

Financial implications of the Childcare Funding (Wales) Bill

July 2018



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About the Committee

The Committee was established on 22 June 2016 to carry out the functions of the responsible committee set out in Standing Orders 18.10, 18.11, 19 and 20 of the National Assembly for Wales.

Under Standing Orders 19 and 20, the committee's responsibilities include considering any report or document laid before the Assembly concerning the use of resources, or expenditure from the Welsh Consolidated Fund. This includes undertaking budget scrutiny of the bodies directly funded from the Welsh Consolidated Fund.

Under Standing Orders 18.10 and 18.11, the committee's responsibilities include oversight of the governance of the Wales Audit Office, as set out in the Public Audit (Wales) Act 2013.

The committee also considers any proposals for, and the progress of the devolution of fiscal powers to Wales as part of its responsibilities.

The committee may also scrutinise legislation introduced to the Assembly.

Committee Chair:



Simon Thomas AM
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Recommendation and Conclusions

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1. Background and overview

1. The Childcare Funding (Wales) Bill (the Bill) was introduced on 16 April 2018 by Huw Irranca-Davies AM, Minister for Children, Older People and Social Care (the Minister).
2. The Explanatory Memorandum (EM) states that the Bill is intended to:

“...facilitate 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 three and four year olds in Wales for up to 48 weeks per year.”¹
3. The EM explains that the 30 hour offer builds on the current universal entitlement to a minimum of 10 hours early education per week during term time over 39 weeks of the year for all eligible three and four year old children (from the term after their third birthday).²
4. The Bill gives 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.³
5. A Regulatory Impact Assessment (RIA) is contained in the EM, which presents the estimated costs and benefits arising from the Bill.
6. The Committee took evidence from the Minister on the financial implications of the Bill on 13 June 2018.

¹ Explanatory Memorandum, paragraph 3.1

² Explanatory Memorandum, paragraph 3.3

³ Explanatory Memorandum, paragraph 3.18

2. Summary of costs

7. The Bill focuses on establishing a national system for processing applications and making eligibility checks. The RIA sets out costings for administering the scheme and not the cost of delivering the offer itself.

2.1. Options considered

8. The RIA provides costs for four options based on who would be processing applications and checking for eligibility:

- Option 1 - Local authorities accept applications and check eligibility (referred to in the RIA as the “do nothing” option as this is the default option expected to be put in place should no legislation be taken forward);
- Option 2 - Her Majesty’s Revenue and Customs (HMRC) accepts applications and conducts eligibility checks;
- Option 3 - The Welsh Government accepts applications and manually checks eligibility;
- Option 4 - Contracted party accepts applications and checks eligibility (includes option of recruiting one local authority to conduct these checks).⁴

9. The administrative costs to the Welsh Government (or local authorities in Option 1) and compliance costs to applicants (the time spent completing the application process and submitting supporting documentation) are summarised in Table 1.

Table 1: Total costs for all options from 2019/20 to 2024/25

Option	Costs (£000s)			
	Local authority	Welsh Government	Applicant	Total
1	26,833	0	4,226	31,059
2	0	9,118	1,408	10,526
3	0	15,551	2,818	18,369
4	0	18,534	2,818	21,353

Source: Explanatory Memorandum

⁴ Explanatory Memorandum, paragraph 7.1

2. 2. Pilot phase

10. The default option (Option 1) is for all 22 local authorities to accept applications and check the eligibility of applicants individually. From September 2017, the Welsh Government adopted this approach to deliver the pilot phase of the Childcare Offer in seven⁵ “Early Implementer Local Authorities” (EILAs).⁶ In April 2018, the Welsh Government announced the expansion of eligible areas in these local authorities.⁷

11. In June 2018, the Minister announced plans to bring forward another seven Local Authorities from September 2018 and a change to the policy of the Childcare Offer to allow registered childminders to receive funding for the care of a child who is also a relative.⁸

⁵ The whole of Blaenau Gwent and areas in Caerphilly, Flintshire, Rhondda Cynon Taff, Swansea and Gwynedd and Anglesey (on a joint trial)

⁶ Explanatory Memorandum, paragraph 3.14

⁷ Written Statement, Minister for Children and Social Care: Update on the Childcare Offer for Wales, 11 April 2018

⁸ Written Statement: Minister for Children, Older People and Social Care, 19 June 2018

3. Cost methodology

12. The Welsh Government commissioned Gartner Consulting to “develop rough order of magnitude (ROM) costs for each of the four options”⁹. This involved estimating costs for developing and setting up the system and the ongoing costs, including staffing costs where manual intervention is needed to assess eligibility.¹⁰

13. The Minister explained that the rationale for commissioning Gartner Consulting to develop costs for each option was to “give additional rigour and transparency to the process”¹¹. He continued:

“Gartner Consulting, interestingly, have been involved in similar schemes before, including in England, so they have some familiarity with this and they’re not starting from a blank sheet. They have a very strong reputation as an independent consultancy in this particular field and of developing and reviewing programmes like this.”¹²

14. The RIA states:

“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.”¹³

15. When asked how confident the Welsh Government is that the costs provided in the RIA are an accurate reflection of the options, given that requirements are not clearly defined, the Minister said:

“We’re very confident in what we have in front of us in terms of the regulatory impact assessment. We’ve done the sensitivity analysis. It has shown that the calculations and assumptions that we’ve done are unlikely to change significantly around the preferred option for that to no longer be the lowest cost option. The rigour of the data sources that we used includes industry standards, information from Her Majesty’s Revenue and Customs current offer, data from the early implementers and the experiences of other existing Welsh Government programmes

⁹ Explanatory Memorandum, paragraphs 8.9

¹⁰ Explanatory Memorandum, paragraph 8.15

¹¹ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 17

¹² Finance Committee, Record of Proceedings, 13 June 2018, paragraph 17

¹³ Explanatory Memorandum, paragraph 8.16

like the parents, childcare and employment programme. The other reason we're confident it's robust—I could go through several—is that it's very much in line with standard Green Book procedure as well. And just finally, it's based on higher level estimates, so we're very confident in what we have in front of us. We will, by the way, regularly review and update these as time goes by.”¹⁴

16. The EM states that assumptions around the use of the system are based on interviews with both Welsh Government officials working on the offer and staff members from the EILAs. High-level information about potential service delivery and associated indicative costings have been obtained from HMRC.¹⁵

17. In terms of how cost data from the EILAs has influenced the RIA, the Minister told the Committee:

“...Gartner actually went out and engaged with the early implementers—all of them—and in particular I have to say with two that we're doing two slightly different approaches with. So, for example, Blaenau Gwent was the most manually administrative of the systems, which, of course, is reflected in one of the options. They were able to talk with them about the paper processing elements—what costs and bureaucracy were with that. Flintshire, by contrast, was one of the most digitally advanced, albeit not on the mechanism that we are proposing, but the most digitally advanced. So, that was helpful in being able to inform Gartner's analysis, then, of where the cost would fall in each option.”¹⁶

18. Benchmarked industry rates have been used for staff costs and IT system components, with costs having been estimated at the upper boundary to account for the uncertainty around requirements for the proposed options.¹⁷

19. The RIA estimates 40,000 applications per year over the five-year period.¹⁸ The Minister explained that officials analysed Office of National Statistics data on children and extrapolated eligibility data on employment rates and earnings of parents from the annual population survey. He confirmed that the figure will be

¹⁴ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 15

¹⁵ Explanatory Memorandum, paragraph 8.17

¹⁶ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 24

¹⁷ Explanatory Memorandum, paragraphs 8.18 - 8.19

¹⁸ Explanatory Memorandum, paragraphs 8.37, 8.48, 8.61 and 8.76

constantly reviewed and updated based on the experience of the early implementers.¹⁹

20. In relation to the time burden associated with checking eligibility and submitting supporting documentation as part of the application process, the Minister confirmed that the inclusion of monetised compliance costs to applicants followed standard HM Treasury Green Book rules.²⁰ He added:

“It is a real cost. Even if you can’t see it on a balance sheet, it can be monetarised. And the Green Book approach says you should do this and take it into account. What we know from the early implementers already, particularly in those areas where they are doing it by a more paperwork-driven system, is that this is impacting directly on those parents.”²¹

21. In response to concerns that some applicants will be digitally excluded from the online application process proposed for all options, the Minister said:

“...there’ll be a helpdesk and, in fact, within the costings, we identified that helpdesk option within all four options so that everybody would be able to access this offer also by telephone, if need be. So, they wouldn’t have to rely on e-mails or digital platforms to do it. It could be done by telephone, and, in fact, the telephone helpdesk would not only deal with enquiries but could actually be used for the application process itself. It is being used successfully in that way at the moment in the England model as well.”²²

Committee view

22. The Committee notes that the costs included in the RIA are early stage general approximations (or ROM costs) rather than detailed cost estimates, as requirements are not clearly defined. However, the Committee acknowledges the engagement with HMRC and the work undertaken by EILAs in developing the costs and welcomes the Minister’s commitment to regularly review and update costs in light of further developments. The Committee intends to monitor and review the implementation of the legislation as its financial impact is still being established.

¹⁹ Finance Committee, Record of Proceedings, 13 June 2018, paragraphs 26 and 31

²⁰ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 138

²¹ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 138

²² Finance Committee, Record of Proceedings, 13 June 2018, paragraph 35

4. The Welsh Government's preferred option

23. Option 2 is the Welsh Government's preferred option.²³

24. The RIA states that the preferred option would involve "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".²⁴

25. The RIA explains that:

- parents would apply for the scheme via the government gateway through an application process managed by HMRC;
- eligibility criteria would be checked in real time against a number of other government data sources such as PAYE data, birth registrations and benefit data to confirm both the parents and child's eligibility;
- each participating family would re-confirm their eligibility via the HMRC portal on a termly basis, with another check against the relevant datasets being undertaken to confirm their status (for all parents, not just a sample of 20 per cent of applicants as in Option 1);
- the appeals process would be dealt with through existing HMRC processes used for the equivalent offer in England and Tax-Free Childcare.²⁵

26. The Welsh Government acknowledges that, although HMRC currently offers a bilingual service for its other national services, it would need to:

- deliver the service on behalf of the Welsh Government in line with the Welsh Language Standards, and specifically the compliance notice issued to the Welsh Ministers;
- provide a bilingual customer and technical support helpline to assist applicants using the online service and to provide a method through which those who are digitally excluded can apply.²⁶

²³ Explanatory Memorandum, paragraph 7.2

²⁴ Explanatory Memorandum, paragraph 7.11

²⁵ Explanatory Memorandum, paragraphs 7.12 - 7.13, 7.17 and 7.20

²⁶ Explanatory Memorandum, paragraphs 7.18-7.19

27. The Minister assured the Committee that the HMRC service would be fully compliant with Welsh language statutory obligations.²⁷ When asked whether HMRC staff based in Wales would be carrying out this service, the Minister's official said it has not been discussed in any detail but "is one of the options that we'll be looking at"²⁸.

28. The RIA estimates that between 2019/20 and 2024/25 the administrative cost of this option would be £9,118,000, with a compliance cost to parents and guardians associated with the time involved submitting an application and supporting documentation of £1,408,000.²⁹

29. In relation to engagement with HMRC when developing costs for the preferred option, the Minister told the Committee:

"As we've developed these options, we've had very early engagement with HMRC to see whether or not they were able to deliver this offer for us, should the Bill proceed, and also whether they could deliver it in a Welsh context, because there are some variations within the Welsh context—I'm talking about the issues around language and so on, and so forth. Now, we're going to continue with that engagement of HMRC on the costings as the plans become clearer. Gartner Consulting, by the way, as well, has also had detailed engagement with HMRC to refine their own cost model, which is inputted into the RIA. So, based on work undertaken by HMRC, it reflects an indicative breakdown of costs that HMRC supplied. So, it's the very best information we could possibly have in these costings."³⁰

30. In terms of adapting the existing HMRC tax-free childcare platform, the Minister said:

"We are working with HMRC to make sure that it reflects our eligibility criteria; that supporting information that accompanies this through HMRC is very clear, very easy to follow; that parents in Wales who apply will receive the same level of service as they do in England; and that it'll be fully compliant with Welsh language standards."³¹

²⁷ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 106

²⁸ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 109

²⁹ Explanatory Memorandum, pages 21-22

³⁰ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 51

³¹ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 57

31. The Minister reassured the Committee that Welsh Ministers would enter into an agency arrangement with HMRC under section 83 of the Government of Wales Act 2006, underpinned by a Memorandum of Understanding.³² He also explained that, whilst the preferred model is HMRC with Welsh input, “if we think we need a bespoke Welsh model through the WRA [Welsh Revenue Authority] or an alternative build-it-ourselves new model, then there is potential within the Bill”.³³

32. The Committee questioned why the cost to applicants in Option 3 (Welsh Government) and Option 4 (contracted party) is estimated to be double the cost of the preferred option. The Minister’s official explained that this is due to applicants needing to supply less supporting information for the eligibility checks in the preferred option as HMRC has access to central government records.³⁴ Similarly, the lower cost to applicants in Option 1 (local authorities) is based on the assumption that “local authorities already have access to information because they have more records on people living within their area”.³⁵

33. Responding to concerns surrounding the costings for HMRC helpline advice, given the potential challenges applicants may face in trying to get that support, the Minister told the Committee:

“...based on what we know is happening and based on the Gartner analysis as well, we are confident that the costings are right and that the level of provision is, but, as I say, we’ll also be monitoring this and probably the Welsh Revenue Authority will take an interest in the performance of this as well. If we identify that there’s as a problem, HMRC are working as an agent for us. Now, initially, they did have some issues, but it wasn’t to do with the provision of the childcare offer in England; it was actually to do with the tax credit issue, primarily. They’ve resolved those—the glitches that were with that. With this, the system has been working quite well.”³⁶

34. The RIA states:

“It is good practice to add a risk premium, in the early stages of an appraisal such as this, this risk premium may be encompassed by a

³² Finance Committee, Record of Proceedings, 13 June 2018, paragraph 57

³³ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 55

³⁴ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 72

³⁵ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 74

³⁶ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 102

general uplift to a project's net present value, to offset and adjust for undue optimism."³⁷

35. In accordance with HM Treasury Green Book,³⁸ the Welsh Government has applied a maximum optimism bias uplift of 200 per cent to the transition costs in Option 1 (local authorities) and Option 3 (Welsh Government), to account for the relative level of uncertainty associated with these options.³⁹ This compares to a 41 per cent uplift for outsourcing in the preferred Option 2 (HMRC) and Option 4 (contracted party).⁴⁰

36. When questioned on the possibility of HMRC costs fluctuating, as was the case with devolved taxes, the Minister referred to the optimism bias uplift applied to each option providing "some security that the costs are not going to go beyond these high-level estimates".⁴¹

37. For all options, the RIA explains that "the year-on-year running costs increase steadily each year due to integration set-up costs".⁴² The Minister told the Committee:

"It seems sometimes counterintuitive, but the longer a system is in place, the greater the likelihood is that there's going to be a desire for further integration, as the years go by. And, with that further integration, the costs increase. So, whilst it seems counterintuitive, that propensity, typically, based on experience of previous schemes, is that as a system is in place, as each year goes by, there is more of a demand for more integration along things that you're doing, and the costs rise with it. It becomes more complex. So, that's why it applies to all options."⁴³

38. On 9 July 2018, the Minister wrote to the Llywydd to confirm that the Welsh Government had now secured all necessary consents from the UK Government in relation to the Bill. The letter included correspondence from the Chief Secretary to the Treasury, in which she states:

³⁷ Explanatory Memorandum, paragraph 8.29

³⁸ HM Treasury, The Green Book: Central Government Guidance on Appraisal and Evaluation, 2018, Table 7. Generic Optimism Bias Adjustment Percentages

³⁹ Explanatory Memorandum, paragraphs 8.30 and 8.56

⁴⁰ Explanatory Memorandum, page 87 and 100

⁴¹ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 64

⁴² Explanatory Memorandum, paragraphs 8.31, 8.45 and 8.72

⁴³ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 120

“The present agreement to integrate the Welsh offer into the service is based on the current plans from WG [Welsh Government]. I must make clear that any changes to the operation of the 30 hours childcare scheme or eligibility criteria would generate further costs and will affect the timelines for delivery. These changes would also necessitate separate agreements and would need to be covered by a new MoU.

WG will be responsible for funding all costs associated with the delivery and on-going support for the Welsh 30 hours offer. HMRC have provided high-level estimates of these costs, however, these are subject to change once delivery begins.”⁴⁴

Committee view

39. The Committee notes the application of standard Green Book optimism bias in calculating the costs of all options. Nevertheless, the Committee remains concerned that the costs associated with providing applicants with adequate support and advice via the proposed HMRC helpline could escalate and suggests that it should be closely monitored. The Committee also notes the caveat from the Chief Secretary to the Treasury that HMRC costs are subject to change and will increase if the Welsh Government requires changes to the operation of the childcare offer or eligibility criteria.

40. The Committee acknowledges the Welsh Government’s rationale for its preferred option, utilising the expertise of HMRC and adapting an existing system to deliver the Welsh Childcare Offer. The Committee also welcomes the potential in the Bill to develop a bespoke Welsh service supported by the Welsh Revenue Authority in the future – a model which would ensure that Welsh Ministers had control over service delivery and the creation and retention of Welsh jobs.

Recommendation 1. The Committee recommends that the Welsh Government provides an update on the HMRC costs for developing and delivering the Welsh Childcare Offer within its existing platform as the proposal moves forward.

Conclusion 1. The Committee urges the Welsh Government, as part of its negotiations with HMRC, to require the Welsh service to operate in Wales, securing Welsh jobs and supporting Welsh language standards.

⁴⁴ Letter from Rt Hon Elizabeth Truss MP, Chief Secretary to the Treasury to the Cabinet Secretary for Finance – 14 March 2018

Conclusion 2. The Committee encourages the Welsh Government to involve the Welsh Revenue Authority in an advisory and oversight capacity, building expertise and experience in the Welsh context, in case there is a need to develop a bespoke Welsh system in the future.
