margin is likely to cover unknown interoperability risks 	10%	£195,730				
Training	<ul style="list-style-type: none"> 4% of implementation cost is industry average for training 	4%	£78,292				
Programme Costs – Project Management and Quality Management	<ul style="list-style-type: none"> Staffing distribution for Government 	17%	£332,741				
Optimism Bias – Outsourced Project	<ul style="list-style-type: none"> According to The Green Book, the upper bound optimism bias for capital expenditure for outsourced projects is 41% There are a large number of unknowns, so maximum optimism bias applied – as these are clarified the optimism bias may reduce 	41%	£922,867				
Total Implementation Cost			£3,584,795				
ONGOING COSTS							
Component	Assumptions	Volume	Cost				
			Year 1	Year 2	Year 3	Year 4	Year 5

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Eligibility Check	<ul style="list-style-type: none"> • Digital checks by TFC system run by HMRC and amber checks conducted for complex and exceptional cases by HMRC support team • Cost of this is assumed to a £4.75 blended rate for simple, complex and exceptional checks • From high level indicative costings from HMRC 	Estimated up to 40,000 individual applications per year	£190,000	£190,000	£190,000	£190,000	£190,000
Hosting Options	<ul style="list-style-type: none"> • Uses existing host as used for TFC support and maintenance 		£80,000	£80,000	£80,000	£80,000	£80,000
Eligibility tax compliance	<ul style="list-style-type: none"> • Digital tax compliance check with DWP conducted as part of eligibility check process • Cost of this is assumed to be included in eligibility check costs 						
Eligibility Appeal	<ul style="list-style-type: none"> • Conduct manual checks of cases where applicants have appealed the eligibility decision • Assumes 30 minutes processing time per application • Assume 2.5% of applicants appeal the eligibility decision – therefore around 1,000 a year nationally 	Estimated up to 1,000 individual applications per year	£31,250	£31,250	£31,250	£31,250	£31,250

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	<ul style="list-style-type: none"> Based on benchmarked low cost helpdesk rate 						
Helpdesk – HMRC Query	<ul style="list-style-type: none"> Deals with technical and application queries Bilingual service Assumes 3 members of full time equivalent staff manning helpdesk to handle calls Based on benchmarked third party helpdesk staff rate 	600 days (3 FTE Staff x 200 days)	£283,800	£283,800	£283,800	£283,800	£283,800
Maintain integration							
High Integration complexity	<ul style="list-style-type: none"> Percentage value of Integration set-up that will increase each year 25% of transition cost 	160 days	£25,960	£32,450	£40,563	£50,703	£63,379
Medium Integration complexity	<ul style="list-style-type: none"> Percentage value of Integration set-up that will increase each year 10% of transition cost 	80 days	£5,192	£5,711	£6,282	£6,911	£7,602
Low Integration complexity	<ul style="list-style-type: none"> Percentage value of Integration set-up that will increase each year 5% of transition cost 	80 days	£2,596	£2,726	£2,862	£3,005	£3,155
UPLIFT FOR ONGOING TRANSITION							
Ongoing Security	<ul style="list-style-type: none"> Security requirements are not known at this stage Estimated that security accounts for 6% of total IT spend 	6%	£117,438	£117,438	£117,438	£117,438	£117,438

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Operational Costs – Industry Average	<ul style="list-style-type: none"> • Annual IT application development and support investment is roughly 38% of total IT spending • 48% of that investment is for new development projects • Industry average is 18% - therefore will use this figure 	18%	£352,314	£352,314	£352,314	£352,314	£352,314
Total Ongoing Cost			£1,088,550	£1,095,689	£1,104,509	£1,115,421	£1,128,938

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Annex 7

Option 3 – The Welsh Government accepts applications and checks eligibility - Option Costings

TABLE 1.5 – OPTION 3 – WELSH GOVERNMENT ACCEPTS APPLICATIONS AND CHECKS ELIGIBILITY			
IMPLEMENTATION COSTS			
Component	Assumptions	Volume	Cost
Customer front-end	<ul style="list-style-type: none"> • Estimated 30 days to compile front end system • Assumes programmer benchmarked day rate • Includes facility for the digitally excluded to apply via an alternative method 	30 days	£17,280
ID Verification	<ul style="list-style-type: none"> • E-ID completed digitally • Due diligence ID verification checks 	Estimated up to 40,000 individual applications per year	£80,000
Rule Engine	<ul style="list-style-type: none"> • Definition of rules and configuration of rules engine • Estimated 120 days to compile rule engine 	120 days	£90,000
Case Management			
New Case Management Set Up	<ul style="list-style-type: none"> • MS Dynamics • Value is for medium complexity system implementation 	1	£150,000
New Case Management license	<ul style="list-style-type: none"> • Assume Dynamics 365 Plan • Applying 20% government discount 	1	£1,517

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Master Data Management	<ul style="list-style-type: none"> • New complex master data management • Upper quartile function points 	1	£215,000
Management Information, Reporting and Analytics	<ul style="list-style-type: none"> • New management information system – medium complexity • Average quartile function points 	1	£465,000
Helpdesk	<ul style="list-style-type: none"> • Assume 25 days of Business Analyst support to set up 	25 days	£11,400
Integration platform and data flow orchestration			
High Integration complexity	<ul style="list-style-type: none"> • No API, package has not been integrated previously, will need integration at the data layer • Need to investigate data model, and build API that will not damage data model • Assumes Applications Development Analyst resource 	480 days	£311,520
Medium Integration complexity	<ul style="list-style-type: none"> • No existing API, but able to integrate without impacting the data model • Assumes Applications Development Analyst resource 	80 days	£51,920
Low Integration complexity	<ul style="list-style-type: none"> • Existing API that can be called 	40 days	£25,960

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	<ul style="list-style-type: none"> Assumes Applications Development Analyst resource 		
Additional components			
Architecture Initial Set Up	<ul style="list-style-type: none"> Assumes solutions architect resource to set up 	160 days	£152,960
Security Implementation – set up	<ul style="list-style-type: none"> Assumes security analyst resource to set up 	60 days	£33,060
Implementation Subtotal			£1,605,617
UPLIFT FOR IMPLEMENTATION TRANSITION			
Transition Costs	<ul style="list-style-type: none"> Gartner research shows that average transition costs for a single entity are an additional 2-15% of first year run costs, depending on the complexity of the technology 10% used due to amount of unknowns 	10%	£160,562
Training	<ul style="list-style-type: none"> 4% of implementation cost is average from key metrics. Manual option would be higher, therefore increased to 10% for this option 	10%	£160,562
Programme Costs – Project Management and Quality Management	<ul style="list-style-type: none"> Staffing distribution for Government 	17%	£272,955

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Optimism Bias – Development Project	<ul style="list-style-type: none"> • According to The Green Book, the upper bound optimism bias for capital expenditure for development projects is 200% • There are a large number of unknowns, so maximum optimism bias applied – as these are clarified the optimism bias may reduce 	200%	£3,532,357				
Total Implementation Cost			£5,732,053				
ONGOING COSTS							
Component	Assumptions	Volume	Cost				
			Year 1	Year 2	Year 3	Year 4	Year 5
Eligibility							
Simple Check	<ul style="list-style-type: none"> • Manual check of documentary evidence by Welsh Government staff for a straightforward case • Assumes 6 minutes per application (learned from Early Implementer processing time for straightforward applications) • Uses Welsh Government blended staff rate 	Estimated up to 20,000 individual applications per year	£50,080	£50,080	£50,080	£50,080	£50,080
Exception Check	<ul style="list-style-type: none"> • Manual check of documentary evidence by Welsh Government staff for 	2,000 individual applications per year	£50,080	£50,080	£50,080	£50,080	£50,080

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	<p>applications who have eligibility exceptions</p> <ul style="list-style-type: none"> • Assumes 1 hour processing time per application (learned from Early Implementer processing time for straightforward applications) • Uses Welsh Government blended staff rate 						
Complex Check	<ul style="list-style-type: none"> • Manual check of documentary evidence for applicants with complex circumstances • Assumes 30 minutes processing time per application (learned from Early Implementer processing time for straightforward applications) • Uses Welsh Government blended staff rate 	18,000 individual applications per year	£225,362	£225,362	£225,362	£225,362	£225,362
Hosting Options	<ul style="list-style-type: none"> • MS Dynamics 365 subscription 	Assume 50 users	£75,840	£75,840	£75,840	£75,840	£75,840
Eligibility tax compliance	<ul style="list-style-type: none"> • Manual tax compliance check with DWP • Assumes 15 minutes processing time per application 	Estimated up to 40,000 individual applications per year	£856,250	£856,250	£856,250	£856,250	£856,250
Eligibility Appeal	<ul style="list-style-type: none"> • Conduct manual checks of cases where applicants have appealed the eligibility decision 	Estimated up to 2,000 individual applications per year	£25,040	£25,040	£25,040	£25,040	£25,040

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	<ul style="list-style-type: none"> Assumes 15 minutes processing time per application Assume 5% of applicants appeal the eligibility decision – therefore around 2,000 a year nationally 						
Helpdesk – Welsh Government Query	<ul style="list-style-type: none"> Conduct manual helpdesk queries Bilingual service Assumes 4 members of full time equivalent staff manning helpdesk to handle calls to support 40,000 applications per year 	800 days (200 days per FTE) at Welsh Government blended rate	£160,257	£160,257	£160,257	£160,257	£160,257
Maintain integration							
High Integration complexity	<ul style="list-style-type: none"> Percentage value of Integration set-up that will increase each year 25% of transition cost 	480 days	£77,880	£97,350	£121,688	£152,109	£190,137
Medium Integration complexity	<ul style="list-style-type: none"> Percentage value of Integration set-up that will increase each year 10% of transition cost 	80 days	£5,192	£5,711	£6,282	£6,911	£7,602
Low Integration complexity	<ul style="list-style-type: none"> Percentage value of Integration set-up that will increase each year 5% of transition cost 	40 days	£1,298	£1,363	£1,431	£1,503	£1,578
UPLIFT FOR ONGOING TRANSITION							
Ongoing Security	<ul style="list-style-type: none"> Security requirements are not known at this stage 	6%	£96,337	£96,337	£96,337	£96,337	£96,337

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	<ul style="list-style-type: none"> • Estimated that security accounts for 6% of total IT spend 						
Operational Costs – Industry Average	<ul style="list-style-type: none"> • Annual IT application development and support investment is roughly 38% of total IT spending • 48% of that investment is for new development projects • Industry average is 18% - therefore will use this figure 	18%	£289,011	£289,011	£289,011	£289,011	£289,011
Total Ongoing Cost			£1,912,627	£1,932,681	£1,957,658	£1,988,780	£2,027,574

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Annex 8

Option 4 – Table 1.7 contracted party accepts applications and check eligibility - Option Costings

TABLE 1.7 – OPTION 4 – CONTRACTED PARTY ACCEPT APPLICATIONS AND CHECK ELIGIBILITY			
IMPLEMENTATION COSTS			
Component	Assumptions	Volume	Cost
Customer front-end	<ul style="list-style-type: none"> • Estimated 30 days to configure front end system • Assumes programmer resource • Includes facility for the digitally excluded to apply via an alternative method 	30 days	£17,280
ID Verification	<ul style="list-style-type: none"> • E-ID • Due diligence ID verification checks 	Estimated up to 40,000 individual applications per year	£80,000
Eligibility Check System	<ul style="list-style-type: none"> • Costs based on minimum systems required from HMRC to run eligibility check to replicate what could be done by a contracted party • 50% risk premium added • Estimated £405,000 per system 	Estimated up to 40,000 individual applications per year	£607,500
Rule Engine	<ul style="list-style-type: none"> • Definition of rules and configuration of rules engine • Slightly higher estimated cost (5% uplift on WelshGovernment) for contracted party who wont 	126 days	£94,500

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	<ul style="list-style-type: none"> have as easy access to stakeholders during setup and configuration Assumes Senior Developer resource 		
Case Management			
New Case Management Set Up	<ul style="list-style-type: none"> MS Dynamics Value is for medium complexity system implementation 	1	£150,000
New Case Management license	<ul style="list-style-type: none"> Assume Dynamics 365 Plan 	1	£1,517
-Master Data Management	<ul style="list-style-type: none"> New complex master data management Upper quartile function points Would be very complex – access and control of the data would need very tight controls 	1	£215,000
Management Information, Reporting and Analytics	<ul style="list-style-type: none"> New management information system – medium complexity Average quartile function points 	1	£465,000
Helpdesk	<ul style="list-style-type: none"> Assume 25 days of Business Analyst support to set up 	25 days	£11,400
Integration platform and data flow orchestration			
High Integration complexity	<ul style="list-style-type: none"> No API, package has not been integrated previously, will need integration at the data layer Need to investigate data model, and build API that will not damage data model Assumes Applications Development Analyst resource 	480 days	£311,520

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Medium Integration complexity	<ul style="list-style-type: none"> • No existing API, but able to integrate without impacting the data model • Assumes Applications Development Analyst resource 	80 days	£51,920
Low Integration complexity	<ul style="list-style-type: none"> • Existing API that can be called • Assumes Applications Development Analyst resource 	40 days	£25,960
Additional components			
Architecture Initial Set Up	<ul style="list-style-type: none"> • Assumes solutions architect resource per to set up 	160 days	£152,960
Security Implementation – set up	<ul style="list-style-type: none"> • Assumes security analyst resource to set up • Will be difficult to manage – likely to need more than a basic identity and access management (IAM) to satisfy data security requirements 	60 days	£33,060
Implementation Subtotal			£2,217,617
UPLIFT FOR IMPLEMENTATION TRANSITION			
Transition Costs	<ul style="list-style-type: none"> • Gartner research shows that average transition costs for a single entity are an additional 2-15% of first year run costs, depending on the complexity of the technology. 	5%	£110,881

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	<ul style="list-style-type: none"> As using the contracted party's implementation experience, estimated at 5% 		
Margin	<ul style="list-style-type: none"> Limited economies of scale and lots of risk, so large margin expected 	20%	£443,523
Training	<ul style="list-style-type: none"> 4% of implementation cost is average from key metrics. Manual option would be higher as require additional training, therefore increased to 10% for this option 	10%	£221,762
Legal and Procurement activities	<ul style="list-style-type: none"> Historically procurement costs are in the range of 2% of total IT spend. This ratio has been applied at this early stage of planning 	2%	£44,352
Optimism Bias – Outsourced Project	<ul style="list-style-type: none"> According to The Green Book, the upper bound optimism bias for capital expenditure for outsourced projects is 41%. There are a large number of unknowns, so maximum optimism bias applied – as these are clarified the optimism bias may reduce 	41%	£1,154,713
Total Implementation Cost			£4,192,848
ONGOING COSTS			
Component	Assumptions	Volume	Cost

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			Year 1	Year 2	Year 3	Year 4	Year 5
Eligibility	Manual check of documentary evidence by contracted staff. Uses benchmarked low-cost helpdesk rate						
Simple Check	<ul style="list-style-type: none"> Manual check of documentary evidence by contracted staff for a straightforward case Assumes 6 minutes per application (learned from Early Implementer processing time for straightforward applications) 	Estimated up to 20,000 individual applications per year	£125,000	£125,000	£125,000	£125,000	£125,000
Exception Check	<ul style="list-style-type: none"> Manual check of documentary evidence by contracted staff for applications who have eligibility exceptions Assumes 1 hour processing time per application (learned from Early Implementer processing time for straightforward applications) 	2,000 individual applications per year	£125,000	£125,000	£125,000	£125,000	£125,000
Complex Check	<ul style="list-style-type: none"> Manual check of documentary evidence for applicants with complex circumstances Assumes 30 minutes processing time per application (learned from Early Implementer processing 	18,000 individual applications per year	£562,000	£562,000	£562,000	£562,000	£562,000

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	time for straightforward applications)						
Hosting Options	<ul style="list-style-type: none"> • Assume Dynamics subscription • Would need to be hosted in UK 	Assume 50 users	£94,800	£94,800	£94,800	£94,800	£94,800
Eligibility tax compliance	<ul style="list-style-type: none"> • Manual tax compliance check with DWP • Assumes 15 minutes processing time per application 	Estimated up to 40,000 individual applications per year	£856,250	£856,250	£856,250	£856,250	£856,250
Eligibility Appeal	<ul style="list-style-type: none"> • Conduct manual checks of cases where applicants have appealed the eligibility decision • Assumes 15 minutes processing time per application • Uses benchmarked average helpdesk day rate • Assume 5% of applicants appeal the eligibility decision – therefore around 2,000 a year nationally 	Estimated up to 2,000 individual applications per year	£59,125	£59,125	£59,125	£59,125	£59,125
Helpdesk – Contracted Party Query	<ul style="list-style-type: none"> • Deals with technical and application queries (not manual checks) • Bilingual service • Assumes 4 members of full time equivalent staff manning helpdesk to handle calls 	800 days (200 days x 4 FTE staff)	£378,400	£378,400	£378,400	£378,400	£378,400

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	<ul style="list-style-type: none"> • Uses benchmarked low-cost helpdesk rate 						
Maintain integration							
High Integration complexity	<ul style="list-style-type: none"> • Percentage value of Integration set-up that will increase each year • 25% of transition cost 	480 days	£77,880	£97,350	£121,688	£152,109	£190,137
Medium Integration complexity	<ul style="list-style-type: none"> • Percentage value of Integration set-up that will increase each year • 10% of transition cost 	80 days	£5,192	£5,711	£6,282	£6,911	£7,602
Low Integration complexity	<ul style="list-style-type: none"> • Percentage value of Integration set-up that will increase each year • 5% of transition cost 	40 days	£1,298	£1,363	£1,431	£1,503	£1,578
UPLIFT FOR ONGOING TRANSITION							
Ongoing Security	<ul style="list-style-type: none"> • Security requirements are not known at this stage • Estimated that security accounts for 6% of total IT spend 	6%	£133,057	£133,057	£133,057	£133,057	£133,057
Operational Costs – Industry Average	<ul style="list-style-type: none"> • Annual IT application development and support investment is roughly 38% of total IT spending • 48% of that investment is for new development projects • Industry average is 18% - therefore will use this figure 	18%	£399,171	£399,171	£399,171	£399,171	£399,171
Total Ongoing Cost			£2,817,173	£2,837,227	£2,862,204	£2,893,326	£2,932,120

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Annex 9

Option 5 – Table 1.9 - Delivery Authorities accept applications and check eligibility (current delivery plan / do nothing option)

Table 1.8			
OPTION 1 – LOCAL AUTHORITIES ACCEPT APPLICATIONS AND CONDUCT ELIGIBILITY CHECKS MANUALLY			
IMPLEMENTATION COSTS			
Component	Assumptions	Volume	Cost
Customer front-end	· Estimated 5 days per Local Authority to compile front end system	50 days (5 days x 10 LAs)	22,400
	· Minor changes to existing LA websites		
	· Assumes junior programmer resource		
	· Includes facility for the digitally excluded to apply via an alternative method		
ID Verification	· Included in the 'simple check' of the eligibility checking process	Estimated up to 40,000 individual applications per year nationally	
	· ID verification would be done as part of the manual document checks		

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Rule Engine	· Definition of rules and configuration of rules engine	10	4,145
	· Estimated per local authority to compile rule engine across LAs – small amount as generally a manual process		
	· Assumes Business Analyst resource		
Case Management			
LA Case Management Implementation	· Capita One Implementation	10	£250,000
	· Implementation of case management system in each LA		
	· Assumes £25,000 per LA		
LA Case Management Set Up	· Capita One system for half	80 days inhouse resource in 5 authorities, and 30 days in 5 authorities	£144,800
	· Estimating setting up own system will take 80 days, and half of authorities will do this. 30 days assumed for buying in systems.		
LA Case Management license	· Capita One system	10	£300,000
	· Based on costs for EILAs		
	· Assumes £30,000 for 10 LA's		
	Some will develop their own system and not need to buy a licence, some engagement authorities will be charged.		
Master Data	· New complex master national data management system	1	£215,000

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Management	· Upper quartile function points (high complexity)		
	· Data management needs to be properly implemented & robustly managed to ensure GDPR compliance		
Management Information, Reporting and Analytics	· New national management information system – high complexity	1	£715,000
	· Upper quartile function points		
Helpdesk	· Assume 5 days of Business Analyst resource to set up in each LA	50 days (5 days x 10 LAs)	£31,920
Integration platform and data flow orchestration			
Low Integration complexity	· Existing API that can be called	200 days (20 days x 10 LAs)	£27,400
	· Assumes 20 days of Applications Development Analyst resource per LA		
Additional components			
Architecture Initial Set Up	· Assumes 20 days of solutions architect resource per LA to set up	200 days (20 days x 10 LAs)	£191,200
Security Implementation – set up	· Assumes 10 days of security analyst resource per LA to set up	100 days (10 days x 10 LAs)	£55,100
Implementation Subtotal			£1,956,965

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UPLIFT FOR IMPLEMENTATION TRANSITION			
Transition Costs	· Gartner research shows that average transition costs for a single entity are an additional 2-15% of first year run costs, depending on the complexity of the technology	15%	£293,544.82
	· upper boundary assumed in this cost model due to the amount of unknowns		
Training	· 4% of implementation cost is average from key metrics	13%	£254,405.51
	· Manual option would be higher, therefore increased to 13% for this option		
Programme Costs – Project Management and Quality Management	· Staffing distribution for Government	17%	£332,684.13
Optimism Bias – Development Project	· According to The Green Book, the upper bound optimism bias for capital expenditure for development projects is 200%	200%	£5,675,199.82
	· There are a large number of unknowns for this option, therefore maximum optimism bias is applied - as		

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	these are clarified the optimism bias may reduce							
Total Implementation Cost			£8,512,800					
ONGOING COSTS								
Component	Assumptions	Volume	Cost					
			Year 1	Year 2	Year 3	Year 4	Year 5	
Eligibility								
Simple Check	· Manual check of documentary evidence by LA staff for a straightforward case	Estimated up to 20,000 individual applications per year	£34,125	£34,125	£34,125	£34,125	£34,125	£34,125
	· Assumes 6 minutes per application (learned from Early Implementer processing time for straightforward applications)							
	· Uses LA blended staff rate							
Exception Check	· Manual check of documentary evidence by LA staff for applications who have eligibility exceptions	2,000 individual applications per year	£34,125	£34,125	£34,125	£34,125	£34,125	£34,125
	· Assumes 1 hour processing time per application (learned from Early Implementer processing time for straightforward applications)							
	· Uses LA blended staff rate							
Complex Check	· Manual check of documentary evidence for applicants with complex circumstances	18,000 individual applications per year	£153,563	£153,563	£153,563	£153,563	£153,563	£153,563
	· Assumes 30 minutes processing time per application (learned from Early							

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	Implementer processing time for straightforward applications)						
	· Uses LA blended staff rate						
Hosting Options	· Capita One software maintenance for half of authorities using purchased systems	5	£125,000	£125,000	£125,000	£125,000	£125,000
	· £25,000 per LA						
Eligibility tax compliance	· Manual tax compliance check with DWP	Estimated up to 40,000 individual applications per year	£856,250	£856,250	£856,250	£856,250	£856,250
	· Assumes 15 minutes processing time per application						
Eligibility Appeal	· Conduct manual checks of cases where applicants have appealed the eligibility decision	Estimated up to 1,000 individual applications per year	£17,063	£17,063	£17,063	£17,063	£17,063
	· Assumes 15 minutes processing time per application						
	· Assume 2.5% of applicants appeal the eligibility decision – therefore around 1,000 a year nationally						
	· Uses LA blended staff rate						
Helpdesk – LA Query	· Deals with technical and application queries	4400 days	£600,600	£600,600	£600,600	£600,600	£600,600
	· Bilingual service						
	· Assumes 1 member of full time equivalent staff manning helpdesk to handle calls in each LA						
	· Uses LA blended staff rate						

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Maintain integration							
Low Integration complexity	· Percentage value of Integration set-up that will increase each year	440 days	£14,278	£14,992	£15,741	£16,529	£17,355
	· 5% of transition cost						
UPLIFT FOR ONGOING TRANSITION							
Ongoing Security	· Security requirements are not known at this stage	12%	£234,835.85	£234,835.85	£234,835.85	£234,835.85	£234,835.85
	· However it will involve transfer of sensitive data, therefore assume a 12% security uplift						
Operational Costs – Industry Average	· Annual IT application development and support investment is roughly 38% of total IT spending	18%	£352,253.78	£352,253.78	£352,253.78	£352,253.78	£352,253.78
	· 48% of that investment is for new development projects						
	· Industry average is 18% - therefore will use this figure						
Total Ongoing Cost			£2,422,094	£2,422,808	£2,423,557	£2,424,344	£2,425,170