



2021-0040678WQPO

Will Quince MP

Parliamentary Under-Secretary of State for Children and Families

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Cheryl Hadland
Managing Director, Tops Day Nurseries
By email: charli.henley-carter@topsdaynurseries.co.uk

8 December 2021

Dear Cheryl,

Thank you for your email of 9 September, addressed to the former Parliamentary Under-Secretary of State for Children and Families, about the sustainability of the early years sector. I am replying as the current Parliamentary Under-Secretary of State for Children and Families. I apologise for the delay in responding.

I will first address your queries regarding VAT charges for the sector. The government provides a VAT exemption on education and several other exceptions. Further information on VAT rates on different goods and services is available at: tinyurl.com/396ks4rs. Where education is provided for no charge it is outside the scope of VAT. Where an eligible body such as a university or a further education college charges for supplies of school, higher, or further education, or vocational training, that supply will be exempt from VAT. In these cases, no VAT will be charged, and the provider will not be able to recover any VAT they incur on their related inputs.

Furthermore, education provided by certain bodies are exempt from VAT, provided they are not run for profit. The services of profit-making bodies are subject to the standard rate of VAT, in line with the rules for normal businesses activity.

The government currently maintains a zero rate of VAT to a residential or charitable property that is either newly constructed, converted from commercial to residential use or renovated after a prolonged period without use. A reduced rate of VAT at five per cent is also maintained, subject to certain conditions, for residential renovations, such as building services and materials. This includes conversions of buildings from one residential use to another, and the renovation of properties that have been empty for two years or more prior to the renovation work.

Going further than this would impose significant additional pressure on the public finances, to which VAT makes a significant contribution. For example, introducing a reduced rate of VAT on all property renovation, repairs and improvements would cost the Exchequer approximately £3.75 billion per year. VAT raised around £130 billion in 2019 to 2020 and helps to fund key spending priorities, including on health, schools, and defence. Any loss in tax revenue would have to be balanced by a reduction in public spending, increased borrowing, or increased taxation elsewhere.

Although the government keeps all taxes under review, there are no plans to change the VAT treatment of repairs and renovations of buildings at present.

With regard to the plastic tax, the government takes its environmental responsibilities very seriously. The government announced at the Budget 2018 a brand-new tax on the production and import of plastic packaging from 2022. Subject to consultation, this will apply to plastic packaging which does not contain at least 30 per cent recycled plastic content. The government wants to shift the economic incentives involved in the production of more sustainable plastic packaging, encouraging greater use of recycled plastic and helping to reduce plastic waste.

As you may already know, the UK recently became the first major economy in the world to legislate ending its contribution to global warming by 2050, increasing the ambition of our commitments to reduce greenhouse gas emissions under the Climate Change Act 2008.

With regard to your point about nappies, I understand Rebecca Pow, Parliamentary Under Secretary of State for Environment and Rural Affairs, wrote to you in July on this subject. Responsibility for waste-related matters within the Department for Environment, Food and Rural Affairs has now passed to Jo Churchill, the new Parliamentary Under-Secretary of State. There are a number of policy measures available, including standards and consumer information, to drive the market towards more sustainable products, as well as encouraging voluntary action by businesses. As you may know, we are funding an environmental assessment of disposable and washable absorbent hygiene products with the primary focus on nappies, and we need to wait for the outcome of that work before considering possible future action by government and industry. The research will be published shortly, following peer review.

Finally, to address your concerns regarding early years funding, since its introduction in April 2017 the Early Years National Funding Formula (EYNFF) has set the hourly funding rates that each local authority (LA) is paid to deliver the universal and additional entitlements for 3- and 4-year-olds.

LAs have a statutory duty to provide information and advice to parents on childcare and for the stewardship of ensuring there are enough childcare places available to parents. Part C of the statutory guidance sets out the information that LAs should make available to parents about the free entitlements. We maximise the funding reaching the frontline by requiring LAs to pass onto providers a minimum of 95 per cent of their government funding for 3- and 4-year-olds. Further information on provision of early education and childcare is available at: tinyurl.com/2P9f82cu.

Full details of what is and is not included in the 95 per cent pass-through requirement are available at: tinyurl.com/2cPPc6tw.

The funding rate paid by government to each council factors in differing costs of delivery in the LA area as well as the needs of the children there. Successive research on the cost of delivering an hour of childcare identifies staff costs making up 70-80 per cent for all types of providers. According to this research, business rates make up a much smaller part of the average cost of delivery. The EYNFF includes an area cost adjustment multiplier to reflect variations in local costs. This uses the General Labour Market measure to indicate staff costs and a Nursery Rates Cost Adjustment to indicate operational costs.

The EYNFF has been designed to allocate our investment in early years entitlement funding fairly and transparently across the country. We will continue to keep under review the data underpinning the formula. On top of the other business rates relief that businesses might be eligible for, early years providers may also be eligible to access the Nurseries Discount. If eligible, providers could get 100 per cent off business rates bills for the 2020 to 2021 tax year, 100 per cent off the first 3 months of the 2021 to 2022 tax year, and 66 per cent off the rest of the 2021 to 2022 tax year. This is to help early years providers with the costs of delivery during the coronavirus (COVID-19) pandemic.

Thank you for writing about this important matter. I hope you find this reply useful.

Kind regards,

A handwritten signature in black ink, appearing to read "Will Quince". The signature is written in a cursive style with a horizontal line at the end.

Will Quince MP
Parliamentary Under-Secretary of State for Children and Families