

## Corporate Services Scrutiny Panel – Extract:

# Goods and Services Tax Review Interim Report 18<sup>th</sup> October 2006

## 14 Education - childcare costs

Private sector nurseries and pre-school provision will be taxable under the present proposals provided they pass the £300,000 registration threshold for taxable supplies and services.

The estimated yield from applying GST to this sector is £0.4 million. The estimated impact on annual household expenditure across income quintiles and rate impact is as follows<sup>[24]</sup>:

	1 quintile	2 quintile	3 quintile	4 quintile	5 quintile	Rate Impact
- child care costs	(3)	(2)	(8)	(16)	(21)	0.04

The Jersey Childcare Trust estimated that approximately 50% of private nurseries and pre-schools would be required to register and thus charge parents for GST in their fees. Mr. Brint, Early Years Association felt that this would create a serious imbalance between childcare providers.

The Sub Panel was informed that registered childcare was seen as an essential service by working parents in Jersey - there is a total of 1,686 year round registered childcare places<sup>[25]</sup> in the Island for working parents. There are various forms of financial support available to assist parents. A total of 1327 accessing childcare currently qualified for some level of tax relief<sup>[26]</sup>. Childcare Allowance towards the cost of childcare, administered by Social Security, can be claimed by those who do not pay tax whilst they access work. However due to the low level of maximum earnings allowable the numbers accessing this allowance has steadily fallen.<sup>[27]</sup> The School Age Discount scheme is more successful. This provides assistance to over 300 low income families towards fees for after school care while parents are working.

The average hourly cost in a day nursery setting is £5.16 for 0-2 year olds, £4.62 for 2-3 year olds and £3.82 for 3-5 year olds. For childcare in a pre-school setting the average hourly costs are £4.22 for 2-3 years and £3.62 for 3-5 year olds<sup>[28]</sup>. The average cost of a private sector nursery place for a child under two years in Jersey is 31% higher than the average cost of a similar nursery place in Inner London. For children over two years of age the figure is 19% higher in Jersey.<sup>[29]</sup>

Table 9 Average Weekly Cost Per Child of Nursery Places in 2006

Area	Under 2 Years	2 Years +
Jersey Average	258	211
Inner London	197	178
Outer London	174	152
England Average	144	134

Mrs F. Vacher, Executive Director, Jersey Childcare Trust gave an example of the type of expenses parents had to meet:

‘For a fulltime baby place the average is over £1,000 a month minimum. We have got parents looking at £20,000 a year on that childcare if they have got 2 children in fulltime childcare. We had a parent on Sunday, our Fun Day, write down his situation. He has got a 7 month-old and a 3 year-old in part-time nursery because the mum works 8.00 a.m. until 1.00 p.m. and he is paying £1,200 a month, which is equivalent to his £200,000 mortgage. So, it is a very substantial outgoing every

month.’

Mrs Vacher said that childcare providers would also feel pressure to increase staff wages to take into account the increase in the cost of living which would inevitably be felt from the introduction of GST. She was concerned that increased costs could result in parents turning to illegal childminding:

‘We have got huge anecdotal evidence of parents - the majority in the Polish and the Portuguese communities - using people who are not registered child carers; they are not first aid trained; they are in no way registered; and they have got up to 10 babies - babies - in car seats throughout the day.’

Mr. T. Brint, Early Years Association said that the effect on the workforce could be serious:

‘It is going to make a number of parents who are already weighing up whether to go to work or not, whether it is worth their while to go to work, decide against it because those costs are going to go up even higher. Other people, it might well make them decide: “Is it worth staying in Jersey? I cannot afford to pay my mortgage without childcare. It is not worth me going to work just to pay childcare and my mortgage and have no other money.’

The Parents Action Group highlighted the fact that a number of private sector nurseries had recently closed and claimed that the current serious lack of childcare facilities could be exacerbated if prices rose through GST.

Mrs Vacher, however, challenged this statement. She acknowledged that there was an Island wide need for baby day nursery places, but, with the recent opening of a new facility, there were now an additional 24 places available. She informed the Sub Panel that there were currently vacancies in some 3 – 5 year old pre-schools and day nurseries. She said that there were differing reasons for each of the recent closures, such as rent increases, financial difficulties – some had been vacancy related but not all.

Considerable concern was expressed by witnesses about the inequity of the current provision of childcare in the Island with limited access to free pre-school places. (In 2005 49% of three and four year olds had access to a free nursery place for up to 30 hours per week, 38 weeks per year, compared to a median figure of 60% in other European countries<sup>[30]</sup>.) The private sector, which made an essential contribution to childcare provision, found itself in effect in unequal competition with the States. The States capacity for pre-school education had risen in recent years with additional classes attached to States primary schools. Those parents who could access those places between 9am and 3pm naturally took advantage of them where they could because they were free yet these places did not always fully meet their needs as working parents. An additional problem was that many of the least empowered parents were unable to access the States provided system.<sup>[31]</sup>

The Parents Action Group wrote that those parents who were unable to access free childcare and were obliged to use private sector nurseries were in effect paying twice for childcare: they were paying for their own children and also, as tax payers, paying for children to attend the free States nursery classes.

The Sub Panel noted the recent creation by the Council of Ministers of a Working Group to develop an Early Years Strategy for the 0-5 age range by end of 2006. Included within the terms of reference for this group is consideration of ‘appropriate arrangements for financial support including tax benefits and allowances’.

The Sub Panel believes that the problems of the current state of childcare provision require further study. However, this is beyond the remit of this review. It believes that a solution to the consequences of GST is best sought in the overall context of the above mentioned strategic planning process. The Sub Panel recommends that the Social Affairs Scrutiny Panel should take account of the outcome of this Working Group in its work programme next year.