

Monitoring of the Reform of the Income Tax and National Insurance Rules for Employer- Supported Childcare

A study of Provision and Experiences of Employers

Anne Kazimirski, Ruth Smith, Elvira Mogensen and Francesca
Lemetti

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EXECUTIVE SUMMARY

In April 2005, the Government introduced reforms to the Income tax and National Insurance contributions related to employer-supported childcare. The exemptions apply to three different types of employer-supported childcare: childcare vouchers, direct *payments* to childcare providers (payments made by an employer to an 'off-site' childcare provider to subsidise the cost of childcare) and direct *provision* of childcare services (sometimes called workplace nurseries). The exemptions aim to provide an incentive for employers to support childcare, in line with other measures introduced by the Government in recent years to provide real choice and flexibility to parents with childcare needs.

HM Revenue and Customs commissioned the National Centre for Social Research (NatCen) to carry out this study with employers, in order to assess the initial impacts of the employer-supported childcare measures. This report provides the findings from an initial telephone screen¹ and subsequent telephone survey of organisations in the UK.

Approximately 3,600 organisations were interviewed during the screen, which was conducted between November 2005 and January 2006. During the follow-up survey, conducted between February and April 2006, just over 900 organisations were interviewed (around 500 organisations offering employer-supported childcare - 'providers', and 400 organisations *not* offering support - 'non-providers')². The screen provided early estimates of the extent of provision of employer-supported childcare amongst employers, and identified sufficient numbers of providers and non-providers for the follow up survey. The follow-up survey explored in more detail the nature of the childcare support offered and the reasons behind employers' decisions whether or not to offer employer-supported childcare.

Level of provision

The key findings relating to the level of provision of employer-supported childcare (Chapter 3) were as follows:

- Approximately 2.5 per cent³ of organisations in the UK offered employer-supported childcare, which equates to approximately 17,000 organisations⁴. This means that in the region of 36 per cent⁵ of employees have access to an employer-supported childcare scheme.
- Larger organisations were much more likely to offer employer-supported childcare than smaller organisations.
- Organisations in London were among the most likely to offer employer-supported childcare.
- Organisations with a higher proportion of female employees were more likely to offer employer-supported childcare than those with a smaller proportion of female employees.

¹ A short telephone interview with organisations, where one of the main aims was to 'screen' for organisations that offered childcare support.

² At the time of fieldwork, in the case of childcare vouchers and direct payments, the tax and NICs exemptions applied to the first £50 per week – this limit was then raised to £55 a week in April 2006.

³ Confidence intervals are provided for key estimates (rounded to the nearest per cent in most cases). The 95 per cent confidence interval for this estimate is 1.9 per cent - 3.2 per cent.

⁴ The 95 per cent confidence interval is 12,334 - 21,083 (this is wide due to the small bases and the weighting).

⁵ The 95 per cent confidence interval for this estimate is 33 per cent - 40 per cent.

- Childcare vouchers were twice as likely to be provided than either direct provision or direct payments.
- Among the most common reasons cited why organisations chose not to offer direct payments was the administration required, and among the most common reasons for not offering direct provision was the reluctance to take responsibility for a childcare provider.

Organisations can choose to offer employer-supported childcare in a number of different ways, through:

- Additional salary, when childcare support is provided on top of an employee's existing salary;
- Salary sacrifice, when an employee receives childcare support alongside a legal reduction in salary;
- A flexible benefits package, where at the start of each year employees can choose how their salary is comprised i.e. they can choose whether or not to receive various benefits such as medical insurance or a company car and a relatively lower amount of cash.

Childcare vouchers were primarily offered to employees through salary sacrifice. Only a minority of organisations offered them as additional salary. However, direct provision was offered as additional salary by almost half of organisations, whilst only a quarter offered it through a salary sacrifice arrangement⁶. Organisations who offered childcare support through salary sacrifice or a flexible benefits package rather than in addition to existing salary tended to do so because they felt this kept the scheme cost neutral.

Impact of the exemptions

The impact of the new tax and National Insurance exemptions on organisations' decisions to offer employer-supported childcare was considered first of all through exploring employers' awareness (Chapter 4):

- Amongst all employers 30 per cent⁷ were aware of the new tax and National Insurance exemptions.
- Larger employers were substantially more likely to be aware of the exemptions than smaller employers, with almost all (89 per cent) of employers with 10,000 or more employees being aware compared with only 23 per cent of employers with one to four employees.
- The first sources of information about the exemptions for smaller organisations were generally HMRC leaflets, whilst larger organisations tended to first hear about the exemptions through the HMRC website or through a childcare voucher or benefits provider.

Another way to look at the impact that the exemptions have had on organisations is to look at *when* organisations that offered childcare schemes introduced it to their employees. The majority of organisations who offered childcare vouchers had initiated the scheme during or following April 2005. Organisations who offered direct payments and direct provision had most commonly started offering their schemes before April 2005.

⁶ The base for direct payments was too small to analyse.

⁷ The 95 per cent confidence interval for this estimate is 26 per cent - 34 per cent.

Only a small number of organisations (six per cent) had changed their scheme since its inception. Of the organisations that had changed their schemes, just over half had made a change since April 2005; this proportion was largest, at 91 per cent, for organisations offering childcare vouchers. The most common change (introduced after April 2005) to childcare support schemes was to reduce the financial amount of support offered⁸.

Employers who had started to offer childcare vouchers following April 2005 were asked whether they would have still offered them if the reforms had not been introduced, and two-thirds said they would not have offered childcare vouchers. Smaller organisations in particular were more likely than larger organisations to say they would not have offered childcare vouchers. This suggests that the exemptions have had an important impact on the take up of childcare vouchers.

Organisations not offering employer-supported childcare

In order to consider how take up of childcare support might be improved, organisations' reasons for not offering support were explored (Chapter 5). The most common reasons given by 'non-providers' for not offering support were having too few employees who had wanted support; having too few employees within the organisation; and not seeing childcare as an employer's responsibility (cited as a reason by 82 per cent, 76 per cent and 53 per cent of employers respectively).

As might be expected, employers from smaller organisations were more likely to cite having too few employees who want support, or having too few employees within the organisation, than larger organisations.

Non-providers were also asked about their future plans. Only two per cent⁹ of non-providers said they planned to introduce employer-supported childcare in the future, and four per cent¹⁰ said they *might* do so. Predictably, the larger an organisation, the more likely it was to have future plans to offer employer-supported childcare.

Of those planning to introduce employer-supported childcare in the future, 83 per cent of employers said they planned to offer vouchers as the type of support, compared to one-third (32 per cent) who said they planned to offer direct payments, and four per cent who planned to introduce direct provision¹¹.

⁸ Note that because the April 2005 changes introduced tax exemptions in addition to the earlier National Insurance exemptions (as well as a ceiling to the amount of support that could be offered per week within the exemptions), a reduction in the amount of support offered does not necessarily equate to a reduction in benefit to employees.

⁹ The 95 per cent confidence interval for this estimate is 1 per cent - 4 per cent.

¹⁰ The 95 per cent confidence interval for this estimate is 3 per cent - 6 per cent.

¹¹ Respondents could indicate more than one type of employer-supported childcare scheme, hence percentages add up to more than 100.

Employee take up of childcare support

The key findings relating to employee take up of childcare support (Chapter 6) were as follows:

- Focusing on employees likely to have children (aged under 16), the average (mean) proportion of employees in an organisation taking up childcare support was 35 per cent¹².
- Looking at *all* employees, the mean proportion in an organisation taking up support was eight per cent¹³. This equates to approximately 175,000 employees receiving financial help through employer-supported childcare¹⁴.
- Employees taking up childcare support were more likely to be women than men, full time than part time, and basic rate tax payers than starting rate tax payers.
- Employees taking up childcare support were more likely to work in professional occupations or to be managers and senior officials than process, plant and machine operatives and drivers, or to work in skilled trades or in routine unskilled occupations.
- Childcare support was primarily received for children aged four or under and the most common type of childcare provider used by employees receiving childcare support was a day nursery (whether through childcare vouchers or direct provision).
- In almost half of organisations, employees took up on average between £216 and £217 per month (which was the limit of the exemptions at the time). Only ten per cent of organisations said that on average employees took up more than the limit.

Adherence to the exemption rules and running costs

It is important to bear in mind the extent to which childcare schemes qualified for the exemption rules:

- Almost all organisations said their childcare schemes involved the HMRC exemptions in the case of childcare vouchers and direct payments, but only half of organisations (47 per cent) offering direct provision said their direct provision scheme involved exemptions.
- Of the organisations who said their scheme involved exemptions, virtually all offered the support to all employees, which is one of the exemption criteria.
- Awareness of the exemption rules in relation to the age of children and the registration requirements of childcare providers was patchy.
- Organisations offering a scheme which involved exemptions showed more confidence that they were meeting the exemption rules in the case of childcare vouchers than those offering direct provision: 72 per cent of those offering vouchers were very confident, and 28 per cent fairly confident, while only seven per cent of those offering direct provision were very confident, and 82 per cent fairly confident.

¹² The 95 per cent confidence interval for this estimate is 23 per cent - 48 per cent (this is wide due to the small base and the weighting). The number of employees with children within each organisation was estimated through using 1) survey data on the number of employees in four age categories and 2) the proportion of employees in each age category that have children (as measured by the British Social Attitudes Survey 2006). These were multiplied and summed to estimate the number of employees with children in each organisation. The number of employees taking up childcare support was then divided by the estimated number of employees with children in each organisation.

¹³ The 95 per cent confidence interval for this estimate is 4 per cent - 11 per cent.

¹⁴ The 95 per cent confidence interval is 142,419 to 204,661 (this is wide due to the small bases and the weighting).

Organisations were also asked about the ease and cost of implementing their childcare support schemes:

- Most employers had found the process of setting up their childcare voucher scheme easy: 16 per cent very easy, and 54 per cent fairly easy.
- The majority of organisations (79 per cent for childcare vouchers, and 88 per cent for direct provision) spent one day a month administering their scheme.
- The scheme was cost neutral for the majority of organisations offering support, although 13 per cent of those offering childcare vouchers were making a profit from offering the scheme (in comparison to just one per cent in the case of direct provision).

Reasons and benefits

The changes to the exemption rules seem to have influenced a number of employers to start offering support, but what most motivated them? The most common reasons for offering employer-supported childcare included the tax and National Insurance savings for employees, requests from employees, and the employer's wish to improve relations with their employees. There were clear differences in organisations' reasons for providing support by organisation size: requests from employees were more likely to be mentioned by smaller organisations, while the following factors were more likely to be mentioned by the larger organisations (with 175 or more employees): the wish to increase employees' motivation or commitment, improving their work-life balance, reducing staff turnover, increasing productivity and marketing by organisations providing vouchers.

Employers' views on the extent to which their organisation or their employees have benefited from the introduction of childcare support were also explored:

- The majority of employers indicated that offering employer-supported childcare had had a positive effect on relations with employees (60 per cent) or on employees' work-life balance (57 per cent).
- Employers who had started offering schemes before April 2005 were more likely to identify positive effects of offering support: 66 per cent identified a positive effect on staff turnover, compared to 16 per cent of recent support providers; 47 per cent of those with older schemes identified a positive effect on productivity (compared to 16 per cent); and 30 per cent of those with older schemes identified a positive effect on absenteeism (compared to ten per cent).

Summing up

The exemption rules have had a positive impact on organisations' provision of employer-supported childcare, and there were signs that take up might increase with time. Some employers, particularly large organisations, had a future plans for introducing a childcare scheme. However, very few small to medium-sized organisations were providing any support.

There is evidence that the provision of employer-supported childcare was beneficial to organisations and their employees, and there were high levels of awareness amongst larger employers about the schemes. However, only around half of medium-sized employers and a minority of smaller employers knew about the new exemption rules.

Awareness is only part of the picture. Many employers were aware of the exemptions and were not offering employer-supported childcare. The main barriers raised by respondents to providing a scheme related to the perception that they had too few employees who wanted a childcare scheme and having too few employees in the organisation in general.

Overall, the evidence indicates that employer-supported childcare schemes are being successfully implemented by larger organisations. The research has highlighted that the level of awareness of employers could be raised, particularly among smaller organisations. The evidence on the perceived benefits of offering a scheme may help increase the provision of support by smaller organisations as well as larger employers who currently don't offer a scheme to their employees. The findings suggest that the provision of employer supported childcare is an area of potential growth in the future, and that the changes to the exemption rules have made a positive difference to employers' decisions to offer an employer-supported childcare scheme in a relatively short space of time.

1 INTRODUCTION

HM Revenue and Customs commissioned the National Centre for Social Research (NatCen) to carry out this study. This report provides the findings from an initial telephone screen¹⁵ and subsequent telephone survey of organisations in the UK.

1.1 Aims of the study

The overarching aim of the research was to assess the initial impacts of the Government's reformed employer-supported childcare measures for employers. More specifically, the study aimed to investigate the following issues:

- The level of provision of employer-supported childcare, and the level of take-up among employees;
- The type of childcare support offered, such as childcare vouchers;
- Employers' awareness and understanding of the employer-supported childcare measures, and their sources of information;
- Employers' motivation for offering support, and their perceptions of the effects of providing this kind of help.

1.2 Background

The income tax and National Insurance Contributions (NICs) exemptions apply to three different types of registered / approved childcare schemes (the policy background and the criteria for the exemptions are discussed in Chapter 2). These are:

- Childcare vouchers - vouchers that are provided by employers to help employees pay for childcare, such as nurseries, childminders, nannies, and out-of-school clubs. Employees do not pay tax and NICs, and employers do not pay NICs on the first £55 per week (in April 2006 the limit was raised from £50 per week, and fieldwork was primarily undertaken before this increase - see Section 1.3).
- Direct *payments* to childcare providers - payments made by an employer to an 'off-site' childcare provider to subsidise the cost of childcare. Employees do not pay tax and NICs, and employers do not pay NICs on the first £55 per week (£50 at the time of fieldwork).
- Direct *provision* of childcare services (sometimes called workplace nurseries) - childcare provision that the employer *either* provides on-site *or* for which the employer is wholly or partly responsible for financing and managing. Employees do not pay tax and NICs, and employers do not pay NICs on the *whole amount* of childcare support offered.

There are three main ways in which employers can choose to offer this support:

1. Childcare support can be provided in addition to salary.
2. The employee can be offered the choice to receive childcare support alongside a legal reduction in salary, which is also known as making a *salary sacrifice*.

¹⁵ A short telephone interview with organisations, where one of the main aims was to 'screen' for organisations that offered childcare support.

3. Childcare support can be offered as part of a flexible benefits package where at the start of each year employees can choose how their salary is comprised i.e. they can choose whether or not to receive various benefits such as medical insurance or a company car and a relatively lower amount of cash.

1.3 Research design

This study consisted of an initial telephone screen where approximately 3,600 organisations were interviewed between November 2005 and January 2006, and a follow up telephone survey where just over 900 organisations were interviewed (around 500 organisations offering support - 'providers', and 400 organisations *not* offering support - 'non-providers') between February and April 2006. The telephone screen provided early estimates of the extent of provision of employer-supported childcare amongst employers, and identified sufficient numbers of providers and non-providers for the follow up telephone survey, which explored the nature of the support offered and employers' reasons for offering support or not in more detail.

The screen sample consisted of head offices of organisations¹⁶, selected from a commercially available database, which consists of a comprehensive list of all public sector and private organisations in the UK. This sample was stratified by organisation size¹⁷, and over-sampled large employers, as previous research showed that large employers were more likely to make some family-friendly provision¹⁸. A stratification design based on organisation size allowed the initial screen to be considerably smaller than would have been required if no stratification had been used. For the survey, *all* the providers, identified through the screening process, and *some* of the non-providers were selected for follow up¹⁹.

In large organisations the person interviewed tended to belong to the HR department, and the preferred respondent was someone with responsibility for employee benefits. In small organisations the respondent was likely to be either an owner or a general manager. The average interview lengths for the various elements of the study were: six minutes for the screen interview and between ten and 20 minutes for the survey interview. The respective response rates (of the 'in-scope' cases) were 77 per cent²⁰ and 72 per cent, both of which represent very good response rates.

Full details of the study design and implementation can be found in Appendix B (available separately from the report).

¹⁶ As the sample included some duplication due to separate listing of 'legal entities', and the sampling unit for the screen was head offices of organisations (or, if international, head offices for the UK part of the organisation), rather than separate legal entities, organisations which turned out not to be head offices were assumed to be duplicates.

¹⁷ A breakdown of organisation sizes can be found in Appendix A.

¹⁸ Woodland et al. (2003).

¹⁹ Within non-providing organisations a greater chance of selection was given to employers who thought they would start to offer support in the near future, to allow for analysis by future plans.

²⁰ Duplicates (including organisations which turned out not to be head offices) are excluded from the response rate, as are organisations which had closed, or no longer had employees. Also excluded are organisations with incorrect numbers for which a new number was not successfully identified.

1.4 The Report

1.4.1 *The content of the report*

Within this report all the major issues covered in the screen and survey interviews are discussed, looking across organisations of different sizes as well as, where possible, organisations offering different types of childcare support. This is a factual, descriptive report, which does not aim to draw policy conclusions.

Chapter 2 provides an overview of the policy background, including when the exemptions were introduced, the mechanics of the exemptions and how they fit into both an EU and a domestic context.

Chapter 3 looks at the level of childcare support offered by organisations in the UK, identifying the underlying characteristics that determine which organisations offer employer-supported childcare. Consideration is given to the different types of childcare support that organisations offer and why particular types of childcare support are not offered (and their alternatives offered instead). Methods by which childcare support is offered are also considered.

The impact of the exemptions is covered in Chapter 4 through looking at employers' awareness of the exemptions and their sources of information. Given that the exemptions were introduced in April 2005, this chapter looks at when childcare schemes (or any changes to the childcare schemes) were introduced in relation to this time period and whether employers believe that they would have introduced childcare support in the absence of the exemptions.

Chapter 5 focuses on organisations *not* offering employer-supported childcare and their awareness of the exemptions rules, as well as their reasons for not offering support, and potential future plans for offering support.

Chapter 6 looks at the employers' perspective of the level of take up of the childcare support they offer amongst their employees. This includes estimating the proportion and number of employees receiving support, the characteristics of employees that receive support, and the way in which they use the financial support they receive e.g. the ages of the children and the types of childcare provider it is used for.

The nature of the childcare support schemes offered, including whether they qualify for the exemptions and whether the schemes comply with the eligibility criteria of the exemptions, is covered in Chapter 7. This is followed by consideration of the confidence organisations have that their scheme complies with the eligibility criteria, and if applicable whether they are aware of the implications for employees of participating in salary sacrifice schemes. The costs of implementing and running childcare support schemes are also covered in this chapter.

Chapter 8 looks at the reasons that organisations chose to offer childcare support, and at the benefits resulting from offering support for organisations, and Chapter 9 draws together the findings from the preceding chapters.

The Appendices are available separately from the report. An overview of the profile of organisations interviewed as part of the study is provided in Appendix A, Appendix B provides full details of the technical aspects of the study and Appendix C presents the results of multivariate regression analysis exploring the characteristics of organisations that offer childcare support. Appendices D, E and F, provide, respectively, the tables for figures covered only in the text of this report, the questionnaires used in this study, and base details for tables and figures where the base description proved too long to include in the main report.

1.4.2 Interpreting results in the report

Weights were applied to ensure that the findings are representative of organisations in the UK (through post-stratification by organisation size to the commercial database). As the sampling design considerably over-sampled large organisations and organisations that offered childcare support, there is a large variation in weights, which decreases the level of precision of the survey estimates²¹. Full details of the weighting and indicative confidence interval estimates are provided in Appendix B (available separately from the report).

The telephone survey collected substantially more information than the telephone screen and therefore the majority of estimates in this report are based upon information collected at this stage. However, since the telephone screen had a larger sample size than the survey, where possible, estimates are based upon the information collected during the screen. For this reason, different tables with the same base description may have base sizes that differ considerably (the source data is identified in the base description).

The tables in this report contain the total number of cases in the whole sample or in the particular sub-group being analysed, and the base for different columns (e.g. different size organisations, types of childcare provision, etc.). The total base figure includes all the eligible cases (i.e. all organisations or all organisations who were asked a particular question) minus any coded as 'don't know' or 'refusal'. Thus, whilst the base description may be the same across several tables (e.g. all organisations offering childcare support), the number bases may differ slightly due to the exclusion of those coded 'don't know' or 'refusal'. In instances where the base description is very long, base details have been provided in Appendix F rather than in the main report chapters (available separately from the report). In some tables, the column bases do not add up to the total bases, and this is usually due to some categories not being included in the table, either because they are too small or are not useful for the purpose of the analysis.

²¹ A *simple random sample formula* cannot be used to calculate the confidence intervals for the estimates provided in this report, as it does not take into account the impact of weighting.

To interpret the tables, it is important to look at the nature of the figures presented, for instance whether they are means or percentages. Where they are percentages, the top right hand corner of the table will state whether they are row or column percentages. If they are row percentages, then the base of the percentage is labelled on the left-hand side of the row (e.g. organisations in London in Table 3.2), and correspondingly if they are column percentages then the base of the figure is labelled at the top of the column (e.g. Childcare Vouchers in Table 3.9). The base descriptions are presented at the foot of the table and both weighted and unweighted bases are presented throughout²². Charts should be assumed to be showing column percentages unless indicated otherwise in the chart title. Again, if they are row percentages, then the base of the percentage is labelled on the left-hand side of the row (e.g. organisations with 1-4 employees in Figure 3.1). Since some unweighted bases for estimates are relatively small, it is important to note the unweighted bases at the foot of the tables when drawing comparisons. To aid interpretation of the tables it is advisable to read the text above that relates to the table since this often includes examples of interpretation and highlights which findings are statistically significant.

Differences between sub-groups of the sample have been tested for significance at the 95 per cent confidence interval, taking into account weighting effects. Significance testing enables us to compare the estimates from two or more sub-groups. It allows us to comment on the size of difference between the estimates and indicates whether real differences exist between the two groups (i.e. that can be generalised from the sample to the whole population). Throughout the report, the text comments on differences between sub-groups of the sample, and highlights the differences found to be statistically significant (hence as a general rule, the differences not commented on are not significant).

The symbols below have been used in the tables and they denote the following:

- [] to indicate a percentage based on fewer than 50 respondents
 - +
 - 0
- to indicate a percentage value of less than 0.5 per cent
- to indicate a percentage value of zero.

²² Unweighted bases represent the raw number of organisations in the sample, and the weighted bases represent the number of organisations *once their prevalence in the population has been taken into account through weighting*. In the case of organisation size, there are more large organisations in the sample than in the population, hence their answers are given less weight, e.g. one large organisation might be counted as though it were one fifth of an organisation (and conversely one small organisation might be counted as though it were five organisations). See Appendix B for full details of the weighting.

2 POLICY BACKGROUND

In December 2003 the Government announced plans for reforms to the income tax and National Insurance contributions relating to employer-supported childcare²³, with associated childcare voucher administration costs and service charges also exempt from tax and National Insurance Contributions (NICs). The exemption provides an incentive for employers to support childcare and as such is in line with other measures introduced by the Government in recent years to provide real choice and flexibility to parents with childcare needs, such as Child Tax Credit and the childcare element of Working Tax Credit.

2.1 Childcare and work

In 2004 The Government published *Choice for parents, the best start for children: a ten-year strategy for childcare*. This took stock of past achievements, outlined the Government's long-term vision, and set out its strategy.

The ten-year plan built upon ideas set out in the Green Paper *Meeting the Childcare Challenge*, published in 1998. The assumption underpinning the strategy was that every child has the right to the best possible start in life. Specifically, the challenges identified were to:

- Raise the quality of care;
- Make childcare affordable; and
- Make childcare accessible by increasing the number of places and improving information about childcare options.

These objectives are best tackled with an integrated approach to children's services. This was addressed by the creation of SureStart²⁴ in 2002, which brought together responsibility for early education, childcare, health, and family support.

In the same year, an inter-departmental childcare review entitled *Delivering for children and families*²⁵ was published, expanding upon the existing strategy for childcare. The review stated that the availability of good quality and affordable childcare is crucial to achieving Government objectives such as improving health, boosting productivity, improving public services, closing the gender pay gap and reducing crime. The provision of childcare was felt to contribute particularly towards two key targets - to achieve 70 per cent employment amongst lone parents by 2010 and to halve child poverty by 2020.

In answer to these claims the Government has introduced a package of measures embracing pay and leave entitlements, aimed at helping parents balance work and family life. Employment legislation - designed to fit with the needs of employers - supplements policies on childcare by helping to make work more family-friendly.

²³ Pre-Budget Report, 2003.

²⁴ Sure Start is a Government programme which aims to achieve better outcomes for children, parents and communities by increasing the availability of childcare for all children, improving health and emotional development for young children, supporting parents as parents and in their aspirations towards employment (<http://www.surestart.gov.uk/>).

²⁵ Strategy Unit, *Delivering for Children and Families*, 2002.
<http://www.strategy.gov.uk/downloads/su/childcare/downloads/su-children.pdf>.

For example, the Employment Relations Act 1999 introduces rights to paternity, adoptive and emergency leave. There is to be an increase in stages to the Statutory Maternity Pay and Maternity Allowance. The subsequent Employment Act 2002 affords employees the right to request flexible working arrangements. Employers must weigh up these requests, and where they are turned down, must provide good business reasons. Procedures have been simplified to help employers better manage their employees' absence and return to work.

2.2 Employer-supported childcare

Recent years have seen an increased demand among families for formal childcare²⁶. However, research published by the Department for Trade and Industry in 2003 indicated that just eight per cent of employers provided support for employees with childcare responsibilities²⁷.

In order to encourage the take up of high quality childcare and enable employers to recognise and support childcare needs, the Government aligned the tax and NICs treatment of childcare vouchers, introducing a tax and NICs exemption on childcare vouchers of £50 per week, rising to £55 per week in April 2006. It also introduced a similar tax and NICs exemption for directly contracted childcare and widened the scope of direct provision of childcare by employers (workplace nurseries).

Employers can support any type of childcare, including out-of-school clubs, day nurseries, nannies and childminders - as long as the childcare offered is officially approved or registered - up to the 1st September following the child's 15th birthday, or 16th birthday if the child has a disability. Another condition is that where a scheme operates, it must be made available to all employees on a single site.

Measures to increase employer support for childcare work to both bolster supply and increase affordability for employees. Specifically, this policy aims to support the objectives of greater quality, affordability and accessibility of childcare in the following ways:

Quality

By providing incentives to encourage more employers to support childcare provisions for their staff, the exemptions widen the range of good quality childcare that qualifies for tax and NICs relief to better suit the needs of employers and employees.

Affordability

The introduction of the childcare tax credit in 1999 (as part of the Working Families' Tax Credit) and its replacement by the childcare element of the Working Tax Credit in 2003 have increased help with the costs of childcare for some low and middle-income families. The income tax and NICs exemptions for employer-supported childcare will help other working families with the costs of childcare.

²⁶ Bryson et al. (2006)

²⁷ Woodland et al. (2003)

Accessibility, choice and flexibility

Every effort has been made to ensure that the exemption is accessible. To make sure that employers and employees fully understand the exemptions, HM Revenue & Customs has ensured that clear guidance on the tax and NICs exemptions for employer-supported childcare is accessible (for further information of the guidance provided to employers, employees and child carers please visit www.hmrc.gov.uk/childcare/).

Also, reporting requirements have been simplified by the fact that the exemption aligns the tax and NICs treatment for different types of employer-supported childcare as far as is practicable.

Most importantly, the exemption is open to all employers, as long as the offer of support for childcare costs is generally available to all their employees.

2.3 The evidence

Research has been carried out in recent years on issues relating to family-friendly practices and policies, for example by DfEE/DfES and DTI. However, data from the employer's perspective is relatively scarce.

The Families and Children Study (FACS), carried out for the Department for Work and Pensions, is sponsored by HMRC, the Department for Education and Skills, the (then) Office for the Deputy Prime Minister and the Department for Transport. The research enables analyses of families with dependent children across Great Britain and measures variables such as income and benefits received. Findings from research conducted in 2004 showed that around four out of five families had at least one parent working 16 or more hours per week. Overall, childcare use increased for working mothers in 2004 – six per cent, three percentage points higher than in the previous year²⁸.

The most established survey of people at work is the Workplace Employee Relations Survey (WERS)²⁹. First carried out in 1980, the findings from 2004 provide evidence about a broad range of industrial relations and employment practices across almost every sector of the economy in Great Britain. WERS shows how British workplaces have changed over the years, and includes information about recruitment, reward and remuneration and hours of work – all of which help to build a picture of the benefits and constraints of modern working life.

The DTI Second Work-life Balance Study³⁰ also provides useful contextual information, collecting data on employer provision of work-life balance practices and policies; employee take-up of, and demand for, these initiatives; and the impact of employers' provision (including costs and benefits). However, it does not cover the new tax and NICs arrangements.

²⁸ Lyon et al. (2006)

²⁹ For more information see <http://www.dti.gov.uk/employment/research-evaluation/wers-2004/index.html>.

³⁰ Stevens et al. (2004)

2.4 The value of this research

This research provides a measure to assess take-up of the new tax and NICs arrangements, in the first year of the scheme. As the tax changes have happened relatively recently the survey cannot identify changes in long-term measures such as staff retention rates. However, the research offers an important insight into employer-supported childcare from the employer perspective, and gives an insight into how work and family life are being reconciled.

3 LEVELS OF PROVISION

This chapter primarily explores the levels of childcare support amongst organisations in the UK (seven months after the April 2005 changes to the tax and National Insurance exemption rules) in terms of both the proportion and number of organisations which offered support. It also looks at the type of childcare support that organisations offered: childcare vouchers, direct payments or direct provision, and considers the reasons why organisations chose to offer particular forms of support rather than the alternatives.

3.1 Summary

- Approximately 2.5 per cent of organisations in the UK offered childcare support, which equates to approximately 17,000 organisations. This means that in the region of 36 per cent of employees had access to an employer-supported childcare scheme³¹.
- Larger organisations were much more likely to offer childcare schemes than smaller organisations.
- Organisations in London were among the most likely to offer a childcare scheme.
- Organisations with a higher proportion of women were more likely to offer childcare support than those with a smaller proportion of women.
- Childcare vouchers were twice as likely to be offered as a childcare scheme than either direct provision or direct payments³².
- Among the most common reasons cited for why organisations chose not to offer direct payments was the administration required, and among the most common reasons for not offering direct provision was the reluctance to take responsibility for a childcare provider³³.
- Childcare vouchers were primarily offered through salary sacrifice and only a minority of organisations offered them as additional salary; direct provision on the other hand was offered as additional salary by almost half of organisations whilst only a quarter offered it through a salary sacrifice arrangement.
- Generally, employers who offered a childcare scheme through salary sacrifice or a flexible benefits package, rather than as additional salary, said they tended to do so in order to keep the scheme cost neutral.

³¹ Estimated by using weights to gross the number of organisations in the sample, taking organisation size into account, to the number of organisations on the sampling frame (668,534). Grossing up in this way, the total number of employees in the UK (hence based on the survey data rather than the original commercial database) is estimated to be around 20,760,000.

³² Childcare vouchers are vouchers that are provided by employers to help employees pay for registered or approved childcare, e.g. nurseries, childminders, nannies, and out-of-school clubs. Direct *payments* to childcare providers are payments made by an employer to an 'off-site' registered or approved childcare provider to subsidise the cost of childcare. Direct *provision* of childcare services is registered or approved childcare provision that the employer *either* provides on-site *or* for which the employer is wholly or partly responsible for financing and managing.

³³ This issue was explored amongst organisations that offered a childcare scheme and *were aware* of alternative types of childcare schemes that were eligible for the exemptions.

3.2 Characteristics of organisations offering childcare support

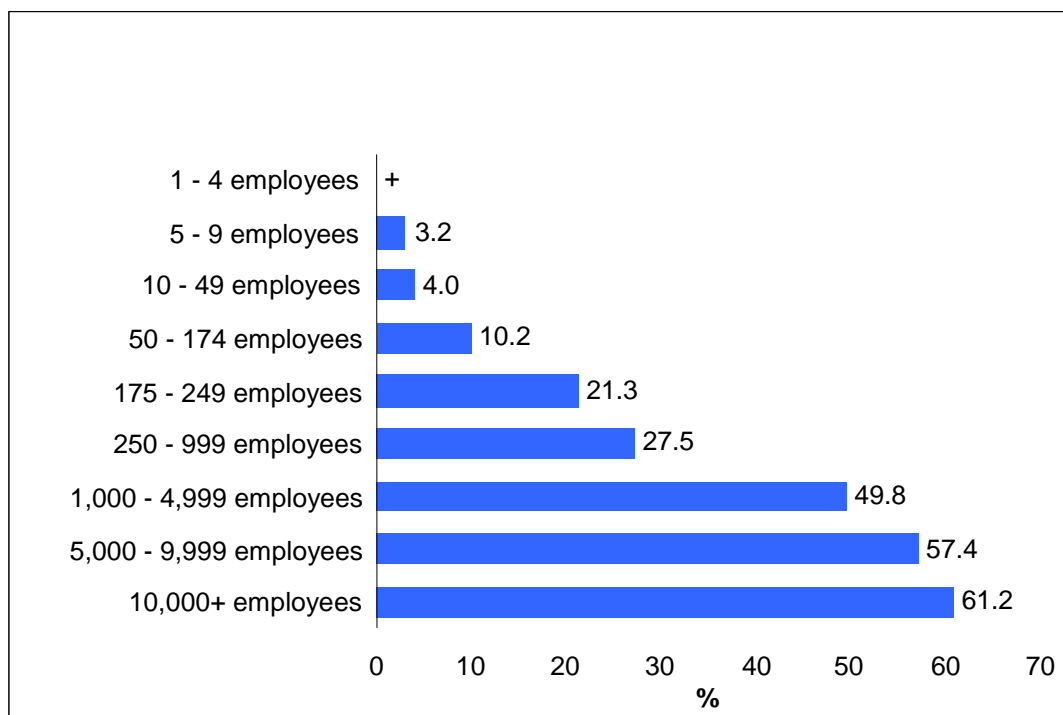
3.2.1 *The profile of organisations offering childcare support*

Within the UK as a whole, 2.5 per cent of organisations were found to provide childcare support; this equates to approximately 17,000 employers, although this figure should be treated with caution, as the confidence intervals are very wide (around 12,000 to 21,000)³⁴. However, the levels of childcare support differed dramatically for organisations of different sizes (for instance under half a per cent of organisations with one to four employees offered childcare support compared with 61 per cent of organisations with 10,000 employees or more). As can be seen in Figure 3.1, smaller organisations were substantially less likely to offer childcare support than larger organisations. Table 3.1 provides estimates of the *number* of organisations offering employer-supported childcare by organisation size.

Since larger organisations were more likely to offer childcare support than smaller organisations, whilst the overall proportion of organisations offering childcare support appears relatively low, it is estimated that in the region of 36 per cent of employees in the UK have access to employer-supported childcare, which equates to approximately 7,580,000 employees (again, this figure should be treated with caution, as the confidence intervals are very wide³⁵). The reasons for not offering support are considered in Sections 5.3 and 6.2.1.

³⁴ Estimated by using weights to gross the number of organisations in the sample to the number of organisations in the sampling frame (668,534), taking organisation size into account. The figure 17,000 is presented to the nearest 1,000. The 95 per cent confidence interval is 12,334 - 21,083 (this is wide due to the small bases and the weighting).

³⁵ Estimated by using weights to gross the number of organisations in the sample, taking organisation size into account, to the number of organisations on the sampling frame (668,534). Grossing up in this way, the total number of employees in the UK (hence based on the survey data rather than the original commercial database) is estimated to be around 20,760,000. The figure 7,580,000 is presented to the nearest 10,000. The 95 per cent confidence interval is 6,578,068 to 8,574,521 (this is wide due to the small bases and the weighting).

Figure 3.1 Extent of provision of a childcare scheme by organisation size (Row per cent)

Base: All screen organisations (See Appendix F for the bases³⁶)

Table 3.1 Estimated number of organisations offering a childcare scheme by organisation size

	Estimated Number of Organisations
1 - 4 employees	987
5 - 9 employees	4,448
10 - 49 employees	5,191
50 - 174 employees	2,541
175 - 249 employees	605
250 - 999 employees	1,650
1,000 - 4,999 employees	998
5,000 - 9,999 employees	199
10,000+ employees	89
Total	16,708

Table 3.2 shows the levels of employer-supported childcare offered by employers with head offices based within different Government Office Regions. There was significant variation between different regions, with organisations located in London being among the most likely to offer employer-supported childcare (5.5 per cent).

³⁶ As the base description is very long, base details have been provided in Appendix F rather than here.

Organisations in London were more likely to offer employer-supported childcare than organisations in other areas and Wales, Scotland and the North East seemed to have the lowest levels of provision (i.e. under one per cent). Northern Ireland and the East Midlands also had high levels of take-up of employer-supported childcare, however due to the small sample sizes in these regions, there were no statistically significant differences between the level of support in these regions and the regions where support was very low. Also, it is important to keep in mind that this does not necessarily represent the locations where the employees reside or where they take up their childcare.

Table 3.2 **Extent of provision of a childcare scheme by Government Office Region**

	Provider %	Row per cent	
		Weighted base	Unweighted base
London	5.5	448	604
Northern Ireland	5.2	138	102
East Midlands	4.3	207	240
Yorkshire and The Humber	3.0	303	261
North West	2.8	369	353
South West	2.5	291	270
South East	1.7	449	556
West Midlands	1.4	502	361
East of England	1.4	321	321
North East	0.8	119	115
Scotland	0.8	287	276
Wales	+	150	130

Base: All screen organisations (excluding Isle of Man)

+<0.5 per cent

Table 3.3 shows the employer-supported childcare offered by organisations in different industrial sectors. The highest levels of support were seen in the public administration, education and health, and banking finance and business services sectors (8.5 per cent and 6.5 per cent respectively). This contrasts with the significantly lower levels of support offered by the agriculture, hunting, forestry, fishing, or mining and quarrying, and retail, distribution, hotels and catering sectors (less than half a per cent and 0.9 per cent respectively).

Table 3.3 **Extent of provision of a childcare scheme by industrial sector**

	Provider %	Weighted base	Row per cent
			Unweighted base
Public administration, education & health	8.5	235	612
Banking, finance & business services	6.5	388	482
Transport & communications	2.7	247	224
Energy & water	2.4	51	52
Manufacturing	2.0	516	775
Construction	1.1	285	281
Retail, distribution, hotels & catering	0.9	1,172	745
Agriculture, hunting, forestry, fishing, or mining & quarrying	+	227	76
Other industries	2.6	483	348

Base: All screen organisations

+<0.5 per cent

It is possible that the likelihood of an organisation offering employer-supported childcare could vary by the number of employees that would wish to take-up employer-supported childcare. Analysis has therefore been undertaken to explore the extent to which, the proportion of employees with children and the proportion of female employees, had an affect on an organisations' decision to offer employer-supported childcare. Organisations' reasons for offering employer-supported childcare will be considered in more detail in Chapter 8.

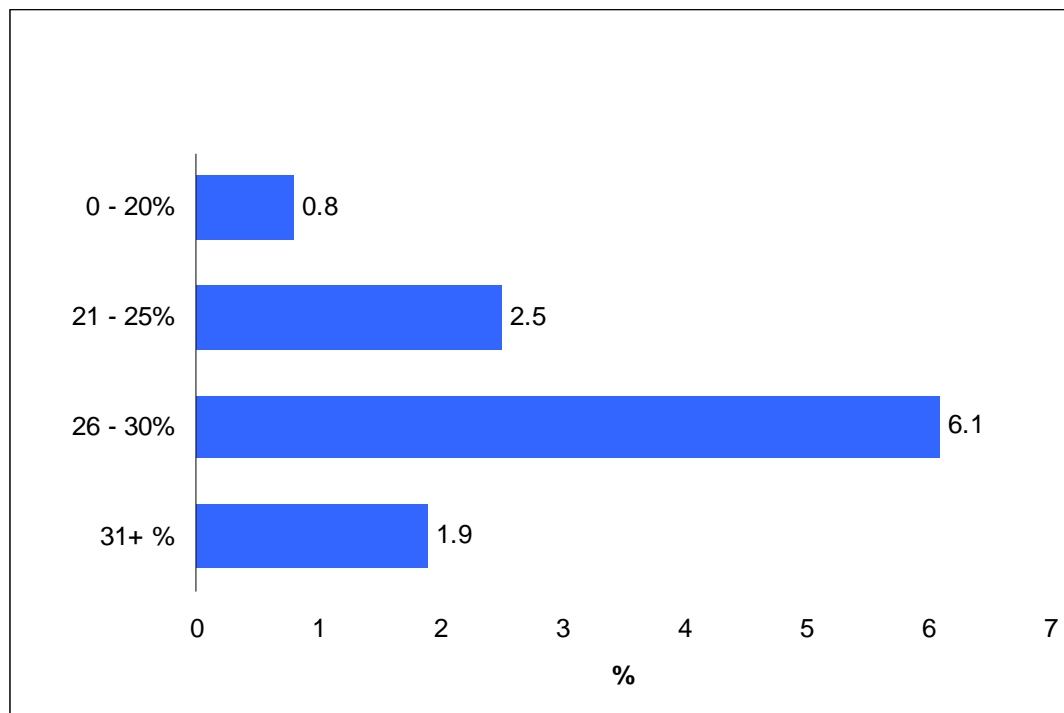
Figure 3.2 and Figure 3.3 present the proportion of employers that offered support by the predicted proportion of employees with children and the proportion of female employees in their organisation respectively³⁷. They show that on the whole, the level of provision of support increased as both the proportion of employees with children and the proportion of female employees increased. For example, six per cent of employers whose workforce consisted of around 26-30 per cent employees with children offered a childcare scheme compared with 0.8 per cent of employers with 20 per cent or less employees with children. Similarly, five per cent of employers with between half to three quarters of their employees being female offered a childcare scheme compared with 0.8 per cent of employers who had a lower proportion of female employees, between none and a quarter of their workforce. The exceptions to this pattern were organisations where the proportion of employees with children exceeded 31 per cent or where the proportion of female employees exceeded 75 per cent. This is at least in part attributable to an association between these categories and size of organisation, whereby organisations, with the above characteristics, were marginally more likely to be comprised of smaller organisations (for instance those with fewer than 175 employees - see Appendix A for further details, available separately from the report)³⁸. Furthermore, when looking at

³⁷ Here and throughout the report, "employees with children" refers to employees with children aged 0 to 15 years of age. The proportion of employees with children within each organisation was estimated through using 1) survey data on the number of employees in four age categories and 2) the proportion of employees in each age category that have children (as measured by the British Social Attitudes Survey 2006). These were multiplied and summed to estimate the number of employees with children in each organisation and then divided by the number of employees in the organisation to calculate the proportion.

³⁸ Likewise organisations with 20 per cent or fewer employees with children or 24 per cent or fewer women in the organisation were more likely to be small than large organisations.

organisations that did not provide employer-supported childcare, almost half (47 per cent) had no employees with children³⁹.

Figure 3.2 Extent of provision of a childcare scheme by proportion of employees with children (Row per cent)⁴⁰



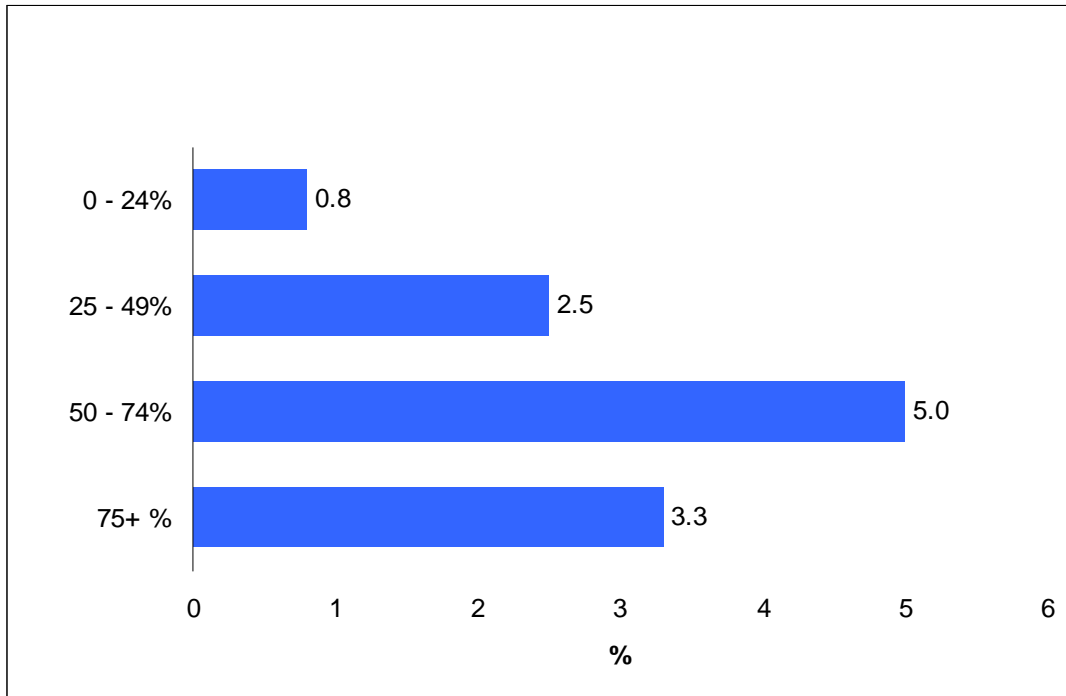
Base: All survey organisations (See Appendix F for the bases⁴¹)

³⁹ Although within the UK there were a large number of organisations that employ only employees without children, within this sample there were very few such organisations and therefore this group cannot be analysed separately.

⁴⁰ For 273 cases the data was insufficient to estimate the proportion of employees in the organisation.

⁴¹ As the base description is very long, base details have been provided in Appendix F rather than here.

Figure 3.3 Extent of provision of a childcare scheme by proportion of female employees (Row per cent)



Base: All survey organisations (See Appendix F for the bases⁴²)

Lastly, organisations that had a trade union or staff association were more likely to offer support than organisations without a trade union or staff association (eight per cent compared with two per cent).

3.2.2 Distinguishing the key factors related to offering childcare support

When trying to understand which specific characteristics would increase the likelihood that an organisation would offer employer-supported childcare, other underlying factors which might be influencing the differences also need to be examined. For instance, it might be the case that organisations with a trade union or staff association were more likely to offer support because of lobbying from the union. On the other hand, as seen earlier, larger organisations were also more likely to offer support and if larger organisations are those more likely to have a union or staff association, it might be the case that organisations with a union were more likely to offer support *only* because they were larger (and not because of any particular action by the union or staff association). Further analysis, using binary logistic regression modelling, has hence been conducted to identify which organisational characteristics have a direct relationship with the levels of provision of employer-supported childcare (for more details see Appendix C, available separately from the report).

The organisation characteristics included in the regression analysis were as follows⁴³:

- Organisation size

⁴² As the base description is very long, base details have been provided in Appendix F rather than here.

⁴³ The bases for some categories were too small for analysis and so have been combined, see Appendix C for further details.

- Government Office Region
- Industrial sector
- Proportion of employees with children
- Proportion of female employees
- Presence of a trade union or staff association
- Presence of employees in various occupational categories (for example whether the organisation employs managers and senior officials, those in professional occupations, those in administrative or secretarial occupations, etc.)
- Awareness of tax and National Insurance exemptions⁴⁴.

The logistic regression model shows that the underlying organisation characteristics which were related to the likelihood of offering employer-supported childcare were: size of organisation, industrial sector, Government Office Region and the proportion of female employees in the organisation i.e. these variables have a significant relationship with the likelihood of offering support after controlling for other variables – the output from the model can be found in Appendix C (available separately from the report).

For example, since the relationship between Government Office Region and the likelihood of offering support remained statistically significant in the regression analysis, the finding that the likelihood of offering support is greatest for organisations in London (when compared with organisations in the South East and Scotland) is supported. This relationship therefore cannot be explained by the size of organisations in London, even though this difference was relatively small (see Section 3.2.1 for discussion concerning the other variables in the model).

The relationship between the presence of a trade union or staff association and the likelihood that an organisation offered employer-supported childcare did not however remain statistically significant in the regression analysis, which suggests that this relationship was a function of the size of the organisation, industrial sector, Government Office Region and / or the proportion of women in the organisation; the same is true of the proportion of employees with children. Similarly, once other factors had been taken into account, neither awareness of the tax and National Insurance exemptions nor the presence of staff in different occupational categories were related to the likelihood that an organisation offered employer-supported childcare.

3.3 Type of childcare support offered

Although the proportion of organisations offering employer-supported childcare was small, there were clear differences in the types of support that organisations offered (see Table 3.4). Childcare vouchers were the most common form of support offered, being significantly more prevalent than either direct payments or direct provision. Childcare vouchers were offered by 1.4 per cent of organisations, which equates to approximately 9,600 organisations. Half this proportion of organisations offered direct provision – approximately 4,900 organisations, and only half a per cent of organisations offered direct payments – approximately 3,600 organisations (these figures should be treated with caution, as the confidence intervals are very wide in each case)⁴⁵. There was no statistically significant difference between the proportion of organisations offering direct payments and the proportion offering direct provision.

⁴⁴ Organisations that offer childcare support are more likely to be aware of the tax and National Insurance exemptions than organisations not offering support. This is covered in Chapter 4.

⁴⁵ Estimated by using weights to gross the number of organisations in the sample, taking organisation size into account. The 95 per cent confidence intervals for these estimates (presented to the nearest

Table 3.4 Type of childcare scheme offered

	%	Estimated Number of Organisations in UK	Column per cent	
			Weighted base	Unweighted base
Childcare Vouchers	1.4	9,600	3607	3605
Direct Provision	0.7	4,900	3610	3609
Direct Payments	0.5	3,600	3609	3590

Base: All screen organisations

As seen for the overall levels of employer-supported childcare, Table 3.5 shows that the proportion of organisations offering childcare vouchers and direct provision also differed by the size of the organisation i.e. larger organisations were more likely to offer childcare vouchers and direct provision than smaller organisations. The differences observable for direct payments were not statistically significant.

Table 3.5 Type of childcare scheme offered by organisation size

	Row per cent		
	Childcare Vouchers %	Direct Payments %	Direct Provision %
1 - 4 employees	0	+	0
5 - 9 employees	0.9	0.5	2.3
10 - 49 employees	2.3	1.1	0.7
50 - 174 employees	8.7	1.2	0.8
175 - 249 employees	19.6	2.3	1.7
250 - 999 employees	24.4	1.9	3.8
1,000 - 4,999 employees	44.2	3.7	12.0
5,000 - 9,999 employees	50.2	3.3	21.5
10,000+ employees	48.9	5.3	15.6

Base: All screen organisations (See Appendix F for the bases⁴⁶)

+<0.5 per cent

Table 3.6 looks at the types of employer-supported childcare offered by organisations with differing proportions of employees with children. Again differences were apparent for only two of the individual types of support – childcare vouchers and direct payments. Organisations with a greater proportion of employees with children were more likely to offer childcare vouchers or direct payments⁴⁷.

100) are: childcare vouchers 7,093 to 12,134; direct provision 2,116 to 7,629; direct payments 914 to 6,272 (these are wide due to the small bases and the weighting). The sum of the number of organisations offering each type of support is greater than the estimated number of organisations offering support in total (18,000 compared with 16,700) because eight per cent of organisations offered more than one type of childcare support.

⁴⁶ As the base description is very long, base details have been provided in Appendix F rather than here.

⁴⁷ As mentioned earlier the exception to this pattern was in organisations where the proportion of employees with children exceeded 31 per cent. This is at least in part attributable to a correlation between these categories and size of organisation whereby organisations with more than 31 per cent of employees with children were more likely to be small organisations rather than large organisations.

Table 3.6 Type of childcare scheme offered by proportion of employees with children⁴⁸

	Row per cent		
	Childcare Vouchers %	Direct Payments %	Direct Provision %
0 - 20%	+	+	0.7
21 - 25%	1.1	+	1.4
26 - 30%	5.4	+	0.7
31+%	0.8	0.8	+

Base: All survey organisations (See Appendix F for the bases⁴⁹)

+<0.5 per cent

When looking at the variation between organisations with different proportions of female employees, a relationship was present for childcare vouchers and direct provision, but *not* for direct payments (Table 3.7). The nature of the relationship was that on the whole organisations with a greater proportion of female employees were more likely to offer childcare vouchers or direct provision than organisations with a smaller proportion of female employees⁵⁰.

Table 3.7 Type of childcare scheme offered by proportion of female employees

	Row per cent		
	Childcare Vouchers %	Direct Payments %	Direct Provision %
0 - 24%	0.6	+	+
25 - 49%	2.0	+	0.5
50 - 74%	3.5	1.0	0.7
75+%	1.0	+	2.4

Base: All survey organisations (See Appendix F for the bases⁵¹)

+<0.5 per cent

3.4 Reasons for not choosing other types of childcare support

This section explores why organisations offering one type of support chose not to offer the other type(s) of support that are eligible for the tax and National Insurance exemptions. This issue was explored among organisations that offered a childcare scheme and *were aware* that alternative types of childcare schemes were eligible for the exemptions (see Table 3.8). Approximately 38 per cent of organisations *not* offering childcare vouchers (i.e. offering only direct payments and/or direct provision) were aware that childcare vouchers were eligible for tax and National Insurance exemptions. For organisations that did *not* offer direct payments, 44 per cent were

⁴⁸ For 273 cases the data was insufficient to estimate the proportion of employees with children in the organisation.

⁴⁹ As the base description is very long, base details have been provided in Appendix F rather than here.

⁵⁰ As mentioned earlier the exception to this pattern was in organisations offering childcare vouchers where the proportion of employees with children exceeded 75 per cent. This is at least in part attributable to a correlation between these categories and size of organisation whereby organisations with more than 75 per cent of female employees were more likely to be small organisations than large organisations.

⁵¹ As the base description is very long, base details have been provided in Appendix F rather than here.

aware that this type of support qualified for the exemptions; the same proportion of those *not* offering direct provision (44 per cent) were aware that direct provision was eligible for the exemptions.

Table 3.8 Awareness of different types of childcare scheme

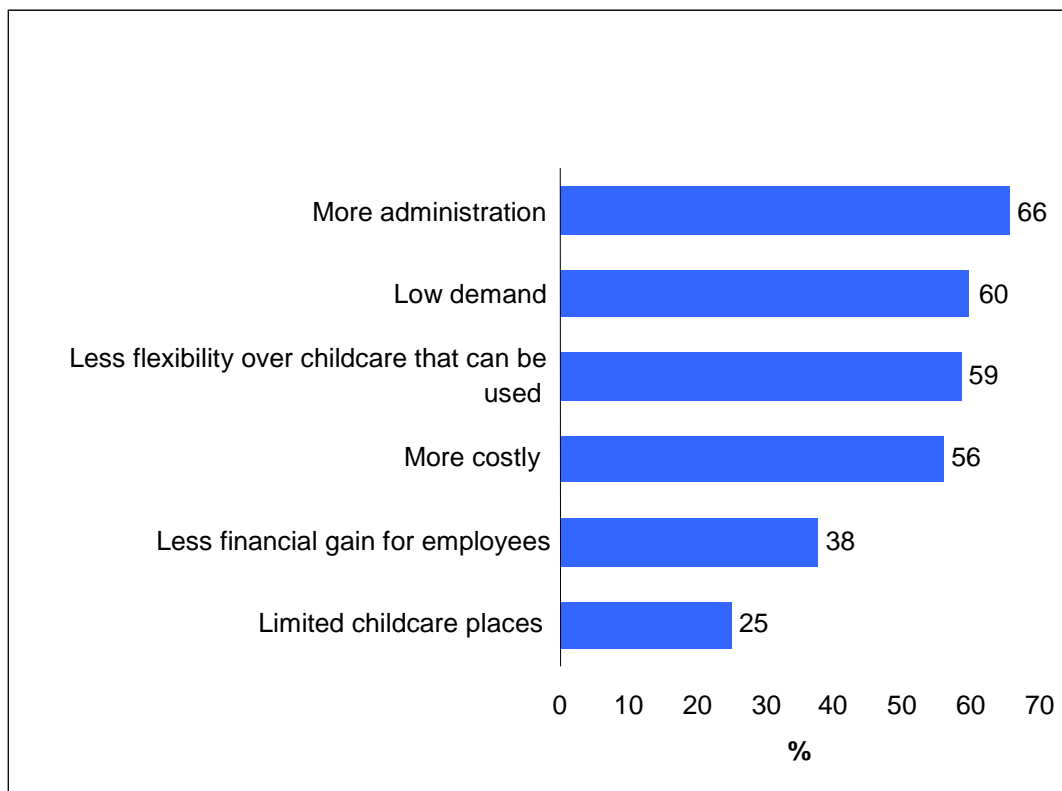
	%	Row per cent	
		Weighted base	Unweighted base
Childcare Vouchers	38	9	60
Direct Payments	44	19	470
Direct Provision	44	15	441

Base: Survey organisations offering a childcare scheme that did not offer the type of support +<0.5 per cent

Turning to the reasons that organisations chose not to offer particular types of support, Figure 3.4 shows the reasons that organisations chose not to offer direct payments and Figure 3.5 shows the reasons that organisations chose not to offer direct provision⁵².

Two-thirds (66 per cent) of organisations offering a childcare support scheme which was not direct payments, did not offer direct payments because they thought that it would involve more administration than the other types of schemes. Low demand, less flexibility over the type of childcare that could be used, and the perceived higher cost were other important reasons. The least common reason was the limited number of childcare places available through direct payments (the possible limitations arising from fixed capacity of the childcare providers covered by the scheme); however this was still selected by a quarter of respondents (25 per cent).

⁵² The base for looking at the reasons for not offering childcare vouchers was too small to analyse.

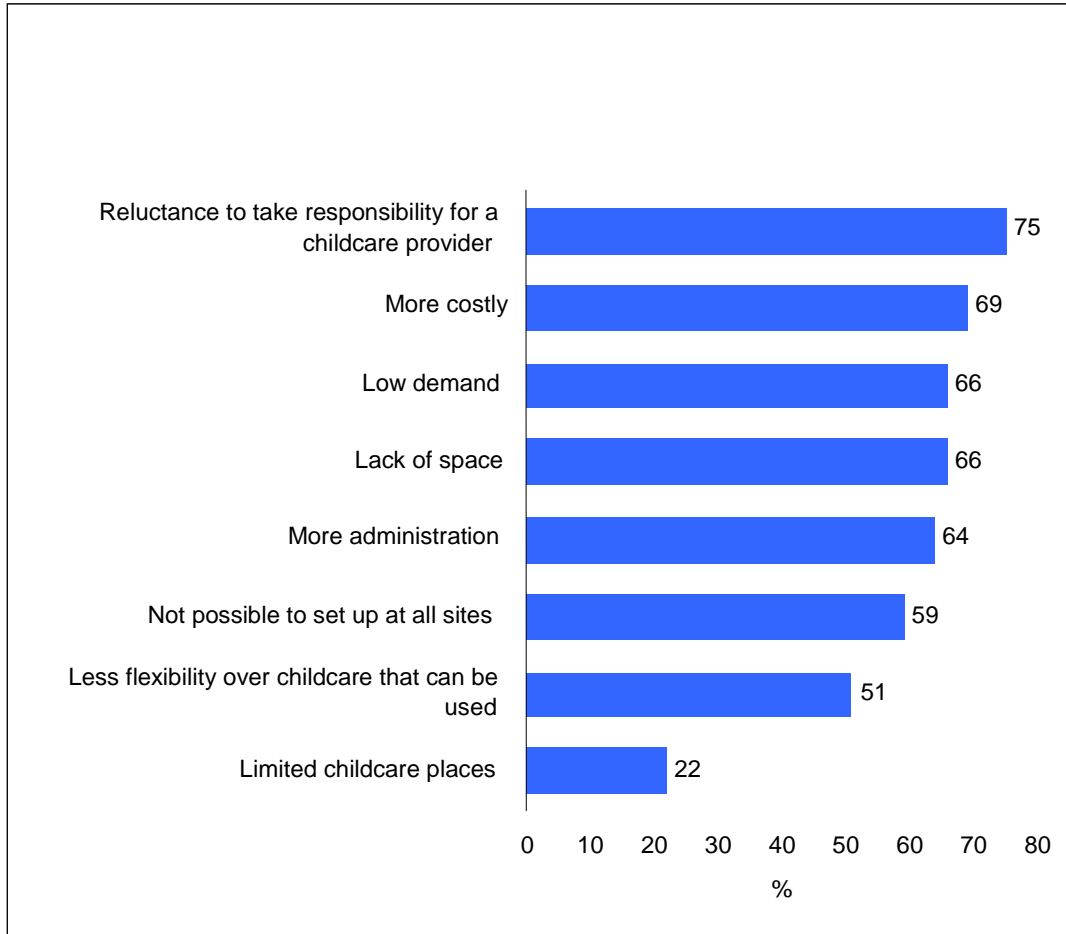
Figure 3.4 Reasons for not offering direct payments⁵³

Base: All survey organisations offering a childcare scheme, which was not direct payments, but were aware that they were eligible for tax and National Insurance exemptions (See Appendix F for the bases⁵⁴)

In Figure 3.5 it can be seen that the reasons for not offering direct provision differ from the reasons for not offering direct payments. Here among the most important reasons for not offering direct provision was the reluctance to take responsibility for a childcare provider (75 per cent). In addition around two-thirds of employers cited the cost of direct provision, low demand and lack of space (69 per cent, 66 per cent and 66 per cent respectively) as reasons for not offering direct provision. As in the case of direct payments the least common reason was a limited number of childcare places, arising for example from the fixed capacity of a workplace nursery (mentioned by around a fifth of employers).

⁵³ Employers could select more than one answer so percentages may add up to more than 100 per cent.

⁵⁴ As the base description is very long, base details have been provided in Appendix F rather than here.

Figure 3.5 Reasons for not offering direct provision⁵⁵

Base: All survey organisations offering a childcare scheme, not offering direct provision, but aware that it was eligible for tax and National Insurance exemptions (See Appendix F for the bases⁵⁶)

3.5 Method of offering childcare support

Organisations can choose to offer employer-supported childcare in a number of different ways, through: additional salary, salary sacrifice or a flexible benefits package⁵⁷. Table 3.9 shows the methods by which organisations offered each different type of support. It is clear that amongst childcare voucher providers, the most common way in which support was offered was through salary sacrifice, with 79 per cent of organisations offering support in this way in comparison with only 17 per cent of organisations offering childcare vouchers through a flexible benefits package and six per cent offering them through additional salary. However, this was not the case for direct provision where almost half offered employer-supported childcare through additional salary, in contrast with only a quarter (26 per cent) offering support through salary sacrifice.

⁵⁵ Employers could select more than one answer so percentages may add up to more than 100 per cent.

⁵⁶ As the base description is very long, base details have been provided in Appendix F rather than here.

⁵⁷ Additional salary is when childcare support is provided on top of an employee's existing salary. Salary sacrifice is when an employee receives childcare support alongside a legal reduction in salary. A flexible benefits package is where at the start of each year employees can choose how their salary is comprised i.e. they can choose whether or not to receive various benefits such as medical insurance or a company car and a relatively lower amount of cash.

There were no observable differences in the proportion of organisations offering support via a flexible benefits package and the different types of support they offered. Additionally, there was no observable difference between the choice of method by which support was offered across organisations of different sizes.

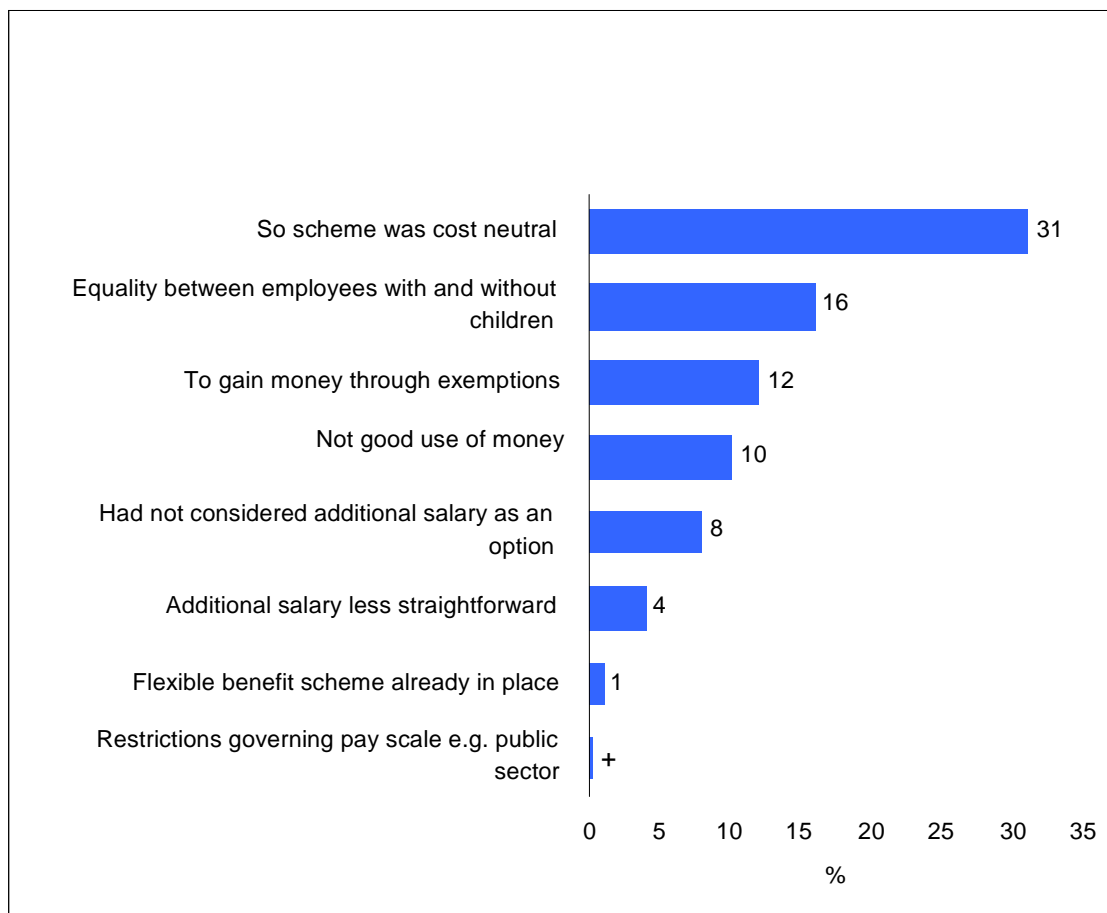
Table 3.9 Methods of offering childcare schemes, by type of scheme⁵⁸

	Column per cent		
	Childcare Vouchers %	Direct Payments %	Direct Provision %
Additional Salary	6	[9]	49
Salary Sacrifice	79	[59]	26
Flexible Benefit	17	[32]	26
<i>Base: Survey organisations offering each type of childcare support</i>			
<i>Weighted base</i>	13	3	6
<i>Unweighted base</i>	463	45	64

The reasons that the majority of organisations chose to offer employer-supported childcare through salary sacrifice or a flexible benefits package rather than as additional salary are presented in Figure 3.6. The most common reason was because they wanted to offer the scheme on a cost neutral basis (31 per cent). Other important reasons included: maintaining equality between employees with and without children (16 per cent), gaining money through the exemptions (12 per cent) and additional salary not being considered a good use of money (ten per cent).

⁵⁸ Employers could select more than one answer so percentages may add up to more than 100 per cent.

Figure 3.6 Reasons for not offering childcare schemes through additional salary⁵⁹



Base: All survey organisations offering support through salary sacrifice or flexible benefit but not additional salary (Weighted Base: 14 & Unweighted Base: 414)

Organisations with 175 employees or more were particularly likely to offer support through salary sacrifice or a flexible benefits package in order to keep the scheme cost neutral (50 per cent compared with 22 per cent of organisations with fewer than 175 employees) and to maintain equality between employees with and without children (26 per cent compared with 11 per cent of organisations with fewer than 175 employees).

⁵⁹ The options: additional salary being less straightforward and a flexible benefits scheme already being in place were added through coding open answers and not asked about explicitly in the interview. Employers could select more than one answer - percentages here do not however add up to more than 100 per cent, as the 'other' category has been left out.

4 IMPACT OF THE EXEMPTIONS

In this chapter consideration is given to the impact the tax and National Insurance exemptions had on organisations' decisions to offer employer-supported childcare. Firstly employers' awareness of the exemptions is looked at before considering how employers *became* aware of the exemptions, i.e. through which sources of information they first found out about the exemptions. The latter part of the chapter explores changes that organisations have made to their schemes and considers whether organisations would have offered the scheme had the exemptions not been introduced.

4.1 Summary

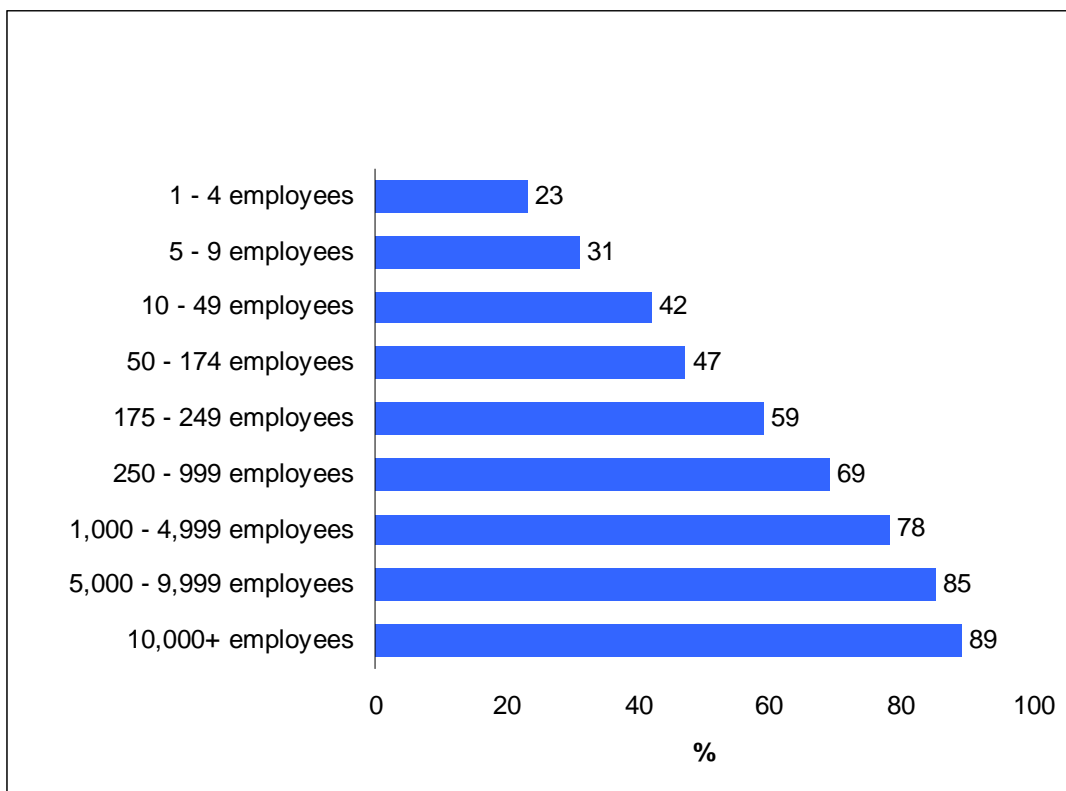
- Amongst all employers 30 per cent were aware of the new tax and National Insurance exemptions.
- Larger employers were substantially more likely to be aware of the exemptions than smaller employers, with almost all (89 per cent) of employers with 10,000 or more employees being aware, compared with only 23 per cent of employers with one to four employees.
- The first sources of information about the exemptions for smaller organisations were generally HMRC leaflets, whilst larger organisations tended to first hear about the exemptions through the HMRC website or through a childcare voucher or benefits provider.
- The majority of organisations offering childcare vouchers started offering support in or after April 2005 whilst organisations offering direct payments and direct provision most commonly started offering support before April 2005.
- Employers who had started to offer childcare vouchers in or after April 2005 were asked whether they would have still offered childcare vouchers if the reforms had not been introduced, and two-thirds said they would not have done. Smaller organisations in particular were more likely than larger organisations to say they would not have offered childcare vouchers. This suggests that the exemptions have had an important impact on take up of childcare vouchers.
- Most organisations would have offered childcare vouchers to all their employees (on a work site) (84 per cent) even if the exemptions had not required them to do so and only 16 per cent of organisations would have imposed restrictions.
- Only a small number of organisations had changed their scheme since its inception. Of the organisations that had changed their schemes, just over half had made a change in or after April 2005; this proportion was largest for organisations offering childcare vouchers, at 91 per cent; the most common change made since April 2005 was to reduce the financial amount of support offered⁶⁰.

⁶⁰ Note that because the April 2005 changes introduced tax exemptions in addition to the earlier National Insurance exemptions (as well as a ceiling to the amount of support that could be offered per week within the exemptions), a reduction in the amount of support offered does not necessarily equate to a reduction in benefit to employees.

4.2 Awareness of the exemptions

Amongst all employers, 30 per cent were aware of the new tax and National Insurance exemptions. However, the level of awareness differed markedly between employers of different sizes. As can be seen from Figure 4.1, larger employers were more likely to be aware of the exemptions than smaller employers: for instance 23 per cent of employers with one to four employees were aware of the exemptions compared with 89 per cent of employers with 10,000 employees or more. Therefore dissemination of the new exemptions seems to have been more successful amongst the larger employers, while the lower awareness amongst smaller employers suggests that the exemptions could be promoted more widely amongst this group, given the lower level of provision seen in Chapter 3.

Figure 4.1 Awareness by organisation size (Row per cent)



Base: All screen organisations (See Appendix F for the bases⁶¹)

Other characteristics that were associated with levels of awareness amongst all employers were whether there was a trade union or staff association within the organisation and whether they provided employer-supported childcare. Specifically, employers with a trade union or staff association were more than twice as likely to be aware of the exemptions than employers without a trade union or staff association (87 per cent compared with 39 per cent). Likewise, employers offering a childcare scheme were much more likely to be aware of the exemptions than those that did not (79 per cent compared with 29 per cent). However, bearing in mind that larger employers are those more likely to have a trade union or staff association, and to offer support, it is likely that both of these associations are largely related to employer size. Nevertheless around one in five employers who offered employer-supported childcare was not aware of the tax and NICs exemptions and, therefore, may not be

⁶¹ As the base description is very long, base details have been provided in Appendix F rather than here.

benefiting from them⁶². Of course, it may be the case that whilst the respondent was not aware of the exemptions, other members of the organisation may have been.

An additional finding was that amongst employers that *provided* employer-supported childcare, those that had started to offer support in or after April 2005 (when the new tax and National Insurance exemptions were introduced) were more likely to be aware of the exemptions than those who had introduced their childcare support schemes before April 2005 (90 per cent compared with 70 per cent). However, one in ten employers that introduced their scheme since April 2005 was unaware of the exemptions.

4.3 Sources of information about the exemptions

Information about the exemptions has been disseminated through a number of different channels. Table 4.1 shows the sources of information through which employers first found out about the exemptions. Among the most common ways in which employers found out about the exemptions was through an HMRC leaflet (39 per cent) whilst other important ways included: employees, trade unions or staff associations, and the press or media.

Table 4.1 First sources of information on the exemptions⁶³

	Column per cent
	%
HMRC leaflet	39
Employees / Trade Union / Staff Association	15
The Press / Media	13
HR magazines	10
Accountant / Pay roll provider / Consultant	6
Respondent's personal circumstances: friends / previous job, etc	3
HMRC website	2
Daycare Trust	1
Childcare Voucher / Benefits provider	1
Chartered Institute of Personnel and Development	1
Other Government department / Local Council	1
HMRC talk	+
Other source of information	8
<i>Base: All survey organisations aware of the exemptions</i>	
<i>Weighted base</i>	310
<i>Unweighted base</i>	636
+<0.5 per cent	

⁶² The proportion of schemes involving exemptions is covered in Chapter 7.

⁶³ The options 'Respondent's personal circumstances' and 'Other government department' were added through coding open answers and not asked explicitly in the interview.

As can be seen in Table 4.2, different information sources were used by organisations of different sizes. Larger organisations, with 175 employees or more, were more likely to have first found out about the exemptions through the HMRC website or through a childcare voucher provider, than organisations with fewer than 175 employees. On the other hand, an HMRC leaflet was much more likely to be used as a first source of information by smaller organisations (40 per cent in comparison with seven per cent and eight per cent of organisations with 175 to 999 employees or 1,000 or more employees respectively). Other differences were not statistically significant, although there were some indications that smaller organisations relied more heavily on requests from employees, trade unions or staff associations, and accountants, pay roll providers or consultants, and less on HR magazines than larger organisations.

Table 4.2 First sources of information on the exemptions by organisation size

	Column per cent		
	1 - 174 employees %	175 - 999 employees %	1,000+ employees %
HMRC leaflet	40	7	8
Employees / Trade Union / Staff Association	15	7	7
The Press / Media	13	14	15
HR magazines	9	21	18
Accountant / Pay roll provider / Consultant	6	5	2
Respondent personal circumstances: friends / previous job etc	3	4	1
HMRC website	2	8	10
Daycare Trust	1	1	2
Childcare Voucher / Benefits provider	1	13	14
Chartered Institute of Personnel and Development	+	8	+
Other Government department / Local Council	1	1	4
HMRC talk	+	+	1
Other source of information	8	10	17
<i>Base: All survey organisations aware of the exemptions</i>			
<i>Weighted base</i>	300	8	2
<i>Unweighted base</i>	171	211	253

+<0.5 per cent

Employers may have used further information sources in order to find out more details about what the exemptions involved. Table 4.3 presents these in combination with the first sources of information used by organisations. These information sources were very similar to those through which employers first found out about the exemptions. The HMRC leaflet was a common source of information as were employees, trade unions or staff associations, and the press or media.

Table 4.3 Sources of information to find out about the exemptions⁶⁴

	Column per cent
	%
HMRC leaflet	32
Employees / Trade Union / Staff Association	13
The Press / Media	11
HR magazines	8
Accountant / Pay roll provider / Consultant	7
HMRC website	5
Childcare Voucher / Benefits provider	2
HMRC talk	1
Daycare Trust	1
Chartered Institute of Personnel and Development	1
Other source of information	12
<i>Base: All survey organisations aware of the exemptions</i>	
<i>Weighted base</i>	376
<i>Unweighted base</i>	694

Again, there were differences between the sources of information used by organisations of different sizes, reflecting those seen in Table 4.2. Larger organisations were more likely to use: the HMRC website, HR magazines, a childcare voucher provider, and the Chartered Institute of Personnel and Development; while smaller organisations were marginally more likely to have used HMRC leaflets.

4.4 Implementing childcare support: timing and nature of schemes

One way to look at the impact that the exemptions have had on organisations is to look at *when* organisations that offered employer-supported childcare implemented their scheme.

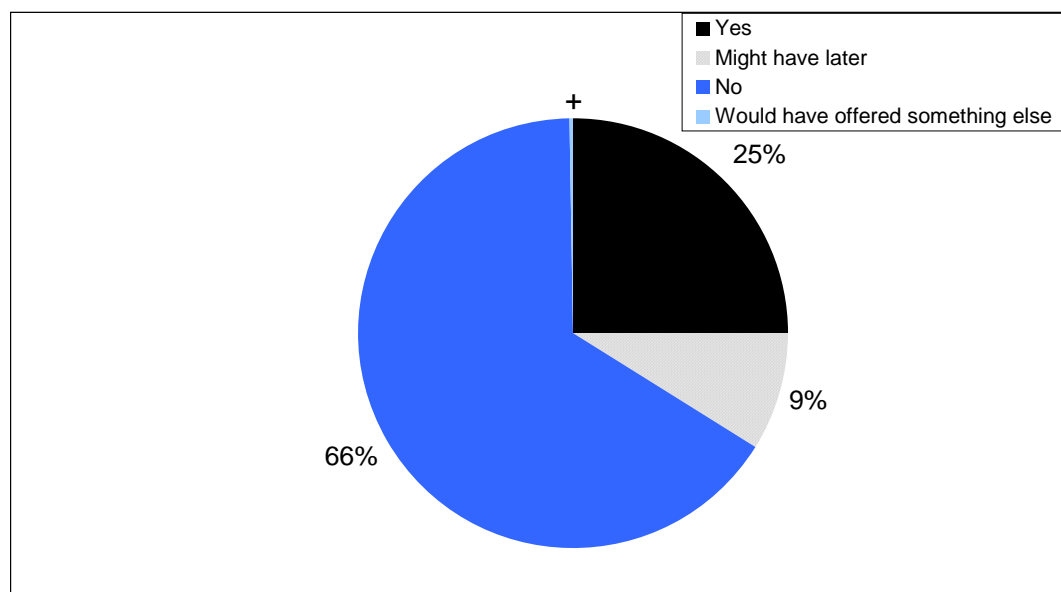
Table 4.4 looks at whether different types of support were implemented before or after April 2005 – when the reformed exemptions were introduced. Firstly the majority of organisations who offered childcare vouchers (62 per cent) chose to do so after the reformed exemptions were introduced in April 2005. This suggests that the introduction of the reformed exemptions had an influence on the decision to offer childcare vouchers. However when looking at other types of childcare schemes this influence is less apparent, as organisations offering direct payments and direct provision were more likely to have implemented their scheme before April 2005 (60 per cent and 85 per cent respectively).

⁶⁴ Employers could select more than one answer so percentages may add up to more than 100 per cent.

Table 4.4 Date started offering childcare schemes

	Column per cent		
	Childcare Vouchers %	Direct Payments %	Direct Provision %
Before April 2005	38	60	85
Since April 2005	62	40	15
<i>Base: All screen organisations offering childcare support</i>			
<i>Weighted base</i>	50	15	25
<i>Unweighted base</i>	649	56	126

Organisations that introduced their childcare schemes since April 2005 and were aware of the exemptions, were asked whether they thought that they would have implemented their childcare schemes if the exemptions had not been reformed. As can be seen in Figure 4.2, two-thirds of organisations offering childcare vouchers (66 per cent) said they would not have offered childcare vouchers. This contrasted with only one quarter (25 per cent) who said they would have offered childcare vouchers anyway and just under one tenth (nine per cent) who thought that they would have offered childcare vouchers at a later date⁶⁵.

Figure 4.2 Whether would have offered childcare vouchers without exemption reforms⁶⁶

Base: All survey organisations offering childcare vouchers that were aware of the exemptions and offered the scheme since April 2005 (Weighted Base: 8 & Unweighted Base: 233)
+<0.5 per cent

⁶⁵ Bases are too low to report on direct payments and direct provision.

⁶⁶ The options 'Would have offered something else' was a spontaneous code and not asked explicitly in the interview.

A similar pattern can be seen across organisations of different sizes. Smaller organisations appeared to have been more influenced by the exemptions, since the findings indicate they were more likely than larger organisations to say they would not have offered childcare vouchers without the introduction of the reforms. ([75 per cent]⁶⁷ of organisations with fewer than 175 employees said they would not have offered childcare vouchers without the exemptions, compared with between 46 per cent and 56 per cent of organisations with 175 to 999 employees or 1,000 or more employees, respectively).

As discussed earlier in the report, the new tax and National Insurance exemptions require childcare support schemes to be available to all employees within a work site. To see what would have happened in the absence of the reforms, organisations that were aware of the exemptions and offering their childcare support scheme to all employees were asked whether they would have offered support to *all employees* had the reforms not been introduced. Of organisations offering childcare vouchers, 84 per cent thought that they would have offered support to all employees regardless and 16 per cent thought that they would have offered childcare vouchers to only some of their employees⁶⁸. Therefore the exemptions appear to have had a modest impact in this regard.

4.5 Changes made to the childcare schemes

The introduction of the new tax and National Insurance exemptions also had the potential to generate changes to existing childcare schemes since, to ensure that they qualified for the exemptions, they needed to meet the eligibility criteria. In total six per cent of organisations that offered employer-supported childcare had changed their scheme at some time since its inception; this was most likely to be the case for organisations that had implemented their schemes prior to April 2005 (11 per cent compared to one per cent). The level of change to different types of childcare schemes can be seen in Table 4.5, which shows that direct provision schemes were the most likely to have changed (although this is not statistically significant), which reflects the greater likelihood that they were introduced prior to April 2005. Direct payments schemes were extremely unlikely to have changed – less than half a per cent – and were less likely to have changed than childcare voucher schemes (six per cent).

Table 4.5 Whether changes made to the scheme

	%	Row per cent	
		Weighted base	Unweighted base
Childcare Vouchers	6	51	675
Direct Payments	+	16	68
Direct Provision	10	26	148

Base: All screen organisations providing each type of childcare support
+<0.5 per cent

⁶⁷ Percentage based on 49 organisations.

⁶⁸ Bases are too low to report on direct payments and direct provision.

In order to see whether the exemptions influenced the changes made to the childcare schemes it is helpful to consider whether these changes were made before or since April 2005. Of the organisations that had made a change to their childcare scheme, in total just over half (53 per cent) had made changes since April 2005 which indicates that the exemptions might have influenced this decision. For organisations offering childcare vouchers this indication is stronger still, since 91 per cent of the organisations who had made changes to their voucher schemes had made them since April 2005.

Of the organisations that had changed their childcare schemes since April 2005, 29 per cent had changed the financial amount of support that employees could receive. As indicated by the large proportion of these changes that resulted in a reduction in the amount of vouchers offered, this was likely to be in response to the introduction of a ceiling for the value of employer-supported childcare that could be offered each week within the exemptions. However, since the April 2005 changes introduced tax exemptions in addition to the earlier National Insurance exemptions, this did not necessarily equate to a reduction in benefit to employees.

Almost one fifth (18 per cent) of organisations changed the childcare provider that the childcare scheme could be used to pay or the type of childcare scheme offered, and one tenth (ten per cent) changed the method through which they offered their scheme. Less than one tenth of organisations changed the employees to whom the childcare scheme was offered or the sites at which the scheme was available.

Table 4.6 Nature of the changes to the childcare schemes

	Column per cent
	%
The amount subsidised per employee	29
<i>Increase</i>	6
<i>Decrease</i>	23
The types of childcare provider the support can be used to pay	18
The method of offering the support	10
The employees eligible to apply	9
The sites covered under the scheme	3
<hr/>	
<i>Base: All survey organisations that made changes to the scheme since April 2005</i>	
<i>Weighted base</i>	1
<i>Unweighted base</i>	50

5 ORGANISATIONS NOT OFFERING SUPPORT

This chapter focuses on organisations not offering schemes, or ‘non-providers’ of childcare schemes, who were aware of the new tax and National Insurance contributions exemptions. As seen in Chapter 4, just under one-third (29 per cent) of non-providers were aware of the new tax and National Insurance contributions exemptions introduced in April 2005. This chapter first of all looks at non-providers’ awareness of the specific eligibility rules around offering support⁶⁹. It also explores non-providers’ reasons for not offering support with childcare - as seen in Chapter 3, only 2.5 per cent of organisations offer support with childcare. Lastly, the chapter looks at whether non-providers plan to offer support with childcare in the future.

5.1 Summary

- Awareness of the eligibility rules around offering employer-supported childcare was generally low amongst non-providers.
- The most common reasons given by non-providers for not offering support were having too few employees who would want support; having too few employees within the organisation; and not seeing childcare as an employer’s responsibility (cited as a reason by 82 per cent, 76 per cent and 53 per cent of employers respectively).
- Employers from smaller organisations (with under 175 employees) were more likely to cite having too few employees who would want support as a reason for not offering support than employers from larger organisations (with 1,000 or more employees).
- Only two per cent of non-providers said they planned to introduce employer-supported childcare in the future, and four per cent said they might do so.
- The larger an organisation, the more likely it was to have future plans to offer employer-supported childcare.
- Of those planning to introduce support, 83 per cent of employers said they planned to offer vouchers as the type of support compared to one-third (32 per cent) of employers who said they planned to offer direct payments, and four per cent of employers who planned to introduce direct provision.
- Nearly two thirds (60 per cent) of employers considering introducing vouchers thought they would do so in more than a year’s time.

5.2 Awareness of eligibility rules

There are several rules related to the types of childcare schemes which qualify for the tax and National Insurance exemptions. One of the rules related to employer-supported childcare, is that if an employer chooses to offer support with childcare through the exemptions, they must offer it to all employees in the organisation. Under one-tenth (six per cent) of non-providers were aware of this rule.

⁶⁹ Awareness among employers offering support is covered in Chapter 7.

Employer-supported childcare schemes can be provided for approved or registered childcare for children until the 1st September following the child's 15th birthday, or 16th birthday if the child has a disability. Overall just ten per cent of non-providers were aware that there was an age limit - this included six per cent who knew the exact age limit (in the survey this was simplified to the child needing to be 15 or under, or 16 or under if the child has a disability). Awareness of the registration requirements relating to childcare amongst non-providers was also low. In order to qualify for the exemptions, the childcare covered by the childcare scheme needs to either be registered or approved if in England, or just registered in the case of the rest of the UK. Again, less than one-tenth (seven per cent) of non-providers were aware of these rules in full.

Employers were also asked whether they were aware of the Childcare Approval Scheme recently introduced by the Government. This approves childcare providers who are not required to register with OFSTED, such as nannies and au pairs. This approval allows eligible parents to receive financial support through tax credits as well as employer-supported childcare⁷⁰. Awareness of this scheme was fairly low amongst non-providers. Just under one-fifth (18 per cent) of non-providers were aware of the scheme.

5.3 Reasons for not offering support

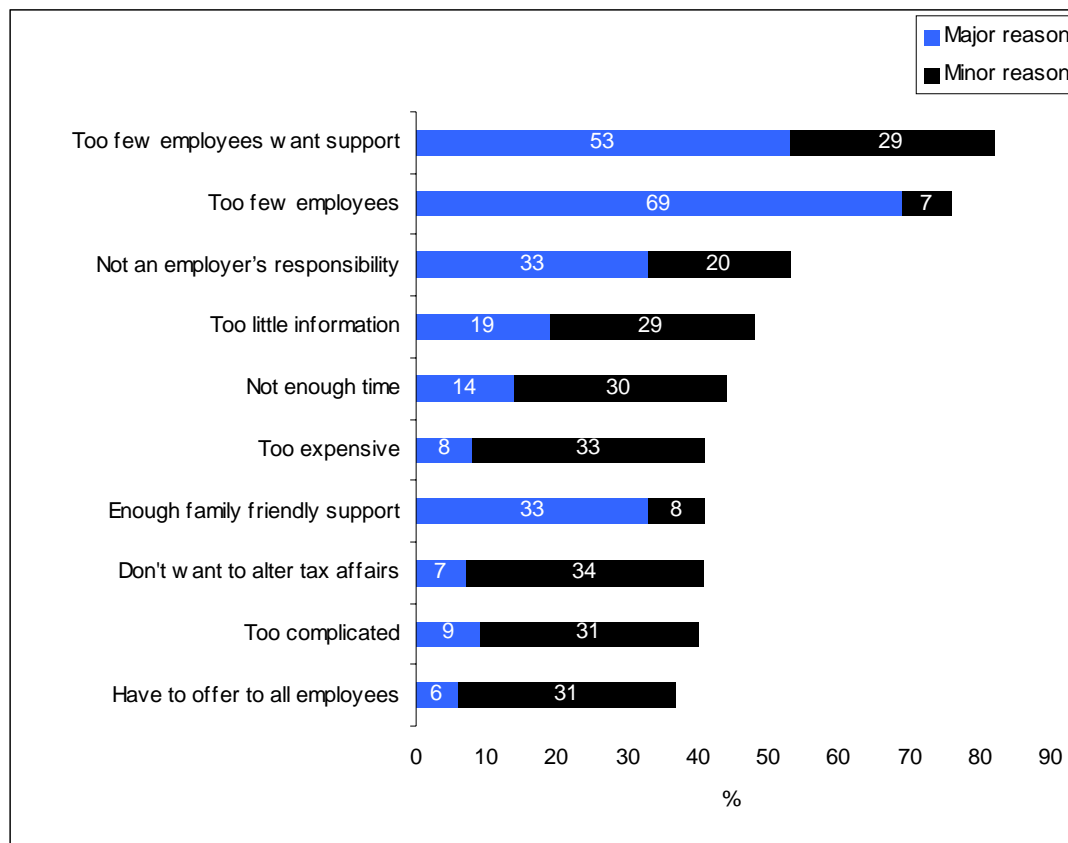
As seen in Chapter 3, only 2.5 per cent of organisations offered employer-supported childcare. The reasons given by non-providers for not offering support will now be explored, again looking only at non-providers who were aware of the new tax and NICs exemptions. As seen in Figure 5.1, having too few employees who want support with childcare was overall the most likely reason to be given for not offering support, reflecting the finding that around half (47 per cent) of organisations did not have employees with children (aged 16 or under)⁷¹. This reason was quoted by 82 per cent of non-provider employers (this was predominantly viewed as a major reason affecting employers' decision). Also cited frequently by non-providers (with less than 1,000 employees) was simply having too few employees: three-quarters (76 per cent) of employers said this was a reason for not offering employer-supported childcare. This mainly consisted of employers seeing this as a major reason, as 69 per cent of non-providers reported it as such⁷².

Other important factors given for not offering support was the perception that childcare is not an employer's responsibility, and having too little information about the new exemptions (53 per cent and 49 per cent of non-providers gave these as reasons respectively). In addition, already offering sufficient family friendly support was a major reason for a third of non-providers (33 per cent). Issues like insufficient time, the cost, not wanting to alter tax affairs and complication, as well as the requirement to offer support to all employees, were among the less likely factors to dissuade employers, but were still all mentioned by a substantial minority: over a third of non-providers in each case (mainly as a minor reason).

⁷⁰ The Approval scheme applies only to England. The scheme verifies that a potential child carer has a suitable qualification and a recent First Aid certificate and carries out an enhanced Criminal Records Bureau (CRB) check.

⁷¹ These organisations are, however, included in the base of analysis for reasons for non-provision, since it is possible that these organisations might still want to recruit employees with children.

⁷² 'Too few employees' was not mentioned as an option to organisations with 1,000 or more employees, as these organisations were too large for the question to be relevant.

Figure 5.1 Reasons for not offering support

Base: All survey non-providers who were aware of the exemptions (Weighted Base: 363 & Unweighted Base: 246)

Table 5.1 shows the reasons given by employers for not providing employer-supported childcare by organisation size. Employers in smaller organisations were more likely to cite the reason that too few employees wanted support with childcare. Of employers in organisations with under 175 employees, 83 per cent gave this reason for not offering support, compared with 32 per cent of employees in organisations with 1,000 or more employees.

Simply having too few employees was also more likely to be given as a reason by smaller organisations: three-quarters (76 per cent) of these organisations (with under 175 employees) cited it compared with a third (33 per cent) of medium-sized organisations (175-999 employees) (the other observable differences were not statistically significant).

Table 5.1 Reasons for not offering support by organisation size⁷³

	Column per cent		
	1 - 174 employees %	175 - 999 employees %	1,000+ employees %
Too few employees want support	83	44	32
Too few employees	76	33	n/a
Not an employer's responsibility	54	32	19
Too little information	49	39	41
Not enough time	43	69	51
Too expensive	41	50	56
Enough family friendly support	41	42	28
Don't want to alter tax affairs	41	51	56
Too complicated	39	51	58
Have to offer to all employees	37	28	24
<i>Base: All survey non-providers who were aware of exemptions</i>			
<i>Weighted base</i>	318-356	5	1
<i>Unweighted base</i>	98-110	76-81	53-54

Analysis of reasons for not offering support by the proportion of female employees in the organisation, or by the proportion of employees with children, was limited due to small bases, and no statistically significant differences were identified.

5.4 Future provision

Overall, few employers not currently providing employer-supported childcare cited plans to introduce support in the future. Only two per cent of non-providers said they *did* plan to introduce a childcare scheme, and four per cent said they might introduce a scheme. This equates to approximately 15,000 non-provider organisations planning to introduce employer-supported childcare, and around 29,000 non-provider organisations potentially planning to introduce it⁷⁴. Taking into account the size of these organisations, this suggests that around a further three million employees are likely to have access to support in the future (i.e. all employees working in non-provider organisations planning to offer support); and another two million employees *might* have access to support in the future (i.e. employees in non-provider organisations who said they might begin to offer support)⁷⁵. However, these figures should be treated with caution, as the confidence intervals are very wide.

⁷³ Major and minor reasons are shown as a combined figure in this table. Organisations could select more than one reason so percentages sum up to more than 100 per cent. 'Too few employees' was not mentioned as an option to organisations with 1,000 or more employees, as these organisations were too large for the question to be relevant.

⁷⁴ Figures are presented to the nearest 1,000. The 95 per cent confidence intervals for these estimates are: organisations that planned to introduce childcare support 8,460 to 22,249; organisations that might introduce childcare support 17,751 to 39,367 (these are wide due to the small bases and the weighting).

⁷⁵ Figures are presented to the nearest million. The 95 per cent confidence intervals for these estimates are: organisations that planned to introduce childcare support 2,605,439 to 3,433,835; organisations that might introduce childcare support 1,856,705 to 2,712,000 (these are wide due to the small bases and the weighting).

Table 5.2 shows that the larger an organisation, the more likely it was to have future plans to offer employer-supported childcare. When asked about plans for future provision of support, only one per cent of employers with one to four employees said 'yes' and only three per cent said 'maybe'; whereas two thirds (66 per cent) of employers with 10,000 or more employees said 'yes' to having future plans, and 19 per cent said 'maybe'.

Table 5.2 Plans for future provision by organisation size

	Row per cent				
	Yes %	No %	Maybe %	<i>Weighted base</i>	<i>Unweighted base</i>
1 - 4 employees	1	96	3	1,938	206
5 - 9 employees	2	94	4	710	195
10 - 49 employees	5	88	7	639	478
50 - 174 employees	8	81	12	115	786
175 - 249 employees	19	63	17	11	225
250 - 999 employees	24	50	26	22	470
1,000 - 4,999 employees	46	27	27	5	161
5,000 - 9,999 employees	35	31	33	1	76
10,000+ employees	66	15	19	0 ⁷⁶	70

Base: All screen non-providers⁷⁷

5.4.1 Types of future provision

The type of support cited most frequently by non-provider employers as the one they planned to introduce in the future was childcare vouchers. Of those who were planning to introduce support, 83 per cent of employers said they planned to offer vouchers in the future compared to one-third (32 per cent) of employers who said they planned to offer direct payments, and four per cent of employers who planned to introduce direct provision, making this the least commonly cited type of planned future provision.

Nearly two-thirds (60 per cent) of employers considering introducing vouchers thought they would do so in more than a year's time (Table 5.3)⁷⁸.

Table 5.3 Timing of plan to introduce childcare vouchers

	Column per cent
	Childcare vouchers %
Within next six months	17
Within next year	23
Later	60

Base: All screen organisations who may introduce childcare vouchers

<i>Weighted base</i>	141
<i>Unweighted base</i>	618

⁷⁶ The weighted base here is less than 0.5.

⁷⁷ Due to rounding, not all of the percentages equal 100 per cent.

⁷⁸ The bases for direct payments and direct provision were too low for analysis.

6 EMPLOYEE TAKE UP

The focus of this chapter is employees (from employers' perspectives). Here the take up of employer-supported childcare is explored to see the number and type of employees perceived to be benefiting from the new tax and National Insurance exemptions. Here consideration is given to the average value of support received by employees, the age of children receiving childcare funded through the exemptions and which childcare providers were being used by those receiving employer-supported childcare.

6.1 Summary

- Focusing on employees likely to have children (aged under 16), the average (mean) proportion of employees in an organisation taking up childcare support was 35 per cent⁷⁹.
- Looking at *all* employees, the mean proportion in an organisation taking up support was eight per cent.
- Employees who participated in a childcare scheme were more likely to be women than men, full time than part time and basic rate tax payers than starting rate tax payers.
- Employees who participated in a childcare scheme were more likely to work in professional occupations or to be managers and senior officials than process, plant and machine operatives and drivers, work in skilled trades or in routine unskilled occupations.
- Employer-supported childcare was primarily received for children aged four and under and the most common type of childcare provider used by employees receiving support was a day nursery (whether through childcare vouchers or direct provision).
- In almost half of organisations, employees took up on average between £216 and £217 per month (which was the limit of the exemptions at the time). Only ten per cent of organisations said that employees took up more than the limit on average.

6.2 Level of employee take up

6.2.1 Market for childcare support

It is almost certain that within each organisation not every employee will have children, and so only a proportion of employees would be in a position to take up the support offered, i.e. constitute the 'market' for employer-supported childcare. The *estimated* proportion of employees with children aged under 16 in organisations is presented in Table 6.1. On average⁸⁰ only one quarter of all employees would be expected to have children in that age group.

⁷⁹ The number of employees with children within each organisation was estimated through using 1) survey data on the number of employees in four age categories and 2) the proportion of employees in each age category that have children (as measured by the British Social Attitudes Survey 2006). These were multiplied and summed to estimate the number of employees with children in each organisation. The number of employees taking up childcare support was then divided by the estimated number of employees with children in each organisation.

⁸⁰ Throughout this section "average" refers to the mean.

Table 6.1 Estimated proportion of all employees with children⁸¹

	Column per cent
	%
0 - 20%	30
21 - 25%	29
26 - 30%	13
31+%	28
Mean	25
<i>Base: All survey organisations</i>	
<i>Weighted base</i>	844
<i>Unweighted base</i>	639

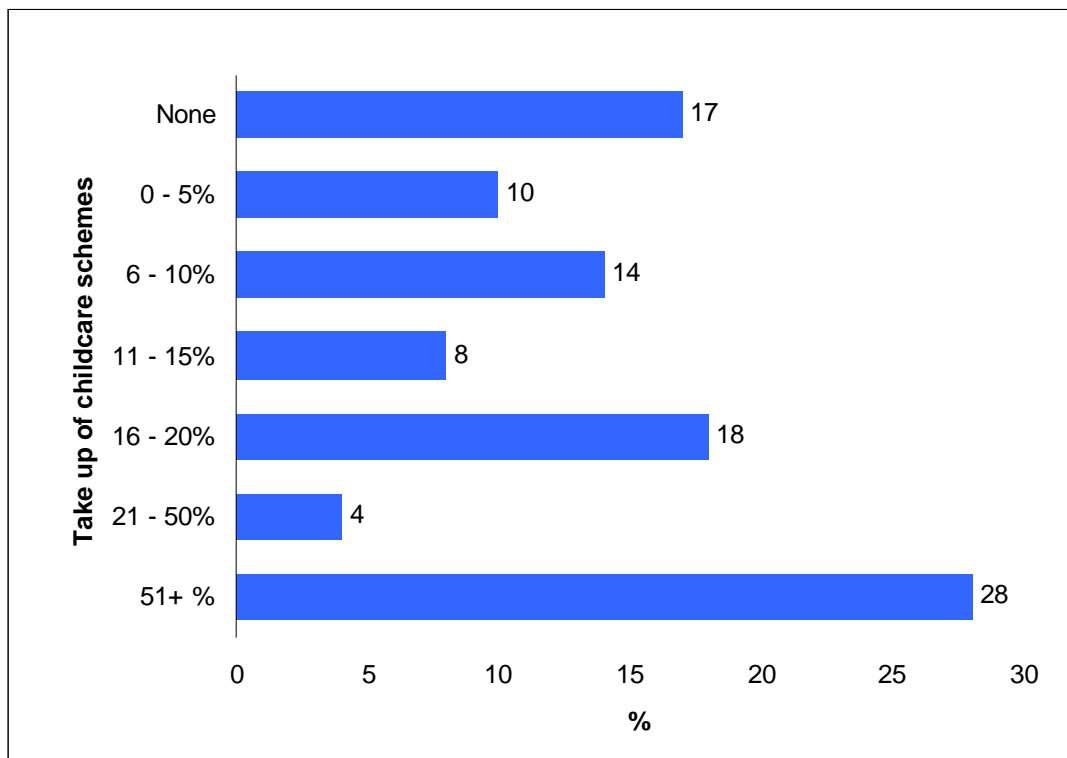
Figure 6.1 shows the estimated proportion of employees with children receiving support. In 28 per cent of organisations, take up of support was very high at over 50 per cent, although in a substantial minority of organisations (17 per cent) childcare support schemes were on offer but not taken up by any employees. The average take up of employer-supported childcare among the estimated proportion of employees with children was 35 per cent⁸².

However, although the market for employer-supported childcare has been defined as employees who have children aged under 16, there are other factors that further restrict the effective market which are difficult to quantify e.g. the employment status of each member of a couple or the age of their children. It should also be noted that consideration here is of the employees that take up childcare support rather than households. It therefore may be the case that in a number of instances employees' partners may be taking up childcare support instead, meaning that they do benefit from the exemptions, albeit less directly. As such, an average take up of 35 per cent could be seen as relatively high.

⁸¹ For 273 cases the data was insufficient to estimate the proportion of employees with children in the organisation. The median proportion of employees with children was 25 per cent.

⁸² The number of employees taking up childcare support was divided by the estimated number of employees with children in each organisation. The median take up amongst the estimated number of employees with children was 15 per cent.

Figure 6.1 Estimated proportion of employees with children participating in a childcare scheme



Base: All survey organisations offering a childcare scheme (Weighted Base: 453 & Unweighted Base: 339)

Take up was not uniform across organisations of different sizes (Table 6.2). On average the take up in smaller organisations has been greater than in larger organisations (42 per cent in organisations with under 175 employees compared with between 11 per cent and 6 per cent in larger organisations). Likewise, organisations with fewer than 175 employees were more likely to have had take up rates in excess of 50 per cent than those with 175 employees or more. The high employee take-up amongst smaller organisations is at odds with the lower level of provision seen in Chapter 3. The reason that take up was greater in smaller organisations is perhaps that proportions are more volatile in small than large organisations since whilst in an organisation of 1,000 employees one person taking up employer-supported childcare represents 0.1 per cent of the workforce, in an organisation with only ten employees they represent ten per cent of the workforce. Larger organisations on the other hand were more likely to have had take up rates in the region of 0.01 to ten per cent of the workforce.

Table 6.2 Proportion of estimated number of employees with children receiving childcare support, by organisation size⁸³

	Column per cent		
	1-174 employees %	175 – 999 employees %	1,000+ employees %
None	21	4	7
0 - 5 %	4	24	51
6 - 10 %	9	40	28
11 - 15%	6	17	11
16 - 20%	21	11	1
21 - 50%	4	2	2
51+%	35	2	0
Mean	42	11	6
<i>Base: All survey organisations offering childcare support</i>			
<i>Weighted base</i>	356	66	31
<i>Unweighted base</i>	74	124	141

6.2.2 All employees

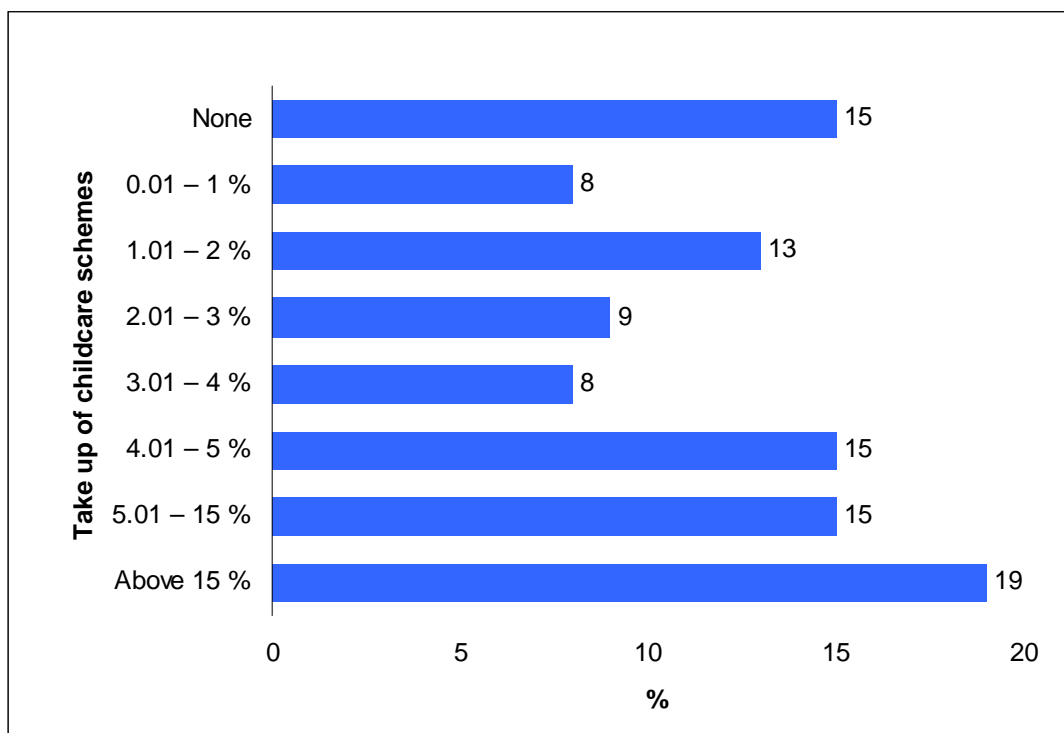
Since on average only one quarter of employees are likely to have children, the take up of employer-supported childcare from within the proportion of all employees will be substantially lower than the take up from employees with children. This can be seen in Figure 6.2 which shows the proportion of all employees that receive support. The average proportion of employees taking up the support offered was eight per cent⁸⁴. The majority of organisations had take up between one and five per cent, although in a substantial minority of organisations, no employees had yet taken up the support offered (15 per cent).

Across the UK, this level of take up equates to around 175,000 employees receiving financial help through employer-supported childcare (this figure should be treated with caution, as the confidence intervals are very wide⁸⁵).

⁸³ The median take up amongst the estimated number of employees with children by organisation size was: 1-174 employees - 17 per cent; 175-999 employees – eight per cent; 1,000 or more employees – five per cent.

⁸⁴ The median take up amongst all employees was four per cent.

⁸⁵ Estimated by using weights to gross up to the estimated number of organisations offering childcare support and the estimated number of employees in each organisation in the sample that received childcare support. The figure 175,000 is presented to the nearest 5,000. The 95 per cent confidence interval is 142,419 to 204,661 (this is wide due to the small bases and the weighting). Where organisations offered more than one type of childcare support the number of employees receiving each type of childcare support was summed to make this estimate, since it is likely that there is little if any overlap between the employees receiving the different types of support.

Figure 6.2 Proportion of employees participating in a childcare scheme

Base: All survey organisations offering childcare support (Weighted Base: 511 & Unweighted Base: 489)

The pattern of take up among all employees by organisation size reflects the differences seen earlier when looking at employees with children (Table 6.3). However, when looking at all employees, it seems that whilst take up in general was greater amongst smaller organisations, they were also more likely to have no employees taking up the support offered.

Table 6.3 Proportion of employees receiving childcare support, by organisation size⁸⁶

	Column per cent		
	1 - 174 employees %	175 – 999 employees %	1,000+ employees %
None	19	3	+
0.01 – 1%	2	15	40
1.01 – 2%	8	23	30
2.01 – 3%	5	20	16
3.01 – 4%	6	22	5
4.01 – 5%	18	10	3
5.01 – 15%	18	6	4
Above 15%	25	2	1
Mean	10	3	2
<i>Base: All survey organisations offering childcare support</i>			
<i>Weighted base</i>	375	89	47
<i>Unweighted base</i>	88	170	231

+<0.5 per cent

There was no consistent pattern in the proportion of employees who received employer-supported childcare for organisations with different proportions of female employees.

6.3 Characteristics of employees taking up childcare support

Of the employees receiving support, on average over two-thirds were women (69 per cent) and one-third were men (31 per cent).

Table 6.4 Mean proportion of employees receiving support for men and women⁸⁷

	Mean
Men	31
Women	69
<i>Base: All survey organisations offering childcare support which is taken up</i>	
<i>Weighted Base</i>	434
<i>Unweighted Base</i>	455

A greater proportion of the employees receiving support worked full time rather than part time (an average of 73 per cent compared with 27 per cent respectively).

⁸⁶ The median take up amongst all employees by organisation size was: 1-174 employees - five per cent; 175-999 employees – two per cent; 1,000 or more employees – one per cent.

⁸⁷ 53 organisations could not answer this question. The median take up for men and women was: men – 25 per cent; women 75 per cent.

Table 6.5 Mean proportion of employees receiving support for part time and full time workers⁸⁸

	Mean
Part Time (0 - 29 hours)	27
Full Time (30+ hours)	73
<i>Base: All survey organisations offering childcare support which is taken up</i>	
<i>Weighted Base</i>	425
<i>Unweighted Base</i>	410

The majority of the employees participating in a childcare scheme were taxed at the basic rate of tax (an average of 60 per cent). This was greater than the proportion of employees that were taxed at the starting rate and participated in a childcare scheme (an average of ten per cent) – the other differences are not statistically significant. When contrasted with the proportions of employees nationally that are taxed at each rate it seems that a larger number of higher rate tax payers received support and smaller number of basic rate tax payers received support in comparison to proportions in the population⁸⁹. In addition, salary sacrifice schemes may not be beneficial for employees that receive the childcare element of the Working Tax Credit (WTC), since employer-supported childcare may reduce the childcare element of WTC (and as seen in Chapter 3, most childcare support schemes are offered through salary sacrifice). Nevertheless a substantial number of basic rate tax payers were benefiting from the exemptions.

Table 6.6 Mean proportion of employees receiving support in different tax bands⁹⁰

	Mean	<i>Weighted base</i>	<i>Unweighted base</i>
Starting Tax Rate 10%	10	373	370
Basic Tax Rate 22%	60	373	365
Higher Tax Rate 40%	31	375	368

Base: All survey organisations offering childcare support which is taken up

The highest proportion of employees receiving employer-supported childcare were employed in professional occupations or as managers and senior officials (an average of 35 per cent and 33 per cent respectively). On average a small proportion of those who participated in a childcare scheme worked as process, plant and machine operatives and drivers, in skilled trades or in routine unskilled occupations.⁹¹

⁸⁸ 96 organisations could not answer this question. The median take up for part-time and full-time workers was: part-time – none; full-time 100 per cent.

⁸⁹ Figures provided by HMRC (based on estimates from the Survey of Personal Incomes 2003-04 and projected forward to 2006-07 in line with Budget 2006 assumptions) suggest that 8.3 per cent of all tax payers with income from employment are taxed at the starting rate or tax, 79.4 per cent are taxed at the basic rate and 12.4 per cent are taxed at the higher rate. These differences have not been tested for statistical significance.

⁹⁰ 106 organisations could not answer this set of questions. The median take up for employees in different tax bands was: starting rate – none; basic rate – 73 per cent; higher rate – 11 per cent.

⁹¹ Data is not available to see how this relates to the occupational distribution within organisations.

Table 6.7 Mean proportion of employees receiving support in different occupational categories⁹²

	Mean	Weighted base	Unweighted base
Professional occupations	35	294	325
Managers and senior officials	33	399	360
Sales and customer service occupations	18	217	248
Administrative and secretarial occupations	17	374	350
Caring, leisure and other personal service occupations	17	110	111
Associate professional and technical occupations	16	236	308
Process, plant and machine operatives and drivers	2	117	176
Skilled trades occupations	1	158	204
Routine unskilled occupations	+	180	233

Base: All survey organisations offering childcare support which is taken up and have employees in the relevant occupational category
 +<0.5 per cent

6.4 Age of children and types of childcare provider supported

The majority of employees who participated in a childcare scheme were using childcare for their children aged four years or under (an average of 87 per cent). On average only 12 per cent of employees received employer-supported childcare for children aged between five to seven years and eight per cent for children aged eight years or over. This is not surprising given that the use of formal childcare decreases as the age of children increases⁹³.

Table 6.8 Mean proportion of employees receiving support for children of different ages⁹⁴

	Mean	Weighted base	Unweighted base
Aged 4 or under	87	371	268
Aged 5-7	12	366	260
Aged 8 or over	8	367	260

Base: All survey organisations offering childcare support which is taken up

⁹² 107 organisations could not answer this set of questions. Since employers were only asked about each occupational category in which they had employees, percentages can sum to more than 100 per cent. The median take up for employees in different occupational categories was: professional occupations and managers and senior officials – 17 per cent; all others - none.

⁹³ Bryson et al. (2006).

⁹⁴ 193 organisations could not answer this set of questions. Employers could select more than one answer so percentages may add up to more than 100 per cent. The median take up for employees receiving support for children of different ages was: aged 4 or under – 100 per cent; all others – none.

The types of childcare providers that were financed through employer-supported childcare can be seen in Table 6.9 and Table 6.10. The former shows the childcare providers for which childcare vouchers were used and the latter shows the type of childcare offered through direct provision⁹⁵.

In 82 per cent of organisations, employees used childcare vouchers for day nurseries and in 45 per cent of organisations, employees used them for nursery schools and nursery classes. This reflects the finding that employer-supported childcare was primarily received for children aged four or under. Furthermore the high use of day nurseries⁹⁶ – which usually provide full time places – is consistent with the high proportion of full time workers that participated in a scheme. In 28 per cent of organisations, employees used childminders, in 22 per cent, playgroups or pre-schools were used, and in 18 per cent out-of-school clubs were used. Receipt of childcare vouchers was lowest for nannies and au pairs (which are approved rather than registered childcare) which might be expected given the lower level of awareness employers had of the approval scheme (See Chapters 5 and 7)⁹⁷.

Table 6.9 Childcare providers used by employees taking up childcare vouchers⁹⁸

	Column per cent
	%
Day nursery	82
Nursery school or nursery class	45
Childminder	28
Play group or pre-school	22
Breakfast / after-school / holiday club	18
Nanny or au pair	11
Other	1
<i>Base: All survey organisations offering childcare vouchers</i>	
<i>Weighted base</i>	263
<i>Unweighted base</i>	316

The type of childcare that was financed and managed through direct provision was very similar to the childcare provision that was funded using childcare vouchers (see Table 6.10). The provision of day nurseries was high at 59 per cent and 22 per cent of organisations offered a playgroup or pre-school, while only nine per cent of organisations offered an out-of-school club. Provision of nursery schools or nursery classes in particular was much lower than seen for the childcare provision funded using childcare vouchers (one per cent for direct provision compared with 45 per cent for childcare vouchers).

⁹⁵ The base for direct payments was too small to analyse.

⁹⁶ Provision which is run for the whole working day and only closed for a few weeks in summer (if at all). Day nurseries may be run by employers, private companies, voluntary organisations or the Local Authority and can take children from a few months to five years.

⁹⁷ The Approval scheme applies only to England. The scheme verifies that a potential child carer has a suitable qualification and a recent First Aid certificate and carries out an enhanced Criminal Records Bureau (CRB) check.

⁹⁸ Organisations that offered more than one type of support were asked about one at random so some organisations that offer childcare vouchers were not asked this question. Organisations could select more than one response so percentages may sum up to more than 100 per cent. 104 organisations could not answer this question.

Table 6.10 Childcare providers used by employees taking up direct provision⁹⁹

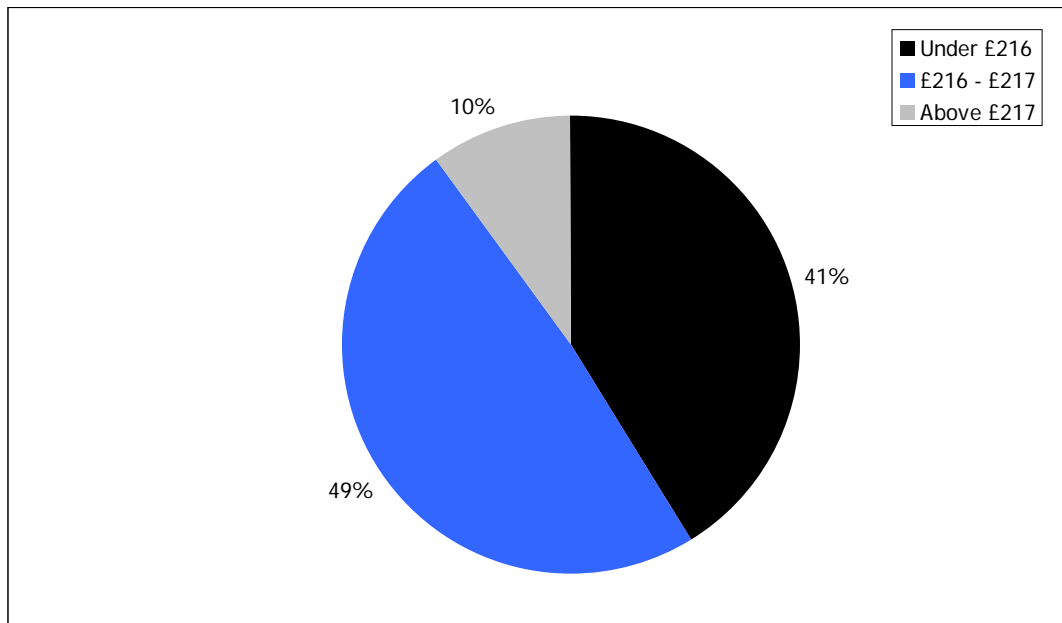
	Column per cent
	%
Day nursery	59
Play group or pre-school	22
Breakfast / after-school / holiday club	9
Nursery school or nursery class	1
Other	11
<i>Base: All survey organisations offering direct provision</i>	
<i>Weighted base</i>	7
<i>Unweighted base</i>	73

6.5 Value of childcare vouchers offered

This section looks at the average value of childcare vouchers that was taken up per employee in an organisation. As mentioned earlier the tax and National Insurance exemptions are capped so that prior to April 2006 (but after April 2005, when the new exemptions were introduced) only £50 per week (£216.67 per month) was eligible for the exemptions (this was increased to £55 per week from April 2006 which was during the very final stages of the survey fieldwork). Figure 6.3 shows the average value of childcare vouchers that was taken up per employee. In almost one half of organisations take up was on average the limit of the exemptions – between £216 and £217 per month¹⁰⁰. In only ten per cent of organisations was take up on average more than the exemptions (which organisations are free to do but any support over the limit would not have been eligible for the tax and National Insurance exemptions) and in 41 per cent of organisations take up was on average less than the limit of the exemptions.

⁹⁹ Organisations could select more than one response so percentages may sum up to more than 100 per cent.

¹⁰⁰ This was also the median value of voucher take up.

Figure 6.3 Average value of childcare vouchers employees receive per month¹⁰¹

Base: All survey organisations offering childcare vouchers (Weighted Base: 269 & Unweighted Base: 352)

¹⁰¹ Organisations that offered more than one type of support were asked about one at random so some organisations that offer childcare vouchers were not asked this question. 62 organisations could not answer this question.

7 ADHERENCE TO EXEMPTION RULES AND RUNNING COSTS

As noted in Chapter 4, many employers offered employer-supported childcare before the reforms to the exemptions in April 2005, and not all employers whose scheme did not comply with the new rules will have made the necessary changes following the reforms. In addition, schemes implemented since April 2005 may not have been set up in accordance with the rules. This chapter looks at the extent to which childcare support schemes qualified for the exemption rules. The implementation and running costs of childcare schemes are also covered, as well as employers' views of these costs.

7.1 Summary

- Almost all organisations said their childcare support schemes involved the HMRC exemptions in the case of childcare vouchers and direct payments, but only half of organisations (47 per cent) offering direct provision said their direct provision scheme involved exemptions.
- Of the organisations who said their scheme involved exemptions, virtually all offered the support to all employees, which is one of the exemption criteria.
- Awareness of the exemption rules in relation to the age of children and the registration requirements of childcare providers was patchy.
- Organisations offering a scheme which involved exemptions showed more confidence that they were meeting the exemption rules in the case of childcare vouchers than those offering direct provision: 72 per cent of those offering vouchers were very confident while only seven per cent of those offering direct provision were very confident.
- Most employers had found the process of setting up their childcare voucher scheme easy: 16 per cent very easy and 54 per cent fairly easy.
- The majority of organisations (79 per cent for childcare vouchers, and 88 per cent for direct provision) spent one day a month administering their scheme.
- The scheme was cost neutral for the majority of organisations offering employer-supported childcare, although 13 per cent of those offering childcare vouchers were making a profit from offering the scheme (in comparison to just one per cent in the case of direct provision).

7.2 Whether schemes qualify for the exemptions

Organisations were asked whether their childcare support schemes involved HMRC exemptions. Almost all did in the case of childcare vouchers and direct payments: 96 per cent of organisations which provided childcare vouchers said their scheme involved exemptions for all employees and all sites to which the scheme was offered, and 95 per cent in the case of direct payments. However, only half of organisations (47 per cent) in the case of direct provision had a scheme involving exemptions.

7.3 Whether adhere to exemption rules

As the support needed to be offered to all employees (at the sites where it was provided) in order to meet the exemption criteria, it is useful to check whether those who said their scheme involved exemptions were following this rule. High proportions in each case offered the scheme to all employees: 97 per cent of those offering vouchers, 98 per cent of those offering direct payments and 100 per cent¹⁰² of those offering direct provision. Of the organisations who thought they met the exemption rules, virtually all offered the support to all employees (childcare vouchers = 99.1 per cent, direct payments = [99.7 per cent]¹⁰³, and direct provision = 99.8 per cent).

Employer-supported childcare schemes can be provided for approved or registered childcare for children until the 1st September following the child's 15th birthday, or 16th birthday if the child has a disability. Organisations (including the minority who said their scheme did not involve exemptions) were asked what age children had to be, in order to be covered by the scheme, and explicit mention of the complete age requirement was made by few organisations (in the survey this was simplified to the child needing to be 15 or under, or 16 or under if the child is disabled) (Table 7.1).

In the case of childcare vouchers, only 14 per cent seemed to follow this rule¹⁰⁴, with the majority of organisations mentioning other age ranges, while a quarter of organisations (27 per cent) said there were no age restrictions. However, as Chapter 6 highlighted, most childcare was required for children aged under eight years. The low identification of the correct age requirement is hence likely to be based on low awareness of the exemption rules.

The same categories were used when organisations were asked about direct provision, but as this tends to consist of one type of childcare (a workplace nursery) the age group is bound to be determined by the type of childcare provided. Hence the majority of organisations had very specific age ranges (e.g. six months to five years old), which are listed under the 'Other' category in Table 7.1. Most of these fell within the under five age range.

Table 7.1 Children's age eligibility for childcare support

	Column per cent	
	Childcare Vouchers %	Direct Provision %
15 or under, 16 or under if disabled	14	+
15 or under (no mention of disability)	13	+
16 or under (no mention of disability)	20	1
17 or under (no mention of disability)	0	8
18 or under (no mention of disability)	3	0
Other age range	23	79
Any age i.e. no restrictions	27	12
<i>Base: All survey organisations offering support</i>		
<i>Weighted base</i>	7	7
<i>Unweighted base</i>	355	65

+<0.5 per cent

¹⁰² 99.7 per cent, to one decimal place.

¹⁰³ Percentage based on 44 organisations.

¹⁰⁴ When looking only at employers who said they met the exemption rules, the proportion who stated that the children covered by the scheme are 15 or under, or 16 or under if they are disabled, was very similar at 15 per cent.

In order to qualify for the exemptions, the childcare covered by the employer-supported childcare scheme needs to either be registered or approved if in England, or just registered in the case of the rest of the UK¹⁰⁵. Organisations were hence asked what registration requirements related to the childcare covered by their scheme.

Among those organisations offering childcare vouchers, 38 per cent gave the correct, complete registration requirements (in bold in Table 7.2: registered or approved in England, registered if in the rest of the UK), while a high proportion (54 per cent) of organisations mentioned registration only while approval also applied. These organisations were effectively still meeting the exemption rules, and relatively low awareness of the approval scheme is to be expected, as use of the approval scheme by childcare providers is still relatively low¹⁰⁶.

Of those offering direct provision, 48 per cent stated the complete registration requirements (whether in England or not – the difference in comparison to childcare vouchers is not statistically significant), and a third (36 per cent) of organisations only mentioned registration while approval also applied.

Overall 29 per cent of employers offering employer-supported childcare in England had heard of the approval scheme, which is a higher proportion than the 18 per cent of ‘non-provider’ employers, reported in Chapter 5.

Table 7.2 Registration requirements of schemes

	Column per cent	
	Childcare Vouchers %	Direct Provision %
(England) Registered or approved	32	47
(Outside England) Registered	7	1
(England) Registered (but not approved / approval not mentioned)	54	36
(England) Approved (but not registered / registration not mentioned)	1	+
Other requirements	4	16
Any type, i.e. no requirements	3	+
<i>Base: All survey organisations offering support</i>		
<i>Weighted base</i>	9	5
<i>Unweighted base</i>	375	62

+<0.5 per cent

¹⁰⁵ The approval scheme is a voluntary scheme that applies only to England, for approving childcare providers who are not required to register with OFSTED, such as nannies and au pairs. The scheme verifies that a potential child carer has a suitable qualification and a recent First Aid certificate and carries out an enhanced Criminal Records Bureau (CRB) check.

¹⁰⁶ Bryson et al. (2006)

7.4 Confidence that they follow the rules

Employers who said their scheme was covered by the exemption rules were asked how confident they felt that their scheme followed the rules. Those offering childcare vouchers showed more confidence than those offering direct provision (Table 7.3): 72 per cent of those offering childcare vouchers were very confident, and 28 per cent fairly confident, while only seven per cent of those offering direct provision were very confident, and 82 per cent fairly confident. As will be seen later in this chapter, most employers with childcare vouchers used an external voucher provider to administer their scheme, which may involve dealing with most eligibility issues, which might partly explain their higher confidence in the scheme following the rules.

Table 7.3 Confidence in scheme following exemption rules

	Column per cent	
	Childcare Vouchers %	Direct Provision %
Very confident	72	7
Fairly confident	28	82
Not very confident	+	+
Not at all confident	0	11
<i>Base: All survey organisations whose schemes meet rules</i>		
<i>Weighted base</i>	12	7
<i>Unweighted base</i>	416	63

+<0.5 per cent

7.5 Awareness of salary sacrifice

As reported in Chapter 3, employer-supported childcare offered via salary sacrifice (or flexible benefit packages) was more common than support offered in addition to salary. As salary sacrifice and flexible benefit packages lead to a reduction in salary, this has an impact on statutory benefits that are earnings related.

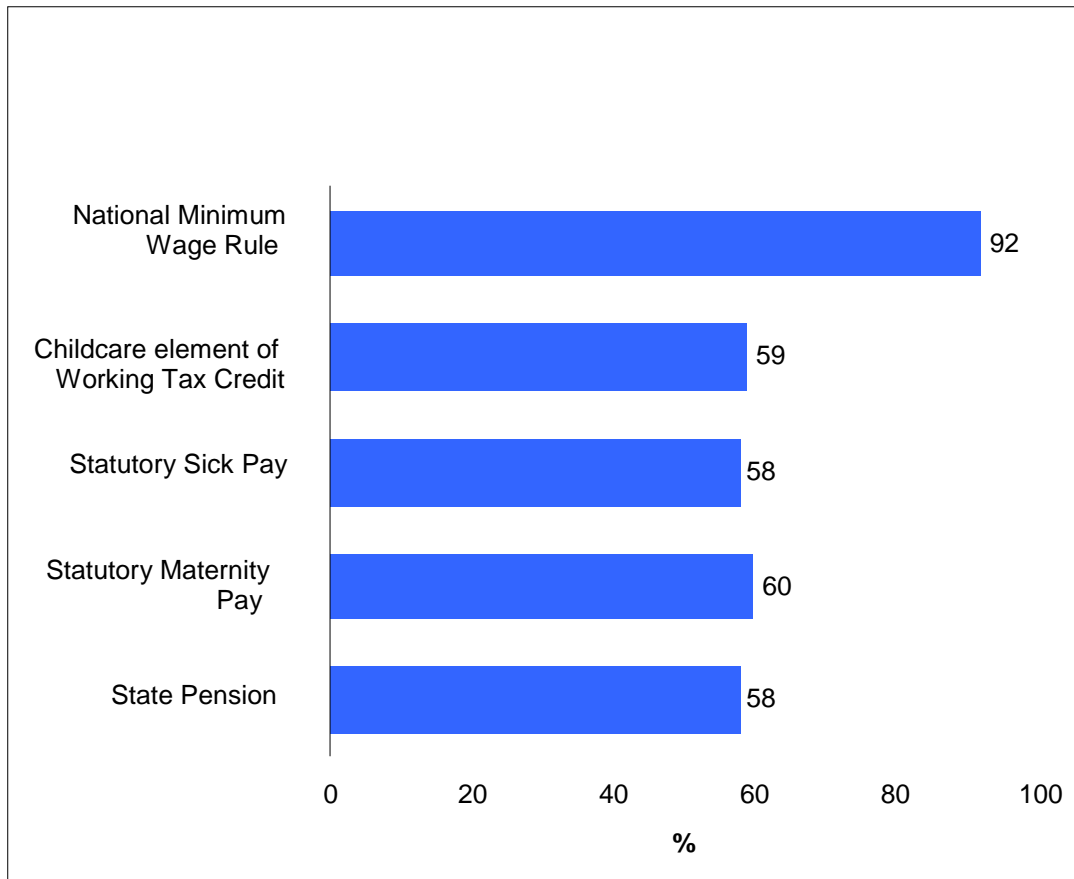
Employers were asked if they were aware of the following impacts of salary sacrifice and flexible benefit schemes (if they were offering one):

- Schemes must not bring an employee's hourly wage below the National Minimum Wage;
- Schemes can affect employees' entitlement to the childcare element of the Working Tax Credit;
- Schemes can affect Statutory Sick Pay;
- Schemes can affect Statutory Maternity Pay;
- Schemes can affect the State Pension.

Only half (51 per cent) of employers were aware of all these aspects of the impact of salary sacrifice and flexible benefit schemes.

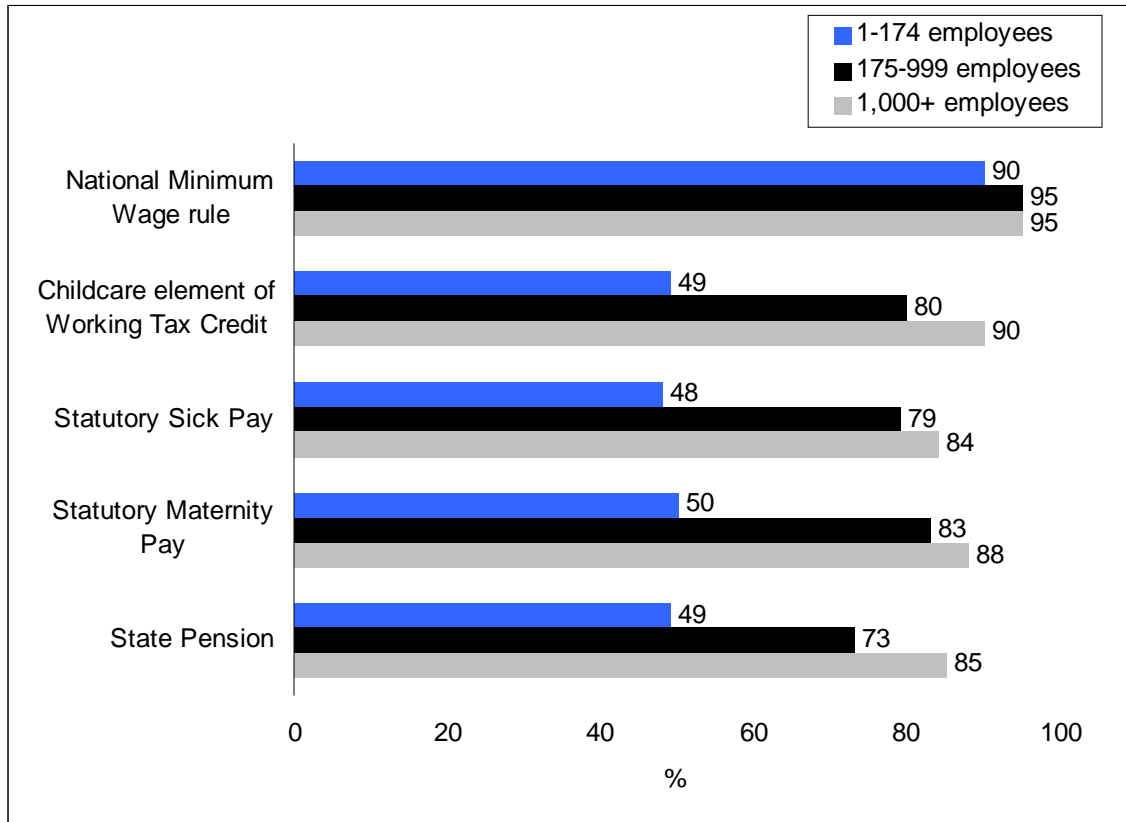
Awareness varied for each aspect (Figure 7.1). A high proportion of employers, 92 per cent, were aware of the need to keep the salary above the National Minimum Wage, while around 58 - 60 per cent were aware of each other aspect. In each case, larger employees tended to show higher awareness (except for the rule relating to the National Minimum Wage, where awareness was very similar across different organisation sizes – Figure 7.2).

Figure 7.1 Awareness of the impact of salary sacrifice and flexible benefit schemes



Base: All survey organisations offering childcare support through salary sacrifice or flexible benefit (Weighted Base: 17 & Unweighted Base: 475)

Figure 7.2 Awareness of the impact of salary sacrifice and flexible benefit schemes by organisation size



Base: All survey organisations offering childcare support through salary sacrifice or flexible benefit (See Appendix F for the bases¹⁰⁷)

7.6 Implementation costs and running costs

7.6.1 Whether provision is offered at all sites

The number of sites that schemes are offered at may affect running costs. Childcare vouchers were the most likely form of support to be offered at all sites of an organisation, with 91 per cent of providers saying that they offered this support at all sites. Almost three-quarters (73 per cent) of organisations offering direct provision of childcare services said they offered this at all sites of their organisation, and in only [45 per cent]¹⁰⁸ of cases were direct payments available at all sites of an organisation.

7.6.2 Implementation costs of childcare voucher scheme

Organisations who had set up their childcare voucher scheme relatively recently (in 2003 or later) were asked about their costs for the set up of the scheme, in terms of staff time¹⁰⁹.

¹⁰⁷ As the base description is very long, base details have been provided in Appendix F rather than here.

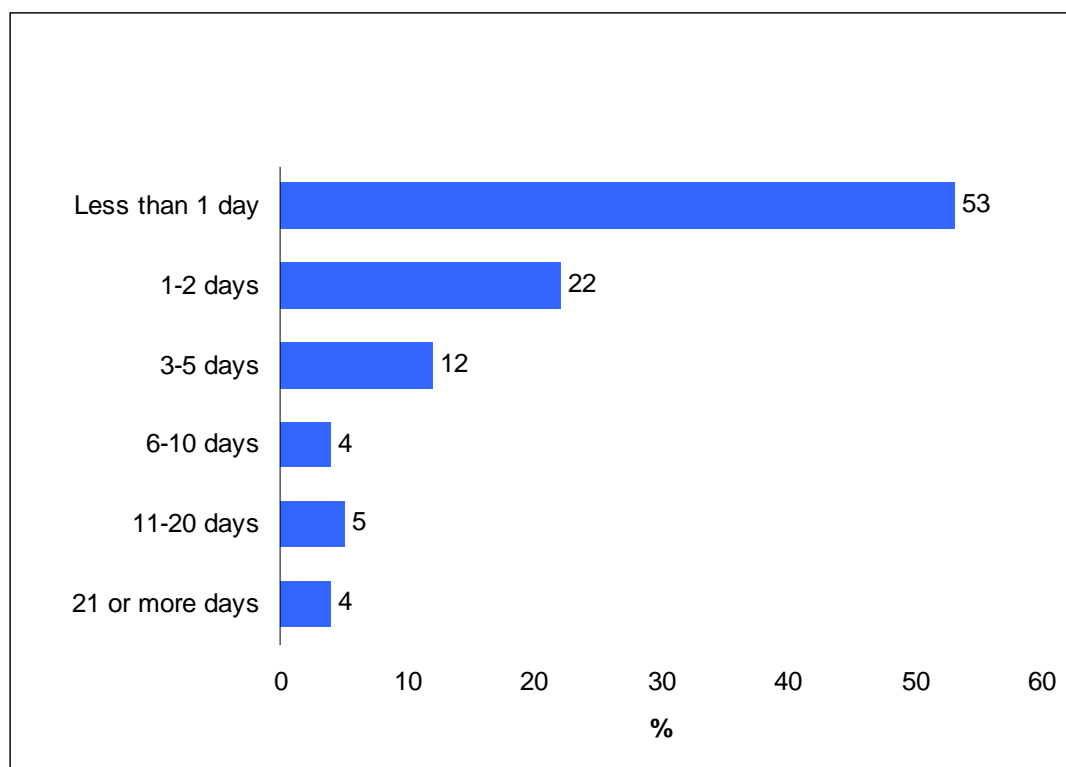
¹⁰⁸ Percentage based on 47 organisations.

¹⁰⁹ Bases are too low to report on direct payments and direct provision.

As shown in Figure 7.3, the childcare vouchers scheme had taken less than a day of staff time to set up for just over half of organisations (53 per cent). Only a quarter had taken more than two days (25 per cent).

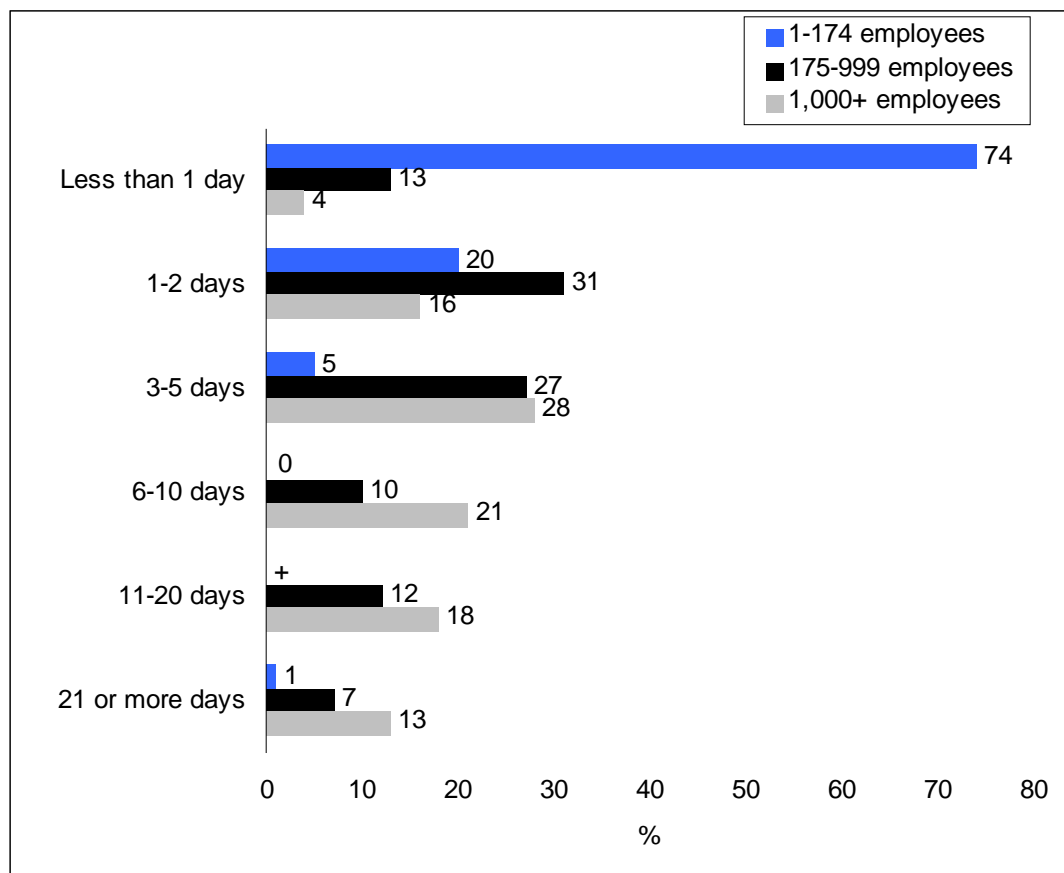
The time taken to set up a scheme was generally related to the number of employees in the organisation (Figure 7.4). For example, 13 per cent of organisations with 1,000 or more employees had taken 21 or more days of staff time to set up the scheme, compared to one per cent of organisations with less than 175 employees. The mean number of days was 12 days for organisations with 1,000 or more employees, compared to seven days for medium-sized organisations, and one day for organisations with less than 175 employees¹¹⁰.

Figure 7.3 Time taken to set up childcare vouchers scheme



Base: All survey organisations offering childcare vouchers (Weighted Base: 11 & Unweighted Base: 314)

¹¹⁰ The medians, respectively, were 7 days, 3 days, and 1/2 day (0.4).

Figure 7.4 Time taken to set up childcare vouchers scheme by organisation size

Base: All survey organisations offering childcare vouchers (See Appendix F for the bases¹¹¹)

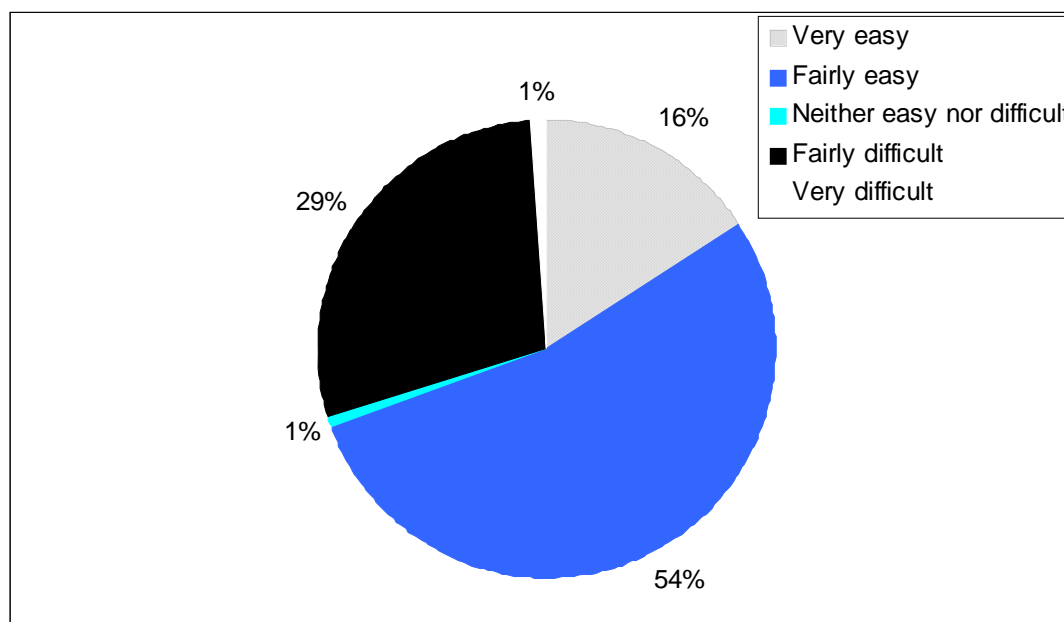
The majority of organisations (60 per cent) saw these set up costs in terms of staff time as minimal, while 37 per cent saw them as moderate, and three per cent saw them as substantial. These views of course varied by the time staff had spent setting up the scheme (Table 7.4). Hence almost two-thirds of employers (64 per cent) where less than three days' staff time had been spent on setting up their voucher scheme thought these costs minimal, compared to only a quarter (24 per cent) where 11 or more days' staff time had been spent. Conversely, no employers thought less than three days' time was a substantial cost, while in organisations where 11 or more days' staff time had been spent, one-fifth (22 per cent) thought this was a substantial cost.

¹¹¹ As the base description is very long, base details have been provided in Appendix F rather than here.

Table 7.4 View of costs of set up of childcare voucher scheme, by staff time spent

	Column per cent		
	Less than 3 days %	3-10 days %	11 or more days %
Minimal costs	64	56	24
Moderate costs	36	36	54
Substantial costs	0	8	22
<i>Base: All survey organisations offering support</i>			
<i>Weighted base</i>	8	2	1
<i>Unweighted base</i>	129	118	68

Most employers had found the process of setting up the scheme easy (Figure 7.5): 16 per cent very easy, and 54 per cent fairly easy (there were no statistically significant differences by organisation size).

Figure 7.5 Ease of setting up the childcare voucher scheme

Base: All survey organisations offering childcare vouchers (Weighted Base: 11 & Unweighted Base: 325)

7.6.3 Running costs of childcare vouchers and direct provision schemes

Organisations were also asked how much time in a month staff spent on administering their childcare support scheme. The majority of organisations (79 per cent for childcare vouchers, and 88 per cent for direct provision¹¹²) spent one day a month administering their scheme (Table 7.5). There were no statistically significant differences by how many employees were taking up the childcare scheme.

¹¹² Bases are too low to report on direct payments.

Table 7.5 Time spent a month on administering the scheme, by type of provision¹¹³

	Column per cent	
	Childcare Vouchers %	Direct Provision %
No time	17	2
1 day	79	88
2 days	2	1
3 days	1	9
4 days or more	1	+
<i>Base: All survey organisations offering support</i>		
<i>Weighted base</i>	12	7
<i>Unweighted base</i>	424	51

+<0.5 per cent

The majority of employers saw these running costs as minimal: 95 per cent in the case of childcare vouchers (with five per cent seeing them as moderate, and one per cent as substantial), and 97 per cent in the case of direct provision (with two per cent seeing them as moderate, and one per cent as substantial).

7.6.4 Childcare voucher provider costs

The majority of organisations providing childcare vouchers (87 per cent) used an external childcare voucher provider to manage their scheme¹¹⁴. Of the organisations using an external voucher provider, 70 per cent were charged a proportion of the value of the vouchers for the administration of the scheme, while 30 per cent were charged a fixed cost.

The mean proportion of the value of the vouchers charged by voucher providers was six per cent (per month)¹¹⁵. The majority of organisations were paying between three per cent and eight per cent (Table 7.6): a quarter (25 per cent) were paying three to four per cent, a little over a third (38 per cent) were paying five to six per cent and a little under a third (32 per cent) were paying seven to eight per cent.

Table 7.6 Childcare voucher scheme charge - proportion

	Column per cent %
1 - 2%	2
3 - 4%	25
5 - 6%	38
7 - 8%	32
9 - 10%	2
More than 10%	1
<i>Base: All survey organisations providing childcare vouchers and paying proportion</i>	
<i>Weighted base</i>	4
<i>Unweighted base</i>	217

¹¹³ Most of the organisations spending 'no time' on the administration of their childcare voucher scheme were using an external voucher provider. Due to rounding, not all of the percentages equal 100 per cent.

¹¹⁴ There were no statistically significant differences by organisation size.

¹¹⁵ The median proportion was also six per cent.

The median fixed cost for those paying it was £20 per month¹¹⁶. The majority of organisations were however paying £50 or less (70 per cent), while a fifth were paying over £100 (18 per cent paying £101 - 500, and two per cent were paying over £500) (Table 7.7).

Table 7.7 Childcare voucher scheme charge – fixed cost¹¹⁷

	Column per cent
	%
£50 or less	70
£51 - £100	9
£101 - £500	18
£501 or more	2
<i>Base: All survey organisations providing childcare vouchers and paying fixed cost</i>	
<i>Weighted base</i>	2
<i>Unweighted base</i>	52

7.6.5 Whether schemes are cost neutral

The exemption rules include National Insurance exemptions for employers, as well as tax and National Insurance exemptions for employees. As shown in Table 7.8, the schemes were reported to be cost neutral by the majority of organisations offering childcare vouchers (81 per cent), reflecting the fact that, as reported in Chapter 4, most organisations offer childcare vouchers via salary sacrifice or a flexible benefits package. Some organisations even reported making a profit from offering a childcare voucher scheme: 13 per cent mentioned this. Direct provision, as it was mainly offered in addition to salary (as reported in Chapter 3), was much less likely to be associated with profit than childcare vouchers, with just one per cent of organisations making a profit when offering direct provision, and 14 per cent making a loss¹¹⁸ (although both types of schemes were equally likely to be cost neutral)¹¹⁹.

Table 7.8 Profitability of childcare support schemes

	Column per cent	
	Childcare Vouchers	Direct Provision
	%	%
Profit	13	1
Loss	7	14
Cost neutral	81	85
<i>Base: All survey organisations offering support</i>		
<i>Weighted base</i>	12	7
<i>Unweighted base</i>	411	66

¹¹⁶ The mean fixed cost was £89. The mean fixed cost is much higher than the median because of the high charges paid by a small number of organisations.

¹¹⁷ Due to rounding, the percentages do not equal 100 per cent.

¹¹⁸ Whether schemes fall under the exemption rules could be expected to affect whether they make a profit or a loss, but when analysis is restricted to schemes which employers state meet the rules, the findings are very similar.

¹¹⁹ Bases are too small for analysis of profitability by method of provision, but the schemes described as cost neutral do include some schemes provided in addition to salary, which is surprising, as the savings from the exemptions are unlikely to balance out the high costs associated with offering direct provision in addition to salary. Employers were asked to take into account only the time spent on administration, any other costs, and the savings from the exemptions, but it is possible that they also had in mind possible savings from the wider benefits of offering support, like positive effects on productivity and retention.

8 REASONS AND BENEFITS

This chapter explores the reasons why organisations decided to offer employer-supported childcare (the reasons for offering a particular type of support rather than another are reported in Chapter 3). As noted in Chapter 4, the changes to the exemption rules influenced many employers to start offering employer-supported childcare, particularly childcare vouchers, but this chapter looks at what most motivated them: the savings for their employees, the savings for employers, or more general aims such as the wish to improve working conditions in their organisation. This chapter addresses these issues, and also examines employers' views on the extent to which their organisation or their employees have benefited from the introduction of support.

8.1 Summary

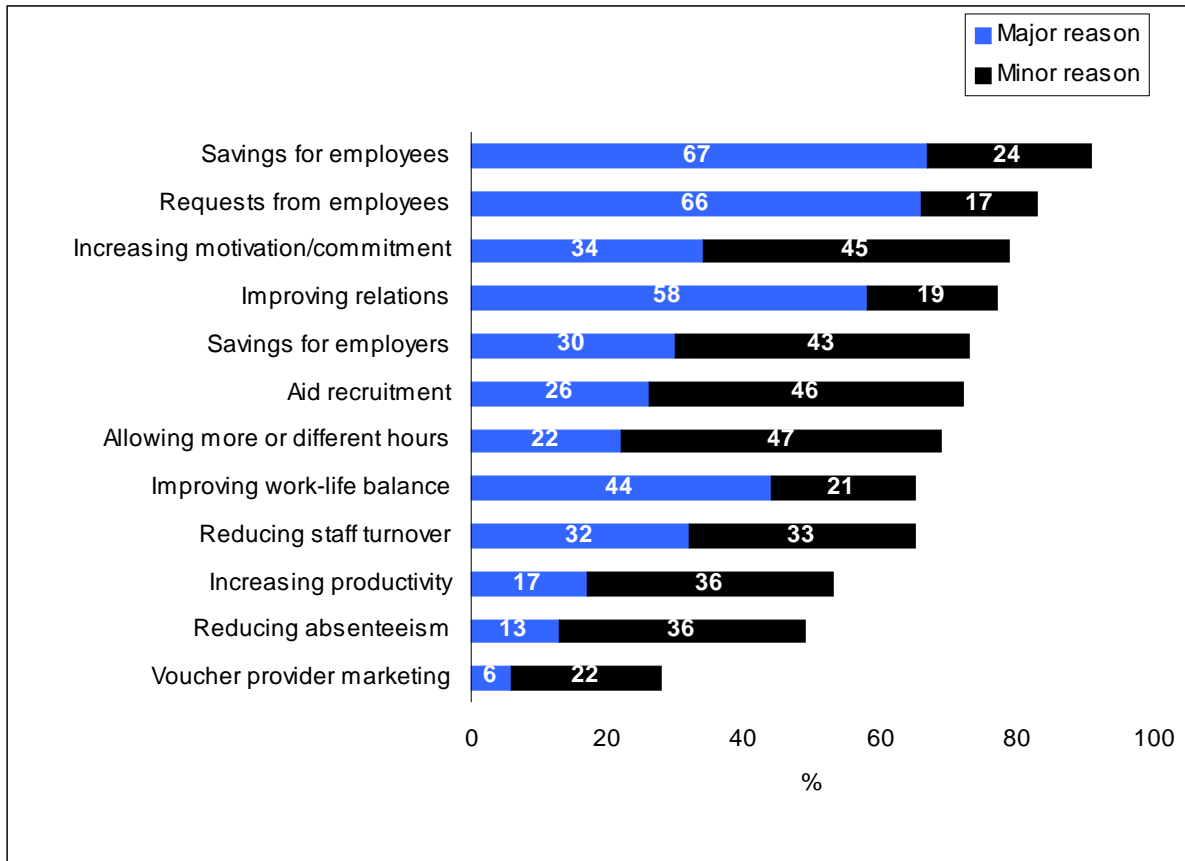
- The most common reasons for offering employer-supported childcare included the tax and National Insurance savings for employees, requests from employees and the employer's wish to improve relations with their employees.
- There were clear differences in organisations' reasons for providing support by organisation size: requests from employees were more likely to be mentioned by smaller organisations, while the following factors were more likely to be mentioned by the larger organisations (with 175 or more employees): the wish to increase employees' motivation or commitment, improving their work-life balance, reducing staff turnover, increasing productivity and voucher provider marketing.
- The majority of employers thought that offering support had had a positive effect on relations with employees (60 per cent) or on employees' work-life balance (57 per cent).
- Employers who had started offering schemes before April 2005 were clearly more likely to identify positive effects of offering support: 66 per cent identified a positive effect on staff turnover, compared to 16 per cent of recent providers; 47 per cent of those with older schemes identified a positive effect on productivity (compared to 16 per cent); and 30 per cent of those with older schemes identified a positive effect on absenteeism (compared to ten per cent).

8.2 Reasons for offering support

As shown in Figure 8.1, the most common reasons for offering employer-supported childcare included the tax and National Insurance savings for employees (two-thirds - 67 per cent - of organisations gave this as a major reason). Requests from employees (or trade unions or staff associations) and the wish to improve relations with employees were also common factors in the decision (these were cited as major reasons by 66 per cent and 58 per cent respectively). The National Insurance savings for *employers*, as well as more general aims to increase employee motivation or commitment, aid recruitment, and enable employees to work more or different hours, all featured as important factors once both major and minor reasons are taken into account, but were much less likely to be given as major reasons (30 per cent, 34 per cent and 26 per cent of organisations respectively gave these factors as major reasons).

Almost all the reasons listed were selected as major or minor reasons for offering support by at least half of organisations, reflecting the numerous influences on employers' decisions over which benefits to offer their employees. Marketing by voucher provider organisations, on the other hand, had less influence on employers, with just six per cent of organisations identifying this factor as a major reason, and one-fifth (22 per cent) as a minor reason. This should however be interpreted as an influence rather than an actual reason to start offering support.

Figure 8.1 Reasons for offering support¹²⁰



Base: All survey organisations offering childcare support (See Appendix F for the bases¹²¹)

There were clear differences in organisations' reasons for providing support when examined by organisation size, particularly among organisations with less than 175 employees versus larger organisations (Table 8.1).

Requests from employees was the only factor more likely to be mentioned by smaller organisations than larger organisations: 89 per cent of organisations with less than 175 employees gave this as a reason compared to around 70 per cent of larger organisations. Many of the other factors were more likely to be mentioned by the larger organisations (with 175 or more employees): the wish to increase employees' motivation or commitment, improving their work-life balance, reducing staff turnover, and voucher provider marketing (the other differences were not statistically significant). For example, around nine in ten organisations (93 per cent) with 1,000 or more employees had introduced support to improve their employees' work-life balance, compared to just over half (53 per cent) of the smaller organisations (with

¹²⁰ Organisations could select more than one reason so percentages sum up to more than 100 per cent.

¹²¹ As the base description is very long, base details have been provided in Appendix F rather than here.

less than 175 employees). In the case of voucher provider marketing, around half (47 - 48 per cent) of organisations with 175 or more employees mentioned this as an influence, while only one-fifth (18 per cent) of smaller organisations did so.

Table 8.1 Reasons for offering childcare support, by organisation size¹²²

	Column per cent		
	1 - 174 employees %	175 - 999 employees %	1,000+ employees %
Savings for employees	89	96	89
Requests from employees	89	70	71
Increasing motivation / commitment	72	92	92
Improving relations	68	95	95
Savings for employers	66	85	85
Aid recruitment	66	81	86
Allowing more or different hours	68	72	70
Improving work-life balance	53	87	93
Reducing staff turnover	54	85	84
Increasing productivity	45	66	74
Reducing absenteeism	42	58	64
Voucher provider marketing	18	47	48

Base: All survey organisations offering support (See Appendix F for the bases¹²³)

Organisations' motivation for offering support could be expected to vary according to their employee profile. Table 8.2 and Table 8.3 present reasons for offering employer-supported childcare by the proportion of female employees and the predicted proportion of employees with children respectively¹²⁴.

Organisations with a quarter or more of its workforce being female were indeed more likely to mention savings for employees (Table 8.2). Almost all (99 per cent) of those organisations where between 25 - 49 per cent of its workforce were female, and 96 per cent of those with half or more employees being female, did so, compared to 68 per cent of those with a smaller proportion of female employees.

¹²² Major and minor reasons are shown as a combined figure in this table. Organisations could select more than one reason so percentages sum up to more than 100 per cent.

¹²³ As the base description is very long, base details have been provided in Appendix F rather than here.

¹²⁴ The proportion of employees with children within each organisation was estimated through using 1) survey data on the number of employees in four age categories and 2) the proportion of employees in each age category that have children (as measured by the British Social Attitudes Survey 2006). These were multiplied and summed to estimate the number of employees with children in each organisation and then divided by the number of employees in the organisation to calculate the proportion.

Table 8.2 Reasons for offering childcare support, by proportion of female employees¹²⁵

	Column per cent		
	0 - 24% %	25 - 49% %	50+% %
Savings for employees	68	99	96
Requests from employees	86	80	84
Increasing motivation / commitment	90	89	69
Improving relations	66	96	71
Savings for employers	62	93	66
Aid recruitment	48	79	80
Allowing more or different hours	77	68	66
Improving work-life balance	56	88	57
Reducing staff turnover	50	85	59
Increasing productivity	52	71	45
Reducing absenteeism	43	68	40
Voucher provider marketing	18	31	28

Base: All survey organisations offering support (See Appendix F for the bases¹²⁶)

The aim of increasing motivation or commitment was more of an influence for organisations with more employees with children (Table 8.3). Organisations with more than a quarter of employees with children were twice as likely to give increasing motivation as a reason (89 per cent of organisations where 26 - 30 per cent of employees had children, and 95 per cent where 31 per cent or more of employees had children, compared to 39 per cent where there were less employees with children).

Table 8.3 Reasons for offering childcare support, by predicted proportion of employees with children¹²⁷

	Column per cent		
	0 - 25% %	26 - 30% %	31+% %
Savings for employees	96	83	98
Requests from employees	81	84	87
Increasing motivation / commitment	39	89	95
Improving relations	50	93	63
Savings for employers	45	75	90
Aid recruitment	88	61	76
Allowing more or different hours	81	63	77
Improving work-life balance	39	77	54
Reducing staff turnover	41	78	51
Increasing productivity	38	62	52
Reducing absenteeism	29	59	40
Voucher provider marketing	24	24	[29]

¹²⁵ Major and minor reasons are shown as a combined figure in this table. Organisations could select more than one reason so percentages sum up to more than 100 per cent.

¹²⁶ As the base description is very long, base details have been provided in Appendix F rather than here.

¹²⁷ For 273 cases the data was insufficient to estimate the proportion of employees in the organisation. Major and minor reasons are shown as a combined figure in this table. Organisations could select more than one reason so percentages sum up to more than 100 per cent.

Base: All survey organisations offering support (See Appendix F for the bases¹²⁸)

¹²⁸ As the base description is very long, base details have been provided in Appendix F rather than here.

As found in Chapter 3, the relationship with these aspects of employee profile is not straightforward. In both cases, the middle group (25 - 49 per cent female employees, 26 - 30 per cent employees with children), rather than simply the higher proportion of employees in that category, is associated with higher mention of most of the reasons why an organisation might provide support (although most of these differences are statistically significant). These tend to coincide with the main reasons selected by the larger organisations, as they are more likely to have an employee profile which falls into each middle group (as already discussed in Chapter 3).

Organisations' reasons for offering support did not vary a great deal by industrial sector – the main difference worth noting was in relation to voucher provider marketing. The public administration, education and health sector was much more likely to mention this as a factor in their decision on offering support than other sectors: 64 per cent of organisations in this sector did so, compared to only 13 per cent of organisations in the banking, finance and business services sector. Again, this is likely to reflect voucher provider marketing strategies.

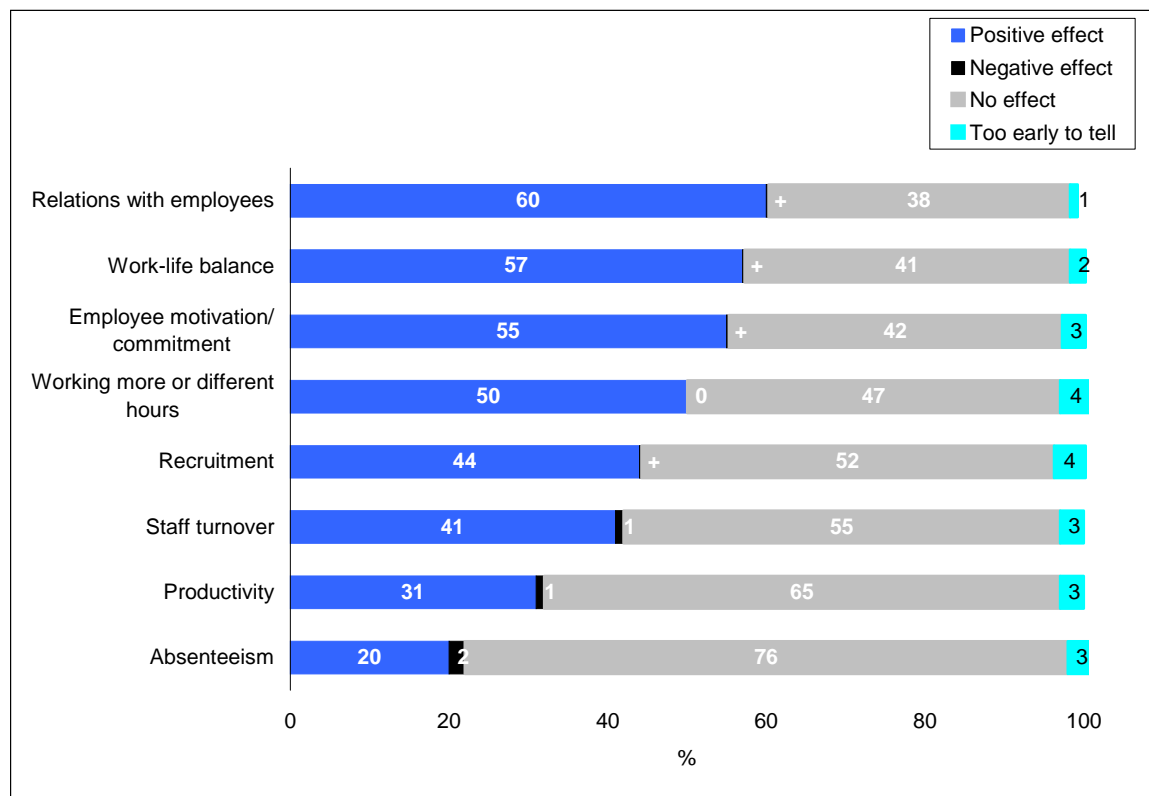
Whether reasons for offering support vary by the proportion of professional workers taking up the support was also examined. Organisations with less than 70 per cent of their employees working within professional occupations and receiving support, were likely to feel that increasing the motivation or commitment of their workforce was a reason for offering this support (93 per cent felt this). This was less likely to be identified as a reason by organisations with 70 per cent or more of their employees within professional occupations receiving support (64 per cent).

8.3 Benefits to the organisation

Employers were asked about the perceived impact of offering employer-supported childcare on their organisation¹²⁹. They were not expected to have been able to carefully monitor the impact of offering support, but their views on the positive, negative, or lack of effects on various aspects of their organisation were sought, and are presented in Figure 8.2.

Relations between the organisation and its employees and the work-life balance of employees were among the aspects most likely to be associated with a positive effect. Three times as many employers thought that offering support had had a positive effect on relations with employees or on employees' work-life balance (60 per cent and 57 per cent respectively), in comparison to absenteeism (20 per cent), one of the least likely aspects to be associated with a positive effect. Hence to some extent, the perceived benefits reflect employers' main reasons for offering support, i.e. their original aims for the organisation.

¹²⁹ The findings relate to a range of possible viewpoints, as in some organisations (particularly small ones) the respondent giving their views was the owner or a general manager, while in others (the majority) the respondent was in the HR department.

Figure 8.2 Benefits to the organisation

Base: All survey organisations offering childcare support (See Appendix F for the bases¹³⁰)
+<0.5 per cent

The positive effect on relations between the organisation and its employees, identified above, was primarily mentioned by large employers (Table 8.4). The majority of large and medium-sized employers (79 per cent and 78 per cent respectively) felt that employer-supported childcare had had a positive effect on relations with employees, compared to half (53 per cent) of the smaller employers (less than 175 employees). The likelihood of identifying a positive effect on absenteeism (i.e. a reduction in levels of absenteeism) also increased with organisation size (although only when comparing the two extreme size bands), with twice as many of the largest employers (32 per cent) finding there had been a positive effect as the smaller employers (17 per cent) (the other differences seen below are not statistically significant).

¹³⁰ As the base description is very long, base details have been provided in Appendix F rather than here.

Table 8.4 Positive effects of childcare support by organisation size

	Column per cent		
	1 - 174 employees %	175 - 999 employees %	1,000+ employees %
Relations with employees	53	78	79
Work-life balance	56	54	70
Motivation / commitment	54	57	65
Working more / different hours	53	38	48
Recruitment	46	38	45
Staff turnover	41	40	44
Productivity	29	34	45
Absenteeism	17	24	32

Base: All survey organisations offering support (See Appendix F for the bases¹³¹)

As the full effects of childcare support schemes are more likely to be picked up after a scheme has been in place for some time, it is important to take into account when organisations had started to offer their childcare support schemes in relation to their views on perceived effects on the organisation. Table 8.5 provides the proportions of employers perceiving positive effects on their organisation by when they had started to offer some form of employer-supported childcare.

Encouragingly, those who had started offering support before April 2005 were clearly more likely to identify positive effects. For most of the aspects listed, those with older schemes were at least twice as likely to identify a positive effect than those with more recently established schemes. In the case of staff turnover, productivity, and absenteeism, the relationship with the length of time support had been provided was particularly strong, reflecting perhaps that these aspects of change are easier to judge with time. Of those with support existing before April 2005, 66 per cent identified a positive effect on staff turnover, compared to 16 per cent of recent support providers; 47 per cent of those with older schemes identified a positive effect on productivity (compared to 16 per cent); and 30 per cent of those with older schemes identified a positive effect on absenteeism (compared to ten per cent).

¹³¹ As the base description is very long, base details have been provided in Appendix F rather than here.

Table 8.5 Positive effects of childcare support by when started offering some support

	Column per cent	
	Any support ¹³² pre-April 2005 %	All support post-April 2005 %
Relations with employees	66	54
Work-life balance	76	38
Motivation / commitment	79	31
Working more / different hours	66	34
Recruitment	52	36
Staff turnover	66	16
Productivity	47	16
Absenteeism	30	10
<i>Base: All survey organisations offering support</i>		
<i>Weighted base</i>	66-72	241-247
<i>Unweighted base</i>	166-178	262-280 ¹³³

¹³² 'Any support pre-April 2005' means that if the organisation offered only one type of support, this support started before April 2005, and if the organisation offered more than one type of support, at least one of these started before April 2005.

¹³³ See Section 1.4.2 for an explanation for the wide base ranges.

9 SUMMING UP

This report has explored the impact of the reforms to the Income Tax and National Insurance exemptions associated with offering some form of employer supported childcare scheme, as well as the nature of the schemes which have been implemented, and employers' motivation behind their decision on whether or not to offer employer-supported childcare. This section draws together the main research findings.

9.1 The provision of employer-supported childcare

Current provision

The research has found that around 2.5 per cent of organisations were offering an employer supported childcare scheme to their employees in late 2005. However, these employers were predominantly large organisations and it is therefore estimated that around a third of all employees (including those without children aged under 16 years) in the UK had access to a childcare scheme (consisting mainly of childcare vouchers).

Future provision

There are indications that the provision of childcare schemes will increase with time and many large employers stated they had future plans to introduce a scheme. In terms of the type of support offered, childcare vouchers was the most commonly offered scheme and this was raised as the most likely option to be offered in the future.

This positive outlook however is associated with some caveats. Firstly, very few small to medium-sized organisations were providing any form of employer-supported childcare scheme. Secondly, in organisations where employer supported childcare was offered it was estimated that on average only around a third of employees with children (aged 16 or under) were participating in that scheme.

9.2 The impact of the exemptions in increasing the provision of employer-supported childcare

The findings indicate that the exemption rules have had a positive impact on organisations' provision of employer-supported childcare. The majority of organisations providing childcare vouchers started their schemes after the exemptions changed in April 2005, and of these, two-thirds of organisations would not have started a childcare vouchers scheme if the rules had not changed.

There are high levels of awareness of the new exemption rules among large employers, but only around half of medium-sized employers and a minority of smaller employers said they knew about them. However, the research captured these views less than a year after the reforms were introduced and therefore it is possible that the level of awareness of the exemptions will increase with time.

9.3 Benefits of employer-supported childcare to employers and employees

The research has not explored the views of employees in terms of their experience of participating in a scheme, and, therefore, it can only indicate what the employers perceived to be the benefits to their employees of participation in the scheme. Nevertheless, there is evidence of clear benefits of employer-supported childcare to employers and their employees. The majority of employers, particularly in large organisations, thought that offering a childcare scheme had had a positive effect on their relationships with their employees, as well as the employees' work-life balance. If only organisations with well established schemes are considered, then almost two-thirds identified a positive effect on employee motivation and commitment.

In terms of administering the schemes, the majority of employers perceived them to be cost neutral, with low administration costs, and the majority of employers found setting up voucher schemes easy. The savings for employers provided by a scheme acted as a motivation to offer support for childcare for three-quarters of organisations, so the possibility of schemes being cost neutral is attractive to employers.

9.4 Barriers to the take up of employer-supported childcare

Many employers were aware of the exemptions and were not offering support. The main barriers, identified by employers, were having too few employees wanting support or, in the case of small to medium-sized workforces, having too few employees in the organisation in general.

Smaller employers, in particular, did not see providing help with childcare as their responsibility. This may change as employers become more aware of the benefits to both employers and employees of offering support (such as improving relations with employees, and increasing employee motivation and commitment).

Some employers felt that providing direct payments required more administration than the other types of childcare schemes. However direct payment schemes can be very straightforward if few employees want to use childcare. The direct provision of childcare (workplace nurseries) was seen as requiring the employer to take responsibility for a childcare provider and had a perceived high cost associated with it.

As for take-up by employees, the research did not explore why some employees have chosen not to participate in a scheme offered by their employer, and therefore employer awareness may only be one element to improving take-up.

9.5 Points for Consideration

Overall, the evidence indicates that employer-supported childcare schemes are being successfully implemented by larger organisations. The research has highlighted that the level of awareness of employers could be raised, particularly among small organisations. The evidence on perceived benefits of offering a scheme may help increase the provision of support by smaller organisations as well as larger employers who currently don't offer a scheme to their employees. However, the findings suggest that the provision of employer supported childcare is an area of potential growth in the future, and that the changes to the exemption rules have made a positive difference to employers' decisions to offer an employer-supported childcare scheme in a relatively short space of time.

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