HOUSE OF COMMONS

Work and Pensions Committee

Oral evidence: Universal Credit and childcare costs, HC 871

Wednesday 26 January 2022

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Watch the meeting

Members present: Stephen Timms (Chair); Debbie Abrahams; Shaun Bailey; Siobhan Baillie; Nigel Mills; Selaine Saxby; Dr Ben Spencer; Chris Stephens; Sir Desmond Swayne.

Questions 1 - 45

Witnesses

I: Charlotte McDonough, Policy Adviser, Save the Children UK; Oliver Crunden, Senior Policy and Research Officer, Child Poverty Action Group (CPAG); Ceri Smith, Head of Policy and Campaigns, Gingerbread; and Dr Rita Griffiths, Research Fellow, Institute for Policy Research, University of Bath.

II: Helen Donohoe, Policy Adviser, Professional Association for Childcare and Early Years (PACEY); and Jonathan Broadbery, Director of Policy and Communications, National Day Nurseries Association (NDNA).

Written evidence from witnesses:

Charlotte McDonagh, Policy Adviser, Save the Children (UCC0006)
Oliver Crunden, Senior Policy and Research Officer, Child Poverty Action Group (CPAG) (UCC0013)
Ceri Smith, Head of Policy and Campaigns, Gingerbread (UCC0011)
Dr Rita Griffiths, Research Fellow, Institute of Policy Research, University of Bath (UCC0005)

Examination of Witnesses

Witnesses: Charlotte McDonough, Oliver Crunden, Ceri Smith and Dr Rita Griffiths.

Q1 **Chair:** Welcome, everybody, to this meeting of the Work and Pensions Select Committee, the first evidence session in our inquiry on Universal Credit and childcare costs. We are very grateful to the four people participating in our first panel this morning. I am going to ask each of them, very briefly, to tell us who they are, starting with Dr Rita Griffiths.

Dr Griffiths: I am Dr Rita Griffiths. I am a research fellow at the Institute for Policy Research at the University of Bath.

Oliver Crunden: Oliver Crunden, senior policy and research officer at Child Poverty Action Group.

Ceri Smith: I am Ceri Smith. I am head of policy and campaigns at the single parent charity, Gingerbread.

Charlotte McDonough: I am Charlotte McDonough, I am a UK policy adviser at Save the Children.

Q2 **Chair:** Thank you all for joining us this morning. I will put the first question to each of you. Something that has been raised with us quite a lot in the written evidence is that people claiming Universal Credit have to pay their childcare costs up front and then claim the costs back from DWP. In practice, what difficulties does this create for parents?

Dr Griffiths: The important thing to say about our research is that it is focused on couples, so in Universal Credit both parents need to be working in order to claim help with childcare costs. I think the issues for couples are different in subtle ways compared with lone parents, and we can probably explore that.

The up-front costs of childcare we found in our sample, so we did qualitative research; we tracked our participants over three years. We looked in depth at their experiences of childcare costs and Universal Credit. For a majority of parents, having to pay childcare costs up front was a key barrier to them taking it up. Most parents preferred to wait until their children were entitled to free childcare, which is offered mainly for three and four-year-olds.

For low-income parents, obviously they are going month to month and trying to find the cost of up-front payments, which might include deposits. Most childcare providers ask for a deposit, so it is a bit like rent. You put a deposit down and then you have to pay in advance. In some cases, you are talking thousands of pounds, particularly if you have more than one child. Couples tend to have larger families than lone parents, so it did raise particular issues for couples.

Oliver Crunden: As I am sure the Committee has heard before, we consistently find that the up-front costs create a significant financial barrier to parents taking on employment or working additional hours, particularly during particular times of the year, such as school holidays when childcare needs increase.

The payment-in-arrears system within Universal Credit contributes to creating that financial barrier to accessing the support that is designed to help parents into work. We know the UK has one of the most expensive childcare systems in the world. A part-time place, on average, is just over £500 for a month, a full-time place often upwards of £1,000. As we have heard from Dr Griffiths, providers often ask for a month's payment up front and there is the potential for deposits on top of that.

We know many families have little or no savings to draw on to pay for those up-front costs. The Government's own figures show one in seven couple families receiving benefits have no savings to draw on, and that rises to one in three lone parent families who have no savings to draw on.

The system of up-front costs does create a significant financial barrier. I wanted to illustrate this and share a story from our early-warning system, which is a database of cases sent to us by frontline advisers across the country. It highlights some of the challenges that families living in poverty receiving benefits can face.

Charlie has three children, and she works shifts that sometimes require her to work at night. She is struggling to afford the essentials on her current income and wants to take on additional hours at work. However, she cannot afford the up-front costs that would allow her to take on those additional hours. She tried to get a loan to allow her to pay for that first month of childcare, an additional cost, but was denied. She has no other source of financial support to draw on.

That story highlights that while the Government have committed to paying 85% of childcare costs, the way that support is provided, and principally the up-front costs, can prevent people from accessing it and taking on additional hours or entering work.

Chair: In that case study, did she go to a bank or someone like that for a loan? It was some sort of commercial loan, was it?

Oliver Crunden: Yes.

Ceri Smith: Just to back up what Rita and Oliver have already said. Childcare presents a particular barrier to single parents entering and progressing at work. We find that in terms of the requirement to search for work when a child turns three, that currently affects around 165,000 single parents; it is only set to increase.

Recent calls to our helpline have shown repeatedly how single parents, especially those with two or more children, and I appreciate that single parent households are more likely to have one child than coupled families, but for those that do have two children they are particularly stuck because the income they receive through Universal Credit simply is not anywhere near enough to cover the costs of their childcare.

Some recent examples we have had from calls to our helpline is that one parent worked out that she would be just £19 per week better off in work than she would be on Universal Credit as a result of childcare costs. Another caller could not afford to work over the earning threshold for the benefit cap because the cost of childcare would simply offset any extra earnings and make it unaffordable, circumventing the cap that way. Another caller found that childcare costs—she had twin children—would be twice the amount available to her under Universal Credit. Childcare costs under Universal Credit are capped at just over £1,000 and the costs she was quoted were over £2,000.

I want to emphasise the point that childcare is a very big risk factor for debt when it comes to single parent families. Research that Gingerbread published around a year ago found that 19% of single parents who were in debt and on Universal Credit cited childcare costs as the reason they were struggling with their finances; 27% of parents have cited childcare costs as the reason they are not able to increase their hours. Worryingly, we found that it is very difficult for single parents to work their way out of debt, particularly because of childcare costs. The increase in hours needed correlated very strongly with the requirement or the necessity for single parents to take on debt. We found that 17% of single parents working 16 to 24 hours were using credit to pay for childcare per month. That raised to 25% of single parents working 35 or more hours per week.

Average debt has increased by around £600 per single parent household since the start of the pandemic, and around half of single parents are now taking on more debt as a result of the pandemic. It is worth referencing that the data I am citing is from a year ago. This problem has only got worse as we are now facing increasing costs, and we are seeing more and more calls to our helpline specifically asking for help around childcare costs and debt.

Charlotte McDonough: Just to echo what everyone else has said. At Save the Children we have been working on this issue for quite a few years. In particular, we have built up a network of parents who are all receiving the childcare element of Universal Credit or have experience of this who we campaign with and work closely in conjunction with. We have heard so many stories that the up-front cost is the biggest barrier to moving into and staying in work.

A key point I want to emphasise is that it is a big barrier to entering work, and that initial month of cost is a huge outlay, but it is not just that first month. It is also an ongoing issue. We are seeing it is a barrier to parents, not just increasing hours but maintaining the hours they already have because of those childcare costs. In particular, that is because of childcare costs fluctuating over the year a lot of the time, particularly for children who are in school or even children who are using the free hours entitlement, which is usually only offered in term time. Parents then face these regular spikes every six weeks when there is a half term or a school holiday. They then have to find the extra money up front and wait to be reimbursed.

Our research has shown that in the summer holidays the extra amount could be up to as much as £800 on top of what they are already paying for their term-time childcare. Because the previous month's UC childcare element will not be enough to cover that, they then have to find the extra out of their own pocket. That is a huge barrier because it is so frequent and so ongoing. So you may find a parent who has somehow managed to find the money to cover the initial month, usually through taking on debt or through somehow scraping it together, but then six weeks later they have to find an extra amount and they may not have capacity to take on more debt; they are still repaying the debt from the initial month.

Then that ongoing cycle of debt and constantly being in arrears is what causes parents to reduce their hours, which is common, to try to get back on the right foot with childcare. Some even end up dropping out of work altogether because they cannot manage it.

Q3 **Chair:** We understand that the reason for doing it this way is to limit the potential for fraud, and there is quite a lot of fraud in Universal Credit. If the system changed to avoid the need for up-front payment, are there things that any of you might suggest to address the potential for increased fraud as a result? Are there things that you think the Department could do to avoid that danger?

Oliver Crunden: With regards to up-front costs, we think there are some immediate steps that are available to the Secretary of State to make the current offer of support more effective and, in addition, how that will guard against or represent minimal risk of increasing fraud. First, we believe that is around raising awareness of the support that is currently available. The Government points to the Flexible Support Fund as a mitigation for some of the challenges experienced with up-front costs of childcare. However, we know there are significant challenges around the Flexible Support Fund. We know that awareness of the fund is low. Our advisers note that it is not routinely offered to claimants. Those who are told about it, such as by an advice organisation, can still have trouble accessing it if they request it through their Universal Credit journal, for example.

Our advisers also note that working parents are not entitled to support from the Flexible Support Fund and, for the reasons Charlotte has just outlined, that can pose problems for parents who are in work. Currently the Flexible Support Fund delays the problem of up-front costs rather than solving it. I can go into a little more detail about that, if you would like.

Chair: No, we will come back to that point.

Oliver Crunden: We think there are three key steps to address this that, as I said, are immediately available: raising awareness of the support, telling each claimant up front at the point of claiming, potentially during job search periods as well; expanding eligibility to working parents for the Flexible Support Fund; and finally, fixing the problem that the Flexible Support Fund delays the financial barrier rather than removing it. We think a measure similar to that enacted in Northern Ireland, at the back end of last year, would allow parents to claim the childcare element for the same assessment period in which they received money from the Flexible Support Fund and would then allow them to pay for that second month of childcare so that it removes that barrier of up-front costs rather than just delaying it.

Sir Desmond Swayne: That is a grant. We are effectively giving a grant and writing that off.

Oliver Crunden: The money from the Flexible Support Fund would be provided, say, if someone was to move into work at the beginning of January and they are unable to do so by money from the Flexible Support Fund. Under the current rules they would not be eligible for any of the childcare element so that at the beginning of February, when the next childcare bill is due, they would be left without any support to pay for that second month of childcare.

Obviously, depending on how the alignment of pay cycles work, some parents may receive their first pay cheque before that second childcare month is due, but we know working families on Universal Credit can be forced to balance their budgets on a very fine margin. Many just do not have the financial resilience or the stretch in their budget to be able to do that. This would be a way to remove the barrier of up-front costs rather than just delaying it into that second assessment period.

Ceri Smith: Coming back to the fraud point, the point we would make is that there is precedent within Universal Credit for paying up-front costs. Looking at the housing element and alternative payment arrangement or managed payments to landlords, there is precedent for managing fraud within that. We do not see much good reason for not applying a similar system to childcare costs. We do not particularly see why there is good justification for managing fraud by forcing low-income parents to have to take on that financial risk, particularly in light of what is happening to incomes and income pressures on low-income families, so particularly for single parents. There is very little wriggle room. There is very little financial resilience. DWP has ways to manage fraud risk among those clients.

Dr Griffiths: I would add that always looking to the Universal Credit system and the cash transactions, so making parents pay and then reclaim, there are always going to be issues both for the parents and for the Government because these are cash transactions. Anything that makes childcare free for parents has to be preferable, from our research. They will always prefer the childcare provision that is free, and obviously the scope for fraud is significantly reduced when it is offered for free.

Perhaps looking to the Government's free childcare offer rather than to Universal Credit might be an alternative way of addressing the problems.

Charlotte McDonough: Along similar lines, when we looked at it, we came to the conclusion that there are definitely some interim shorter-term measures that could be put in place where there is not a risk of fraud. Ultimately, having the childcare element within Universal Credit does cause a lot of problems, not just for the up-front costs but also things, which I am sure we will get into, around assessment periods not lining up with childcare payment periods and the 85% being affected by the taper rate.

Our longer-term recommendation would be to remove the childcare element from Universal Credit and put it into an improved system that is designed specifically for childcare costs. We point to the tax-free childcare system, which higher earning parents use, as a model for it that could be developed. In that system, parents put money into a designated account and the Government tops it up, and then that money goes directly to the childcare provider. With that kind of system there is very little or no risk of fraud because those costs from the account can only be paid to the childcare provider. That system allows parents to receive the costs before they have to pay the provider. There is a precedent with the tax-free childcare system. We suggest that would be the ideal way of managing these costs.

Q4 **Dr Ben Spencer:** On that last point, the tax-free childcare system is pretty clunky, isn't it? I use it all the time, and it is a bit of a headache in terms of getting it through and using it.

Charlotte McDonough: I am not saying it is perfect. There are definitely some admin issues with it but, in terms of being able to receive the Government support before you pay your childcare provider and not having to get receipts and wait to be reimbursed, it does work a lot better than the Universal Credit system.

Dr Griffiths: If you think tax-free childcare is clunky, Universal Credit is 100 times worse. What people do not appreciate is that there is a monthly means test in Universal Credit, which means it is potentially not just childcare costs that fluctuate month to month but the actual entitlement to Universal Credit that fluctuates.

One of the key problems faced when you have two earners in a couple, which is a requirement to be entitled, is that the potential for Universal Credit to fluctuate is that much greater. It is multiplied. This was what parents found so difficult to manage on a practical basis because they did not know what they were going to get in advance of having to pay.

They have to pay their childcare up front and they do not know how much they are going to get repaid. It particularly affects women in couples because they tended to be responsible for paying for childcare and they also tended to be the recipient of the Universal Credit payment. It was their Universal Credit payment that went down if the partner's earnings went up. It could create a very unhelpful dynamic within couples about where this money was to be found.

Q5 **Dr Ben Spencer:** I do not disagree at all in terms of the complexities of the system. It makes my head hurt using the system. I completely hear what you are saying about when you add other levels of complexity.

Have you spoken to childcare providers about this? Essentially what you are saying is that it is a direct invoicing approach from childcare to DWP. What did the childcare providers think about it? Presumably they would welcome this approach.

Dr Griffiths: I think they are going to be speaking at the next panel.

Chair: They are.

Dr Griffiths: I can't speak on behalf of childcare providers but, again, it is a huge administrative burden for them. We particularly found that for additional hours—so ad hoc childcare sessions—it was relevant to parents who wanted to arrange extra childcare in order to take on an extra shift or an extra few hours. Sometimes childcare providers were just unable or unwilling to provide extra invoices, so often they were not able to reclaim those costs.

Any system that requires people to claim back money and put in invoices just creates burdens, and that is reflected right the way through the system.

Q6 **Dr Ben Spencer:** Universal Credit and in-work benefits obviously aim to make sure work always pays and to help people move into work. What is your take on that in terms of how you see it supporting people with childcare costs? Do you think it helps people get into work and support people while they are in work?

Ceri Smith: I am happy to take that one from a single parent perspective. The first place to start is obviously that single parents particularly rely on Universal Credit. The current proportion of single parents in receipt of Universal Credit is 76%, and it is projected to be 90% by the time full migration completes in two years.

As I already referenced in my opening statement, childcare presents a particular barrier for single parents, particularly those with children under five—so preschool age—and especially for those where they are under three. They do not receive any support with their childcare costs through the free childcare hours.

The pressure for up-front costs causes an enormous anxiety for single parents. I have already mentioned that single parents have lower financial resilience than couple families. Finding that up-front cost is something that causes a lot of anxiety about whether or not it is worth the risk to take on work. Even though single parents want to work a lot of the time, it can be very difficult to know whether or not they can budget, reflecting the point that was made about monthly assessment periods and not fully understanding how much they are going to have at the end of the month. In terms of the support we offer to single parents, a lot of the calls we receive to our helpline are from single parents just trying to figure out the maths on whether it is worth taking on work or not.

Research we conducted with the Learning and Work Institute last year found that, of all the challenges facing single parents when it comes to getting into work, childcare and the up-front costs is the biggest barrier.

We have also found—again coming back to my point about increasing hours—that childcare is the biggest reason why single parents are reluctant to increase their hours. What we are finding through research we are now conducting with single parents, taking into account the impact of the pandemic and the ongoing financial pressures that single parent families are under, is that single parents are being pushed more and more into taking very low-hour work that circumvents the need for childcare entirely. Particularly where parents have school-age children and are not having to pay for that childcare during school hours, parents are looking to try to find work that fits into those hours. It means working four hours a day at most, and it traps single parents in the lowest paying roles. It is leading to single parents increasingly being under-employed, so employed in jobs that are below their skillset.

It is basically adding pressure to a problem that existed before the pandemic and before the current financial pressures that families are facing. We are seeing stagnation in the number of single parents in employment. There is still a very persistent employment gap between single parents and women in couple families. It is the way it is set up that causes that barrier, and that is why we are here representing single parents today because if we could just tweak this, if we could change this, it would unlock a huge amount of potential for single parents to be able to work.

Oliver Crunden: Picking up on that point, we have heard already about the challenges of the up-front costs in terms of entering work. I wanted to pick up on a point around entering work, in-work progression and taking on more hours. The system of support has become less generous over time, mainly due to the frozen maximum reimbursement cap, which has the effect of reducing the number of childcare hours that are eligible for reimbursement.

The Committee obviously knows that the cap has been frozen since 2005, while the cost of childcare has almost doubled since 2008, which is the latest available data. Obviously as the cost of childcare has increased the number of hours eligible for reimbursement has decreased.

To give an example of that, a family in 2008 receiving working tax credit who were looking for full-time childcare, 50 hours, for their one-year-old child could be reimbursed for 38 of those 50 hours. In 2021 the same family receiving Universal Credit and looking for the same amount of childcare could be reimbursed for 27 of those 50 hours. On average, in England, they would be left with just over £500 to cover each month, and this is even more challenging in high-cost areas such as London.

This has the effect of reducing the number of profitable hours of work that are available for parents and, as we have heard from the other witnesses, this restricts the employment options available for parents, with the potential risk of trapping their families and children in poverty.

Dr Ben Spencer: I think another of my colleagues is going to drill down on the cap side of things. Does anyone else have any comments they want to make?

Charlotte McDonough: I absolutely echo what the others have said. If the childcare element worked well and we tweaked this up-front cost issue, it could unlock employment opportunities for parents and help Universal Credit work well in terms of helping incentivise work and progression in work, but mainly because of the up-front costs element it is not doing that at the moment. The number of parents we are seeing who are having to reduce their hours once they are in work or drop out of work altogether is a sign that the system is not working well.

The other thing that I am sure we will also get on to is the 85% maximum. While that is more generous than under working tax credit, which is welcome, even just paying that extra 15%, where childcare costs are very high, can create high marginal effective tax rates. So combined with the taper rate, tax and national insurance, it means that parents are potentially not seeing very much or any gain if they move into work and increase hours. That then interacts again with the cap because childcare is affected by the taper rate and means that parents may not be getting 85% in practice. It may be lower than 85%.

All those things—the up-front costs, the cap and the 85% maximum—combine together to mean that childcare often still forms a barrier to work.

Dr Griffiths: I reiterate that, but the main issue for couples who had claimed the childcare element was the fluctuation in the payment. The fact is that it was not manageable or predictable. We found that second earners, who tended to be women, were more likely to reduce their hours of work. Sometimes they left jobs altogether and often the Universal Credit payment then stabilised. They were either more likely to reduce their hours and leave jobs or the opposite, which is some families increased their hours, so they came out of Universal Credit entitlement altogether. But that involves huge trade-offs for families because it means working long hours. It had big impacts in terms of work-life balance for families.

Q7 **Sir Desmond Swayne:** We have pretty well covered it all, perhaps with the exception of whether there are any additional difficulties in calculating the Universal Credit childcare element for self-employed people, particularly given their fluctuating income. Are there any other barriers that present to them specifically in terms of their understanding?

Dr Griffiths: Even greater complexity because they have additional requirements in terms of uploading their income and expenditure every month. That is in addition to uploading the childcare invoices. It is yet another administrative burden on people, and it is known that self-employed earnings tend to fluctuate more than a salaried job would.

Q8 **Nigel Mills:** Can we just come back to the cap on childcare costs? What should be changed? Is it a rise in the cap, or are you suggesting that we should have no cap at all and people can claim whatever they spend?

Oliver Crunden: Our position is certainly that parents should have access to affordable childcare that allows them to enter work, where they are able to, and work the hours they want to work. We think there is a case for looking at the cap. Again, as I have mentioned, there are particular challenges in high-cost areas such as London. For example, childcare costs in inner London are, on average, 30% higher than in the country as a whole.

We think there is a clear case to make sure that support with childcare costs in Universal Credit reflects what it costs to parents. That could include pegging the cap to regional median market rates, and we think there is a case for looking at regional variation as well.

Ceri Smith: The other thing we find, as I mentioned earlier, is particularly about age. Childcare can be much more expensive for very young children, particularly one and two-year-olds. We would also advocate looking into whether a degree of nuance or variation could be created within a capping system to reflect the fact that their childcare is much more expensive, or looking at extending support through other means, so extending the free hours offer to younger age groups. At the moment, as I mentioned before with the examples of people calling our helpline, the cap comes nowhere near covering the costs for single parents looking to get into work if their child is not yet eligible for free childcare hours.

Dr Griffiths: Anything that gets more money into the pockets of parents has to be a good thing if they are on low incomes. Yes, increasing the cap in the ways suggested could be of assistance. If you look at the research, there were various pilots run by the Department for Education in the previous Administration, including the pilot of a 100% childcare costs refund. They found that it made little difference in terms of incentivising more parents to take it up, so you just need to be clear what your objective is. If it is to get more money into the pockets of parents who pay for childcare, increasing the cap would obviously be a good thing, but if you are looking for the system to persuade greater numbers of parents to take up work or to work more, the research finding suggests that it makes only a marginal difference.

Q9 **Nigel Mills:** I think what I am understanding is none of you objects to the principle of a cap, and presumably at some point we just have to stop people paying ridiculous amounts. What you want is for the cap to be re-benchmarked to a more accurate level of where childcare costs are and then perhaps have a London weighting or a regional weighting if possible. Then have an extra for children under three, where parents are looking for many more hours of childcare because they do not have the free childcare. Is that a fair summary of what you would like to see changed? I think everyone is nodding.

Can I ask something else on the complexity of this? What is the level of household income where people are better off on tax-free childcare than trying to stay in UC? People accidentally bump into that, where their UC award goes down so much that they would have been better off in the other system but they do not know and then their income changes and they are back where they would have been before. Is that a problem you ever see?

Dr Griffiths: It is not possible to answer that question, because I bring it back to the complexity of Universal Credit, that it varies enormously depending on circumstances. Not just the number of children you have or whether one parent or two parents work, but how much overtime you have may have done that month, how many hours you have done, what shifts you have done, and it varies month to month. It varies family to family in ostensibly very similar circumstances. That is why people find it so hard to manage. You cannot just sit down and work out how much better off you are going to be by working X number of additional hours or comparing one system with another, because it is so variable.

Often at the upper end of eligibility for Universal Credit, even if they are going to get slightly less on the tax-free childcare system, that is the trade-off people will sometimes make because they can rely on it, they know they are going to get it, they know the money is there to use, whereas Universal Credit is unreliable in that sense.

Charlotte McDonough: Another problem is that because the childcare element is a part of Universal Credit and gets tapered away, along with everything else, it is not really possible for parents to know exactly how much childcare element they are getting compared with everything else. Like Rita said, it would not be possible for a parent to sit down and work out, “I am getting this much childcare element through UC, and I would get this much through tax-free childcare.” There is no easy way of being able to do that.

Again, I also think the general complexity of the whole childcare system with all the different support—the free hours, tax-free childcare, Universal Credit—there is very low awareness of all the different types of support that are available, so a lot of parents who may be on Universal Credit do not know about the childcare element or do not know about the tax-free childcare that they could be getting. It is a hugely complex area, and it is not really possible for parents to work that out themselves.

Q10 **Shaun Bailey:** We obviously hear a lot about the inconsistencies in the system, late payments and assessment periods not aligning. What is your assessment of how widespread these issues are and the broader impact it is having, particularly on single parent families and families with low incomes?

Dr Griffiths: We found it was not simply a question of assessment periods not aligning. There was a whole series of complicating factors so, like I said, whether people took on extra hours, whether they did shift work. Obviously, at low levels of income, contracts often do not specify the number of hours people work, and there are people on zero-hours contracts, so they may not know in advance how many hours they are going to work. Again, if you have two wages, those effects can be multiplied.

Then there are totally arbitrary issues about whether people receive wages in advance because of a bank holiday and so on, whether they are paid weekly, twice-weekly, four-weekly, and again with two sets of wages you might have one parent on a solid monthly salary that does not change but another parent whose wage goes up and down as shifts change.

All these factors can come into play to make it very difficult for people to predict how much Universal Credit they are going to get.

Ceri Smith: In our debt research, that inconsistency of income was a big factor in why single parents are struggling to make ends meet each month. Obviously, because of the subject today, childcare is a major part of that. Income levels in the sorts of work that single parents are doing and also child maintenance are things I feel I have to mention, because it is something that comes up again and again for single parents having consistency of income across the month. That forms part of the calculation for how much Universal Credit they will receive.

Q11 **Shaun Bailey:** We were sold that the UC system would be able to adapt to the needs of individuals and would have the inherent flexibility that meant it could reflect. Would you say it is more a fundamental flaw in the broader UC system or more a flaw in the Department's system side of things? We have challenged the Department previously in this Committee on its back-office systems, in particular. Would you say it is one or the other, or a combination of both?

Dr Griffiths: It is a combination of both. The whole idea of monthly assessment is that people are motivated to work or to earn more because they see an immediate financial reward in a dynamic system, but our research shows that psychologically it often does the opposite, so people experience it as a penalty because their Universal Credit goes down when they work more. It is a very obvious relationship: the more they earn, the less they get in Universal Credit.

We found that discouraged rather than encouraged people to work longer hours, which is a flaw in how the assumptions reflect the realities. In addition, there are flaws in the practical design of the system in terms of how it impacts on people, as it is not immediate; often there are time lags in the system. For example, if somebody works overtime, they may wait two salaries before they receive it in their wage packet. Universal Credit is based on the actual amount they receive in the month, so it does not necessarily reflect how they receive their wages into their bank account.

Again there are time lags that could potentially be improved but, essentially, underlying the whole system is a flaw in how people were expected to have a behavioural response to the fluctuations.

Q12 **Shaun Bailey:** I appreciate we have people from the childcare profession on the next panel, but from your interactions do you feel the DWP understands the stakeholder approach? We often hear the DWP talk about engaging with stakeholders and with the industry. From your perspective, do you think there is evidence that it is fully understood? It appears that perhaps a conversation with the marketplace is needed as well.

Dr Griffiths: I think they fully understand the issues. The Department for Work and Pensions are very responsive now. They are much more open to dialogue, and obviously my colleagues here will reinforce that. They are open to listening.

I think the problem is that monthly assessment is hardwired into how Universal Credit works. The scope for reform is quite limited in terms of how the system has been designed to work. We have lots of contact with policy, research and evaluation people within the Department for Work and Pensions. They know about the research, we feed back our findings regularly and there are various forums for doing that. They know the issues, but it is the scope for changing the system, I think, that is holding them back.

Charlotte McDonough: I totally agree, we have had interactions with the DWP and they have certainly been very open, responsive and keen to engage with stakeholders. A bit of a gap we found is the DWP's willingness to engage directly with people who are using the system. They are very open to engaging with charities and people like us, and to hearing about the problem through us.

We have this network of parents with lived experience who are very keen to engage. We have brought them to meet Ministers and MPs—probably some of you—and I know they will be speaking to the Committee at a later date, which is fantastic. But when we have offered similar things to the DWP, we have not had much of a response. That would be an incredibly valuable thing for them to do because you get a much better idea and a much clearer picture of the issues by hearing directly from people who are living it.

Ceri Smith: I was going to echo that. In my stakeholder meetings with the DWP, they reflect and are acutely aware of the impact on single parents, but they take quite a professionalised approach to it. They would prefer to speak to professional representatives rather than necessarily hear directly from single parents.

Q13 **Shaun Bailey:** That is useful, thank you. Finally, one of the big things we have talked about is fraud. We heard that the old working tax credit system was vulnerable to levels of fraud. Do you feel that the Department strikes the right balance between fraud mitigation, on the one hand, and actually having a system that enables people into work and, particularly, enables people to access the childcare they need to fulfil the ambitions that are hoped for under UC?

Ceri Smith: You just have to look at the data when it comes to the impact of the up-front costs on single parents entering work. I think the real question is, what is the objective here? Is it fraud prevention or is it getting people into work and making work pay? At the moment, the mechanism they have in place for single parents means the impact is to prioritise fraud prevention over supporting single parents into work and making work pay.

We have made recommendations in our written evidence about straightforward ways the DWP could redress that balance and support more single parents into work.

Charlotte McDonough: I echo that absolutely. It seems that the up-front costs system was specifically set up to prevent fraud, and that that was the main consideration when it was put in place. Whenever we have made recommendations to improve it, the response we always get is about fraud. It seems like the balance is very much tipped in favour of preventing fraud.

The other issue is with the Flexible Support Fund and the unwillingness to allow childcare costs to be claimed for the same month as the Flexible Support Fund. That is quite a simple change that could be made, and it would help people into work but, again, the balance is not tipped towards helping people into work in that instance.

Oliver Crunden: I agree with everything that has just been said and echo the point that the central aim of Universal Credit is to support people into work. The current system of up-front costs and paying childcare support in arrears represents a significant barrier to that central aim.

Equally, I echo that there are options available to the Secretary of State that have a very low or negligible risk of fraud. The Committee rightly recognised in their previous report that a system of direct payments from a jobcentre or DWP to registered providers represents a negligible risk. That is one of the available options to improve the Flexible Support Fund, and it is paid directly from jobcentres to registered providers.

Dr Griffiths: I would endorse that, nothing to add.

Q14 **Selaine Saxby:** Good morning, thank you for coming. Listening to you this morning—this is not the question I was supposed to ask, I will come to that in a moment—and given the current employment market, do you think there is more that employers could be doing? When I graduated there were opportunities to get loans from your employer so you could pay your rent and travel costs—if you were a student, everyone knew you had no money. We are talking the whole time about the DWP paying childcare costs, but we now have employers that are desperate for staff. Do you think there are more creative solutions we could be looking at?

Ceri Smith: There is an example from London with the GLA child voucher scheme. That is something Gingerbread worked closely with the GLA on developing. It supports parents to move into work by covering those up-front costs of deposits and securing a childcare place. For single parents it comes back to the fact they are understandably very unwilling to take on debt at the start of employment, particularly if they are already handling other debts.

That is probably where we are a little bit nervous about going purely down the employer route. It also skews more towards middle class parents rather than lower income parents, precisely because middle class parents probably have a little more financial resilience to take on a bit of that or repay things through salary.

We really support employers being flexible with parents, and research we have conducted throughout the pandemic has shown the difference good employers have made to single parents being able to stay in work and manage the complexities of home schooling and the stress and strains the pandemic has brought.

Dr Griffiths: If you have a good employer, or if you are employed in the public sector or by a medium or large employer, that is great. A lot of very low-paid parents have poor employers and the likelihood of them offering further help with childcare is likely to be quite limited.

If you are on a zero-hours contract and you are paid the national minimum wage, the likelihood of employers stepping in is not very realistic.

Oliver Crunden: I echo what the other witnesses have said and would welcome any additional flexibility that employers can offer. There is potentially a risk—I am not saying this is what you are suggesting—of relying solely on employers to fix this problem, which is so fundamental, and a risk that it becomes a bit of a lottery depending on what job you go into whether your employer is offering this flexibility.

Based on the evidence of how significant the barriers of up-front costs are, I think it needs to be fixed through the benefit system.

Q15 **Selaine Saxby:** Moving on, what impacts do you see on children whose parents face these difficulties when claiming childcare costs through Universal Credit?

Charlotte McDonough: Something we have not touched on much today but is also a hugely important point is the quality of childcare and how important that is for children, particularly in the early years. We know that if a child attends a high-quality childcare setting, they are much more likely to do better at school and even get better jobs and have higher earnings in later life.

The quality of childcare is crucial, and what we are hearing from parents is that often they are having to compromise on the quality of the setting because of the problems with Universal Credit. For example, one parent was using the free hours in term time at quite a good quality nursery where her child was settled and happy, but because of these constant fluctuations in the summer holidays, when she was having to pay an extra £600, she could not manage it on an ongoing basis and ended up having to switch provider. She found a nursery willing to offer the free hours stretched over the year, so her costs were the same every month. That worked much better for her in being able to pay those costs, but her child was then in a setting with a lower-quality Ofsted rating, less outdoor space and worse resources.

The impact is really concerning. We are seeing parents having to compromise on the quality of their childcare setting because Universal Credit does not give them another option.

Dr Griffiths: We have found that some parents find the childcare element of Universal Credit unmanageable. They had a really good relationship with a childminder, for example but were obliged to move the children to the Government's free childcare, so a different provider—it has an impact on the children when they are moved. It was simply because they could not make the childcare element of Universal Credit work. They were very reluctant to do that, as the relationship had built up over a number of years, but they could not manage the unpredictability of the payments, so they moved their children into free provision instead.

Oliver Crunden: I will briefly add the wider point of the impact on children and the risk of growing up in poverty. We know that, unfortunately, work is not always a guaranteed route out of poverty, but having two parents in work reduces the risk of a child growing up in poverty.

As we have said, Universal Credit's central aim is to support people into work, but the system creates a financial barrier that can prevent people from entering work or taking on additional hours. As I mentioned before, the decreasing generosity of the system over time by reimbursing fewer childcare hours additionally restricts employment options for parents.

All these factors are contributing to making it harder for parents to move into work and progress in work, which risks trapping families and their children in poverty.

Ceri Smith: That is particularly acute for single parent families. The evidence on poverty rates for single parent families shows there are far more children in poverty in single parent families than in couple families. I have talked at length about the difficulty single parents have in working their way out of low income and debts, and that has a knock-on impact on children in those families.

There are also benefits to children being able to attend childcare, and particularly to attend a nursery and have access to high-quality childcare. We see some of the issues that have already been pointed out regarding children needing to be moved from one setting to another. For example, if a parent seeking work is using 15 hours of childcare and has access to 30 hours of childcare when they move into work, and if their provider is unable to increase the hours in line with what has already been covered, single parents find they have to move their child into different provision, which causes all sorts of difficulties at a very crucial age for child development.

Q16 **Debbie Abrahams:** We have talked about the disproportionate impact on single parents, women and so on. Is there evidence about the impact on families with disabled children? There is not meant to be a differential in payments, but there are reports that it does happen. What evidence do you have about families with disabled children and the impacts on them?

Dr Griffiths: We have found that in the main, where there is a disabled child in the family, one parent chooses to stay home to care for the child. The amount of specialised provision for disabled children is known to be very poor and often the choice was to care for the children themselves. In many cases they were getting carer's allowance to look after the child.

Q17 **Debbie Abrahams:** I did some searching last night, and different chat groups and disability charities were suggesting there is this differential in payments but there is no evidence.

Dr Griffiths: As part of the childcare affordability pilots that were run 2009-10, they ran a pilot specifically looking at childcare for disabled children. The issue was the lack of specialist providers, the additional cost and the practical difficulties of parents finding something in their local area.

Debbie Abrahams: There is a gap in the evidence base.

Ceri Smith: I was about to say that. We know there is disproportionate disability among single parent families. A higher proportion of single parents than the national average are disabled. The national average is one in five, but closer to one in three single parents are disabled. Likewise, we are aware of the fact there is a higher rate of disability among children living in single parent families, but it is something we know we need to look into further. I can take that away and see if there is anything we can provide.

Debbie Abrahams: That would be very helpful, thank you.

Q18 **Siobhan Baillie:** I apologise to the witnesses for my lateness, it is actually due to my childcare.

I asked for this inquiry because I was so moved by evidence we received from previous witnesses, predominantly single parents, when we were touching on the cost of living. They don't always feel heard, but you can tell them we are listening. I was in a childcare debate yesterday in Westminster Hall, and the Education Minister, himself a former DWP Minister, said on record that he welcomes this inquiry because he has been worried for a while about the low take-up of childcare under Universal Credit. I am quite hopeful that we can achieve some changes.

To sum up, is there anything else you wanted to say briefly, even if it is off-piste, about child ratios or good practice you have seen of state involvement in childcare in other countries?

Charlotte McDonough: I think we have been quite comprehensive. It has been great to touch on these issues in so much detail. I would just reiterate the points I made that the up-front costs form a huge barrier, not just in the initial month but on an ongoing basis. This really does urgently need to be looked at right now.

You mentioned the cost of living, and we are seeing parents really struggling with the cost of living. Everyone knows about energy bills and food prices going up, and childcare costs tend to rise faster than inflation anyway. It will be interesting to see the latest data on that when it comes out, because we are concerned that childcare costs are likely to have risen by quite a lot over the last year, which will be an additional burden on parents. This issue needs to be looked at incredibly urgently to make sure that parents are able to get back to work and help tackle that cost of living crisis.

Ceri Smith: In terms of an immediate step there is an example in the set-up in Northern Ireland to support parents in paying for that initial up-front cost without losing out on the childcare elements, so effectively allowing a double payment. The DWP should be looking at how that mechanism is working within the Northern Irish benefit system and look to implement something similar. As Charlotte said, it is causing too much of a barrier for parents to get into work and it is causing more financial problems for single parent families.

There has been enough debate, there is a huge amount of evidence and there has been a court case about it. There are some immediate steps that the DWP could take to address this problem.

Oliver Crunden: I agree with everything the other witnesses have said. We have heard today about the complexity of the system and how it is quite fragmented across three Government Departments, and about the difficulty that presents for parents in navigating and understanding their entitlements. I wonder if we would all devise this system if we had a blank slate to start with.

We have also heard about some wider reforms to the system that would be desired and that we would agree with. The Government have mentioned this would take time but, as we have heard, there are immediate steps available to the Government to improve the way that Universal Credit supports, particularly with the up-front barrier of childcare costs. As we have heard, that is increasingly necessary with the rising cost of living and particularly with the crunch point of rising bills coming in April.

To echo Charlotte's point on the disproportionate increase in childcare costs, last time I checked since 2005, when the cap was frozen, childcare costs have increased at over twice the rate of inflation. This really is a big outlay for parents who increasingly have squeezed budgets with which to afford those childcare costs.

Dr Griffiths: I would look to the Government's free childcare offer, which is an existing scheme. Parents like it, they know about it, there is high awareness. There is huge take-up, but there are restrictions. It is not particularly suited to parents who are working full time; in the main, it is only available for three and four-year-olds unless parents are on a very low income. Expanding the existing free childcare offer outside of the Universal Credit system would be my suggestion.

Siobhan Baillie: Apologies, Chair, for taking us over the time.

Q19 **Nigel Mills:** I am almost nervous to ask this question because it has the risk of a pile-in. What is the sweet spot that policy should be aiming at regarding how much childcare we should fund?

Is it completely parental choice and everyone's situation is different, or should we be trying to say that having your children in full-time childcare from age one is best for them and that is what we should incentivise, or should it be half-time childcare, 20 hours a week? Is it where you get the most income?

Is it fair for policy to have an aim of what we think is best for children in the long term, and that is what we incentivise, or do we have to be completely neutral?

Ceri Smith: I come back to the point I made about the objectives of Universal Credit. When you look at the set-up of Universal Credit, it is about getting people into work. For single parents there is a requirement when their child turns three that they should be looking to undertake 16 hours of work a week. The point we are making is that, at the moment, childcare presents a barrier to single parents.

Q20 **Nigel Mills:** Is that right? Are you saying you think we should just give people more money so they can stay at home and look after their children, that that would be better overall for children and parents?

Ceri Smith: There has to be flexibility. Under legacy systems for benefits, single parents were not required to work until their children were teenagers. That didn't necessarily work for single parents who do want to work, so there is a balance to be struck in that we should not be forcing people into debt in order to work but, likewise, we should not be forcing people to have to make very tough choices about whether or not they can afford to just about scrape by, particularly for single parents in London being hit by the benefit cap. They cannot earn over the earnings threshold because it is too much of a gamble to know if they will afford their childcare costs and have more money at the end or, as I said about the caller, have £19 extra a week working, and the additional stress of that.

There needs to be more clarity about what the support is and how it works because, if the objective is to get more people into work, for single parents that is not the case with the current set-up. There are definite steps the DWP could make to address that. Then there is a wider policy discussion concerning the support for children, there is more that needs to be offered.

If we are talking specifically about Universal Credit and the adults receiving Universal Credit, it clearly is not working towards its objectives.

Dr Griffiths: I would agree with that. Most parents want and expect to work, it is just that the system is not helping them very much to do that at the moment. Rates of maternal employment have gone up significantly over the past 20 years. If mothers, or fathers for that matter, are not working, there are often really good reasons why. They might have a disabled child, they themselves might have a disability. If they are not working, often it is because the reasons are genuine and they are not able to work for whatever reason.

Helping to get more money into parents' pockets, helping them where they do want to pay for childcare and the provision of more free childcare is the way forward, just making the system work better for parents.

Q21 **Chair:** Thank you all very much indeed, you have given us an interesting set of evidence. Thank you for the contributions all of you have made and for setting our inquiry off to an interesting and fruitful start. Thank you for joining us.

You are welcome to stay if you want to listen to the next panel or leave if you need to, but we are grateful to all of you.

Dr Griffiths: We are launching our research at the moment, so I have to run across to the Resolution Foundation.

Chair: All right, we look forward to the news headlines. Thank you.

Examination of Witnesses

Witnesses: Helen Donohoe and Jonathan Broadbery.

[*This evidence was taken by video conference*]

Q22 **Chair:** We now welcome our second panel. Thank you both for joining us virtually this morning. You were both listening to the earlier panel, and we will raise some of the topics already raised with you.

To start, I will ask each of you to tell us who you are in one sentence.

Helen Donohoe: Good morning. I am Helen Donohoe, the policy adviser at PACEY, which is the Professional Association for Childcare and Early Years, established in 1977. We have about 25,000 members, largely childminders, and that is about half of the childminders in England and Wales. There are about 40,000 childminders in England and Wales.

Jonathan Broadbery: Good morning. I am Jonathan Broadbery, the director of policy and communications at the National Day Nurseries Association. We represent over 24,000 nurseries and their professional staff. We have members in England, Scotland and Wales.

Q23 **Chair:** You heard the discussion with the earlier panel about how the requirement to pay up front for childcare affects parents. How does it affect childcare providers?

Helen Donohoe: I am sure Jonathan will pick up on group settings because that is their specialism. I want to focus on childminders and the impact it has on them.

The situation with childminders is that they are in an incredibly precarious situation already. As I said, there are about 40,000 in England and Wales, over 50,000 across the whole UK. They provide a very distinct form of childcare, it is generally in the home, around eight children being cared for. It is particularly valuable for those children who might be vulnerable in any way, they might have special needs, or families who need particular levels of flexibility.

It is a particularly valuable form of childcare; however, we know it is in decline. Over the last year there has been a 7.5% reduction in childminder numbers, which equates to about 2,769 childminders leaving the profession and not being replaced, so it is a precarious position.

The impact of the myriad forms of funding for childcare has a destabilising impact on childminders. They are already heavily burdened with administration, and they tell us all the time that anything that adds to the burden of their role, given how busy and flexible they need to be, restricts their ability to do their work. Particularly through the pandemic, as will be the case across the entire sector, their financial precarity has increased.

We know that, in the last year, 70% of childminders have used personal savings to keep their business afloat, and as many as a quarter of those have done that at least five times. Only 44% believe their childminding business will be viable in the next 12 months.

The impact of Universal Credit is important because it is a huge proportion of families who need to use that childcare payment to access childcare and childminding. Not only that, 20% of childminders themselves rely on Universal Credit. So it is a group of people, predominantly women, vastly across the board existing hand to mouth, barely making a profit. We know that only 35% of childminders actually make a profit. They are relying on Universal Credit themselves, and we did a survey this month that told us 69% of respondents were providing a service to families using Universal Credit, of those families 70% struggled to pay up-front costs. It is a huge problem, and it is something that childminders take on as a burden. Sometimes they just have to turn families away.

Jonathan Broadbery: I will provide a bit of background on our membership and how nurseries operate. There is a huge variety in the size and types of nurseries across the UK. The majority are still single-site nurseries. They might be a family-run business, some can be operating out of a converted house and others will have specially built premises. They can have anything between a handful of children up to 100-plus. Some nurseries are much larger in size and can take more than 100 children.

They also range in size of group. Some nurseries will be part of large chains, there will be some medium-sized chains that might have between 50 and 100 nurseries within them. As I say, around half of all the nurseries in the UK are in that bracket of single site. They are small businesses employing a few members of staff and offering services in the community.

Regarding the burdens around Universal Credit, we know that a lot of nurseries have dedicated administrative staff, and it is not just the Universal Credit burdens. Funded childcare from the Government is paid for in hours to parents, there is tax-free childcare, all the paperwork that goes alongside with registration and regulation.

Added into that are the complexities around Universal Credit. We heard from the previous panel about parents' hours changing, so if their entitlement changes over the course of a month or a claim period then that can put extra requirements on invoicing. The standard business approach might be to invoice parents monthly, but that might not be sufficient for Universal Credit, so we hear of people having to generate independent invoices outside of their usual business pattern to meet those demands and those changes from parents.

It creates a lot of additional work for nurseries. We have had some of our members say that in some months they have had two people working on Universal Credit claims, and problems within that have led to them losing income of hundreds, if not thousands, of pounds. It can have a big impact on the day-to-day operations, but if there is a problem within the system, it creates further problems for providers.

Q24 **Chair:** Jonathan, your organisation has supported Nichola Salvato's legal case against DWP on this. Why did you choose to support that case?

Jonathan Broadbery: We think there is an important point at play in her particular case and the impact on single parents. More widely, our members tell us anecdotally that the up-front payment issue is a barrier. Helen provided some quantitative data on that in terms of how many parents come back and say they were looking for a place but have not taken up a job or they are not going to need that childcare, or they cannot make that up-front payment, so that is the barrier. We feel that, for our members, it represents parents who are not taking up childcare. Our mission as a charity is for children and families to be able to thrive through access to that high-quality early education and care, and I want to make a very brief but very important point here: even if a child is coming into a childcare setting at six months, nine months or a year, there is still very important learning and development happening for that child so we do stress the fact that it is both early education and childcare and that you cannot care without educating, and vice versa. There is an important point there about access that speaks to our charitable goals.

Chair: Helen, you also supported that legal challenge. What was your thinking in doing that?

Helen Donohoe: The same as NDNA's. We know the impact, particularly on single parents, and most importantly on the most vulnerable children, of not accessing the right childcare at the right time with the right childcare provider. Any impediment needs to be addressed.

Q25 **Chris Stephens:** Good morning to the panel. We have heard in written evidence that parents find it hard to know how much they will receive each month in their Universal Credit award for childcare. How does that uncertainty affect childcare providers?

Jonathan Broadbery: Just to set the scene, for childcare providers there are staff-to-child ratios for different age groups. A setting needs to have staff of the right qualification level available to work to meet the ratios. For children under two years, it is one staff member to every three children; for two-year-olds, it can be one to four; for three to four-year-olds, the ratio is usually one to eight for our members, but if they have qualified- teacher status, it can be one to 13.

Providers need to know how many children they are going to have on a given day so they can staff their rota accordingly, and make sure there are not only staff resources but space and other resources available for those children. It is important to them to know and work out how they are going to meet the demands of the children who are going to be coming in.

We know that Universal Credit parents can quite often be on variable contracts and often make requests at the last minute. Providers do everything they can to accommodate that, so they try to work the staffing ratios so that there are more staff available. If there is extra demand, they may have somebody who is supernumerary and can step in, so they can say, "We need somebody in the toddler room or the baby room," to support that, but what we see across the picture—and we talked a little bit in the previous session about the various complexities of childcare support—is that underfunding in other areas of childcare support is putting more and more pressure on settings, so they are less able to adapt quickly to demand. They are trying to meet the demand, but it is very difficult to satisfy the regulations in providing safe staffing ratios and meet the demands of parents.

Q26 **Chris Stephens:** Helen, we have also heard about and received evidence about incorrect and late payments to parents, with the consequence that children are withdrawn from nursery and the parent has to give up paid work. How common is that, and could you expand on the consequential effects on childcare providers?

Helen Donohoe: Our members have told us they turn away about 16% of families, and obviously that is going to have an impact on the parents' ability to work.

For those who are kept in the setting, it tends to be a mishmash of circumstance that allows them to do that. They might borrow money from friends or family, the childminder might generously give them the benefit of the doubt and trust them because they are a family they know in the community, but it is not a sustainable platform for a childminder to provide a sustainable service.

The sector we are talking about here is not on a stable footing to start with. At the moment it is funded through at least eight funding streams across three Government Departments. With the best will in the world, it is massively overly complex, certainly for parents but also for providers from a childminder working on her own at home through to a large setting and at a local authority level, having to deal with assessing eligibility, processing receipts, sending out invoices and, as Jonathan said, looking at ratios and making sure that safeguarding is assured.

We can talk for a long time about the impact of the specifics of Universal Credit, but what we really need is an overhaul of the funding system because we are wasting money through the administration and the burden of the eight funding streams that are not delivering. They were all set up with a very honourable purpose and some of them, particularly the two-year-old offer, are directed at reaching the most vulnerable and most in-need children and those from disadvantaged backgrounds, but it is in decline. Take-up is in decline. There is not enough awareness of it. Also, we know the 30-hour offer is much more advantageous to the most advantaged families, those in fairly decent, stable work.

I would ask the Committee to look at the bigger picture, at the whole funding system. We know that the vast majority of settings would rather look at some form of universal provision so they can cut out all this paper-pushing and administration.

Q27 **Chris Stephens:** Jonathan, where does the liability lie for dealing with the consequent problems that you and Helen have outlined? Should the Department for Work and Pensions compensate for providers' lost income caused by the Department's own internal errors, for example?

Jonathan Broadbery: I think fixing the systemic problems is the first step. We have examples of providers telling us that they have lost hundreds or thousands of pounds and, as Helen said, they will quite often work with families who might have got into debt with the providers themselves and then be struggling. It has a knock-on effect. I am not sure that getting into talks about compensation is something providers necessarily think about, but anything that helps them would be greatly welcome. Fixing problems before they happen is better, and a way of doing that—and we might come on to this later—would be creating a single approach to the different streams that Helen mentioned, which would help to avoid getting into situations where providers are losing out.

Q28 **Chris Stephens:** We have heard about the practical problems that the current system puts on providers but, Helen, could you tell us anything more about the financial pressures faced by self-employed registered childminders? I am thinking particularly about the wages they earn and the fees they need to charge.

Helen Donohoe: Overwhelmingly, childminders are self-employed so they have taken a huge hit over the last two years of the pandemic. The trouble with the self-employed support scheme introduced by the Government was that it was based on profits and net income. The vast majority of childminders do not make any profit, so X% of not very much does not help you to sustain your household.

We know that a third of childminders struggle to bring in the additional things they need as a childcare provider: the food, the toys, the extra provisions. We know that a third of childminders have taken a mortgage holiday over the last couple of years and 70% have used personal savings. They are in a very precarious position. It is an unstable profession, people coming into it do it for a few years and then go out and, worryingly, almost half of childminders are the primary earner in their household. They are suffering on the end of a muddled system of funding but also adding to the burden of financial instability themselves because they are not on a firm footing.

Q29 **Chris Stephens:** Thank you, Helen. That is very helpful.

Jonathan, your organisation has called on the Government to introduce a single childcare account to simplify the system. Could you outline the key components and what you see as the advantages for parents, childcare providers and local authorities?

Jonathan Broadbery: Just to set the scene of the challenge, 95% of providers who responded to a survey we did said that they were currently underfunded in terms of the Government's funded hours policy and 85% told us that they expected to operate at a loss or just break even, and that has a knock-on effect on what they can do and how they can support children and families.

In addition, we know that tax-free childcare has been underutilised to the tune of billions over the last few years. The latest Treasury figures show that it was underspent by £100 million on a revised budget. We know the take-up of two-year-old funded places is falling and we have already talked about the take-up of the Universal Credit childcare element being down. We think that is a result of the complexity for parents, who do not understand what they can claim for or feel that, if they are getting one form of support, they are not entitled to other forms when they might be.

As Helen said, you have funded childcare for some two-year-olds and then childcare for three and four-year-olds is a universal offer. With the top-up to 30 hours, you have some people still accessing the old childcare voucher scheme, you have tax-free childcare, tax credits and Universal Credit coming from three different Government Departments, some going to parents and some going to local authorities to administer and distribute. Then, on the childcare-provider side, they have paperwork relating to all of those, they have money coming into their accounts from different sources, which they then have to reconcile and understand, "That payment relates to this child; now I have to invoice the parent for X amount at the end of the month."

We think one single payment would be better, and the tax-free childcare infrastructure has been referenced. It is complex and clunky, but it represents an opportunity where money can come in from a Government Department and from parents and can be transferred directly to the childcare provider of choice. Whether that is one nursery, a nursery and a childminder, or just a childminder, that is the parents' choice; they control who it goes to, but because they are all registered Ofsted providers, there is a way of checking from the Government's side.

That reduces the burden on parents because they have one place they go to where they know their childcare support goes in, they can see what their account is doing and then they can make payments from it. It means one source of income into the childcare business and it means that local authorities do not have to look into their crystal ball to try to predict what the demand for funded childcare is going to be and budget accordingly. What we have seen in the last three years is around £60 million a year left unspent in local authority budgets for the funded childcare offer because they have had to try to guess what the demand is going to be. When that does not quite reconcile, some local authorities end up overspending and some local authorities end up with underspends. All that means is children in that local area haven't had that money spent on them in the academic year that they are in and have missed out on opportunities as a result.

We think there is scope for a single account, with Government support coming in from wherever the parent is entitled to and then the parent can add what they need, whether that is the 15% for Universal Credit, the extra hours on top of their entitlement or the payments they need to make to get the top-up from tax-free childcare. That is all dealt with in one place. It is simpler for parents and we feel it would increase uptake as well as reduce administrative burdens.

Q30 **Chris Stephens:** Have you submitted this proposal to the Government, and have you had any initial responses so far?

Jonathan Broadbery: We have shared this proposal with the Government on several occasions, and it formed part of our childcare manifestos at the general election and in the Wales and Scotland national elections last year. We share it, and we are hoping for and have called for a larger policy review of support to children. In the last session a question was asked about the purpose of support for childcare. Is it supporting parents who want to return to work or is it getting improved outcomes for children?

There is evidence that children from disadvantaged families can be anywhere from 10 to 12 months behind their more advantaged peers by the time they are five and starting school. Early education and childcare provision is a big way of addressing the disadvantage gap and supporting those children. We feel that, in the long term, there are advantages for children in having greater support and greater access to high-quality childcare, but it has to be funded at a level that means people are able to deliver that high quality. If they are worried about their own business, if they are worried about their household income and if staff are worried about their own jobs and mortgage payments, that is not going to be conducive.

Q31 **Chris Stephens:** Helen, does your organisation have any views on the childcare passport proposal that we have heard about, or are there other ways to improve or simplify the payment system for childcare?

Helen Donohoe: I agree with everything Jonathan said. Anything that makes the system simpler for parents and providers is to be welcomed. At the moment we spend almost £5.5 billion on childcare. It is not a small amount of money, but we need to look at how it has been distributed and whether it is delivering the impacts. In our view it is not.

The most disadvantaged children are going to school almost a year behind their better off peers. Early education is not a luxury or an add-on. It is important for the economy. It is so important for the least privileged children, not just for education, literacy and numeracy but for speech development, communication skills and emotional wellbeing. All these things are critical in the preschool years.

Q32 **Chris Stephens:** The devolved Administrations in the other countries of the UK have different approaches to Government support for childcare costs. Is there anything that happens in the devolved Administrations that you would like to see adopted by the Department for Work and Pensions?

Helen Donohoe: We know that in Northern Ireland the Minister has sanctioned advanced payment of Universal Credit, a £1,500 non-repayable grant to enable those on Universal Credit to access childcare without fear of debt. That is one example. In Scotland there are small grants available for childminders to give them more stability in setting up their business. Again, not huge amounts of money but stimulants. It is not even a safety net, just an assurance that you are not going to end up in debt trying to do the right thing.

Q33 **Chris Stephens:** The Welsh Government are currently working on a digital childcare offer payment system, and your organisation recommends setting up a cross-departmental taskforce to develop the passport with representation from Scotland, Wales, HMRC, the Department for Education and DWP. Do you have broad support for that proposal? You mentioned that you had manifestos for the devolved elections last year, what response have you had from the Scottish and Welsh Governments?

Jonathan Broadbery: The reason we have recommended that these different Government Departments and devolved Governments work together is precisely because of the scale of the challenge. We recognise that one cannot work in isolation because the reason we are in this fragmented state, as Helen says, is because, although these policies have been developed with the best of intentions, they have created a very complex landscape.

We know that, initially, the Scottish Government and the Welsh Government looked at increasing digital engagement. There have been systemic barriers that have caused problems around that, so we are suggesting that across Government there needs to be a focus on addressing those challenges, whether it is language, systems not talking to each other or, with the two-year-old offer, how you share data about who might be eligible in different areas when there might be different eligibility criteria. We know that the new programmes for Government in Scotland and Wales have talked about expanding the offer for funded childcare to make it more universal for two-year-olds. There is going to be slight policy divergence again in terms of how that is offered to parents.

Elements that are UK-wide, like tax-free childcare or Universal Credit, need a UK-wide approach. Anything that simplifies the system is welcome, but if you take steps to simplify one element of it and do not take the others with you, you still have a complicated system. You have a complicated system where one part is slightly easier for parents and providers, but there are still other areas that keep it complex. In order to take a UK-wide approach, you need all these elements working together not in a siloed approach where DWP only focuses on the childcare element of Universal Credit, HMRC is looking at tax-free childcare and devolved education Departments are looking at the funded offers.

Chris Stephens: Thank you very much to both of you.

Q34 **Nigel Mills:** I should just say that my children use a childminder and a nursery, so I am using members of both your organisations. I would like to ask about the maximum that can be claimed on childcare costs under UC of £646 a month for one child or just over £1,100 for two. Is that a real problem for your organisations? It has not changed since 2005, so I am guessing that your costs have possibly increased in the last 17 years.

Jonathan Broadbery: For our members, year on year, they are seeing big increases in costs. For a nursery, typically, the largest proportion of their costs would be staffing. That will range between 65% to 80% depending on how that nursery is set up. In the last 15 years we have had requirements on pension contributions come in, we have had the national living wage come in and then increase above inflation year on year—I think there has been one year when it was at inflation—on top of the national minimum wage rises and we are looking at national insurance contributions going up. That is the staffing budget before you even take into account inflationary pressures and the cost of premises. On top of that they want to invest in their staff. You cannot just say, "I have got this level 3 qualified staff member in the setting, that is great. That is a box ticked." Every year you want to make sure that staff member is keeping up with the latest CPD and training, and all that adds to costs.

We have seen sharp increases in delivery costs and, as you say, if the cost of childcare is capped for parents, they are able to access less before they are hitting that cap. I would add two further points on practicalities. The Department for Education has a mechanism for calculating how much local authorities should get for an hour of childcare. I am in no way saying that this is perfect, because our members say that, on average, they are underfunded by about £1.60 an hour under the mechanism. A mechanism exists and it shows that, for areas like London, the amount the DfE will fund for an hour of childcare can be £6.50 up to £8.50, whereas in large parts of the rest of the country it can be around £4.40 to £5. There is clearly a recognition that different parts of the country face different costs in delivering childcare.

To go back to my original point about ratios, working with babies and toddlers is much more staff intensive so is naturally more expensive to deliver. The previous panel touched on parents' experiences of higher fees in those age ranges precisely because of having more staff. The cap definitely needs to be looked at. If you are looking at a full-time parent, you could be looking at a cap as low as under £4 an hour if they are using Universal Credit.

Q35 **Nigel Mills:** What is the impact, Jonathan? Do your members have to try to manage their provision and their costs down to something close to the cap, or do they just say, "We charge more than that, take it or leave it"? What impact does this have?

Jonathan Broadbery: That will depend. We hear a lot of providers who will say that they have money set aside so they can support parents at that lower income level. They will do what they can but, as margins become tighter and tighter, the capacity for that extra support is taken away. Some providers, especially if they are oversubscribed, might make a very hardnosed decision and say, "I have two parents and one place. I am going to offer it to the parent who can pay the fees I need." We know that providers bend over backwards to try to reduce the costs they have to pass on to parents. In our last survey last summer we found that 41% of providers were looking at their financials. When I said 85% were looking at operating at a loss or just breaking even, 41% said they were looking to increase fees to parents above inflation. At the time inflation was just over 2%. We are obviously looking at much higher inflation and at much more pressure on providers.

Q36 **Nigel Mills:** What do you want to see changed? Presumably you would like to see a rebasing of the cap to something like a sensible amount. Do you think it should go up by inflation each year? Is that a more sustainable position?

Jonathan Broadbery: That is definitely more sustainable than not increasing the cap at all. Absolutely, there needs to be better recognition across Government of the pressures that providers and small businesses are under. I come back to the point about cross-departmental working. We work with the Low Pay Commission every year to provide evidence of the pressures that providers are under in terms of delivering higher wages to their staff when they face the ceiling of a funding cap.

An understanding from DWP when they keep the cap at the same level, as other staffing costs increase year on year, they are creating extra pressure for parents and providers.

Nigel Mills: Helen, do you have anything you want to supplement or disagree with in what Jonathan has said?

Helen Donohoe: I agree with everything Jonathan said. The same applies to childminders. One of the unintended consequences is that providers rely more on private fees. As a provider in a precarious situation, whether you want to or not, you are going to be drawn to people who are able to pay in advance and cover all your costs. One of the consequences is that in England and Wales, where we cover, there are huge areas of disadvantage and economic decline. It is a vicious circle, they are not having the provision of childcare that they need. As a provider, you are much more likely to be making a decent profit in a wealthy area with parents who are able to afford pretty robust private fees.

Q37 **Nigel Mills:** What are the consequences? Are you saying that thousands of childminders could just leave the industry, that they cannot make it pay if we do not sort this out? Or will it just be a fact that probably the most deprived families who, policy-wise, we would like to have the most childcare support, will be the ones who cannot get it and do not get the learning opportunities that more middle-class families get? Is that what you think the consequence will be, that provision becomes much less available in more deprived areas?

Helen Donohoe: Exactly that. On the first point, thousands of childminders are leaving. As I said, almost 3,000 since July 2020 based on latest figures. What is happening is people are not joining the profession. People are leaving at their normal rate because what generally happens is you get to a point where you think, "Okay, my children are grown up" or, "I want an easier life, a part-time job somewhere else" but we are not replenishing that supply of the childminder workforce.

Yes, if you are in a relatively wealthy area where employment is buoyant, where incomes are solid, where there is flexibility, where people have homes that they can turn into decent childcare settings as a childminder and perhaps you have the stability of a second income from your partner, you are more likely to think, "Okay, I think I will set up a childminding business."

In areas of deprivation where services are more disjointed, you might not own your own home and funding streams are precarious. You can see it is not such an attractive proposition.

Q38 **Nigel Mills:** Finally, do we need to have a London weighting on the cap or do we need to have a more regional approach? Are there other parts of the country that are so much more expensive than the average that just a London weighting would not help?

Helen Donohoe: It is partly supply and demand. London is overwhelmingly more expensive than the rest of the country.

Jonathan Broadbery: I would agree with that. There are probably larger city centres where providers face higher costs for properties and premises. London is an obvious example, but also Cardiff, Edinburgh, Birmingham, Manchester and some of those bigger cities. If a provider does not own the premises, if they rent, they face a lot higher premises costs than in other areas. Again, I refer back to the Department for Education's funding model. Not to say that is the right figure but to say that it recognises that, again, cities face higher costs for delivery if they are going to meet the need.

Going back to your point about consequences and areas of deprivation, we produced a report last year analysing where settings have closed. In the highest percentile for areas of deprivation, the closure rates were markedly higher than in other areas. Those are not exclusively the settings that work with parents on Universal Credit, but they are much more likely to have a higher proportion and they are also much more likely to have a higher proportion of parents who are just claiming the funded hours and do not pay for hours outside of the funded entitlement.

Q39 **Siobhan Baillie:** Thank you for joining us this morning. What you are doing for your members is important. The Chair is very clever because we are in the middle of Childcare and Early Education Week, and we have been thinking about how to redefine or speak more confidently about early years providers as educators. I think that is important.

I have been looking at a Social Mobility Commission study for another project I am doing and, given the recruitment issues, it is quite striking that the barriers to a stable early years workforce include negative organisational structure, low income, high workload and responsibility, over-reliance on female practitioners, insufficient training, lack of opportunities for progression, and low status and reputation. We have touched on quite a lot of those, but it is the last one that gets me, given that we all hand over our most precious little people with complete faith in the providers that we choose. I want to see a change of attitude for the whole sector.

How do you think we should be actively stabilising the workforce and making your members and the wider sector feel more valued, given what they do for us all?

Jonathan Broadbery: First, I would like to thank you for supporting Childcare and Early Education Week. It is an important opportunity.

In terms of the workforce, we know they are not just supporting families who might be on Universal Credit and benefit claimants. Around half—I think it is 44.5%—are on some form of in-work benefits or tax credits, so because of low pay they are likely to be recipients of Universal Credit or other forms of support.

I come back to the point that providers want to recognise and reward their staff. We continually hear from nurseries about high turnover of staff, with staff leaving to work in other sectors like supermarkets, other retail, adult care and health. It is a real concern because people generally come into the sector with a passion for working with children and supporting their development.

Overwhelmingly, the feedback we get is that working with children is a positive environment. What they come back to, in terms of problems, is administration and paperwork, and 39% of staff in early years settings say that has caused them unhappiness or stress in the last two weeks. Around a quarter are concerned about their own financial wellbeing, and more are concerned about the financial sustainability of their employer.

If you are constantly worried about your own month-to-month income, and also whether or not your employer is going to be there month to month, end of the term, end of the academic year, that is causing a large proportion of staff a lot of stress and worry.

As a society, there is a lot that we can do to celebrate and recognise the early years workforce. We have helped to facilitate a parent focus group with the APPG on childcare and early education on this very matter. Parents, when they reflected on it, were saying, “These people who look after our children are amazing, and we would be lost without them.” That kind of thing is important to get across. I go back to the point I made earlier that a lot of child development and a lot of life chances are set in that foundational stage.

I want to touch finally on one figure. The LSE, working with the Duchess of Cambridge’s Royal Foundation, found that lack of support in the early years is costing us, as a country, £16 billion a year in later interventions, whether that is people being out of work, offending rates or other problems later in life. I am not saying that early education is a panacea, but we know it has such an impact on people’s life chances. Helen mentioned communication skills, and the ability to learn at school is set in those formative years.

I go back to the point about disadvantaged children. Things that we can do to support them at that point can lead to much better outcomes later in life and therefore returns on that investment, which are important.

Our early years workforce is an incredibly valuable asset to the country and our infrastructure. Whether they are childminders or working in a setting, there is a lot we can do to recognise and reward that. Properly funding childcare is step one because providers cannot increase pay or do the things they want to do while they are living month to month.

Helen Donohoe: I agree with all of that. Early years childcare and educators would like to be considered as professionals on a par with the rest of the education community. Huge strides have been made in terms of schools and education providers in schools. So often we hear from the DfE, for example during the pandemic, about the measures being taken in schools, but the early years and childcare sector is an afterthought. We are constantly reminding it of the need to acknowledge and consider the workforce in this sector, particularly childminders, as just as important.

Part of that is remuneration and working conditions. Frankly, a quality workforce produces quality outcomes, but in order to have a quality workforce you need to pay properly, you need qualifications and you need a long-term picture across a career in the sector.

However, we know that the average wage in our sector is £7.42 an hour. You can get more working for Tesco and probably considerably less stress. Research from the Sutton Trust at the end of last year suggested that one in six people in our sector leaves their job within a year and that providers across the board, rather than investing more in personal development and CPD for their staff, 55% are looking at a reduction in staff development because that is the first thing to be chucked out when money is tight.

Q40 **Debbie Abrahams:** Good morning, everyone. Thank you for the evidence you have provided so far. My question follows on from the one I put to the first panel about provision for disabled children. I have picked up some anecdotal evidence on the disability premium, if you like, that parents are facing. Are you able to comment on this? The first panel thought there was a gap in the evidence base, but it would be very helpful for us to be able to expand on that. The number of specialist providers would also be very helpful.

Jonathan Broadbery: I will answer your last point first. I do not have figures on the number of specialist providers, but it is an important point.

In terms of support for children with disabilities, our members continually flag this up as a point of concern. One of the benefits of increasing support and availability for all children to access early education and childcare is that it builds awareness among families where children have SEND needs and providers see more of those in settings.

In addition, with changes to the qualifications, new staff coming into the sector have taken elements of SEND training as part of their qualification. At the same time, there is a lot more recognition and response to additional needs that are identified sooner in children. The problem becomes accessing that support. If a child is identified as needing one-to-one support, whether that support is available in a local area is very hit and miss and quite often we hear from providers who say, "This child is with me for 25 hours a week. I have been told that there is funding for me to offer one-to-one support for 10 of those hours." They are then in a position where a child's needs have been identified but the means to meet them is not available for the whole time that the child is in the setting. Providers are very uncomfortable and unhappy with that because they want to support those families. They want that support for those children. At the same time, they know that outside of those 10 hours they are not doing everything they could to meet that child's needs.

There is an important piece of work here about what is available in different parts of the country and how things like high-needs budgets in local authorities are used in the early years because we know that, as part of the dedicated schools grant, the high-needs budget is most likely to be the one that is under pressure, actually bursting, with demand far outstripping the resource available. That is a concern.

Helen Donohoe: I would reiterate all of that. It is a gap in the evidence and, because of the unreliable nature of provision in our sector, I think a lot of families choose to make their own way and provide care at home in their own way, which is awful. To be effectively excluded from decent, high-quality care and early education because you are disabled is wrong on every level.

Q41 **Debbie Abrahams:** Absolutely. Thank you for that. You mentioned providers closing in areas of high deprivation at a higher rate than in more affluent areas. I wondered if you have seen, as we have seen, for example, in the private rented sector for housing, some providers saying, "We are not going to provide childcare for anyone who is on Universal Credit because of the complexity and because the fees just do not cover everything."

Jonathan Broadbery: We have not come across that as an up-front position, but as we have said in earlier questions, those parents are much more likely to get into difficulties with the provider. They might be more likely to leave provision because of financial difficulties or financial circumstances. We know that providers look very carefully at how they are able to offer what they can, but that becomes more and more difficult.

Debbie Abrahams: Helen, are you aware of childcare providers who are saying no to Universal Credit parents?

Helen Donohoe: Absolutely, yes. It is a difficult one to survey among our members because, obviously, it is a sensitive issue, but some have had difficult circumstances. We know some have ended up in debt themselves because parents have left without paying. We have a few cases of people who have gone to the small claims court as well. It depends on your circumstances. If you are in a precarious situation yourself, you have to take fewer risks, and working in arrears obviously has an element of risk.

Q42 **Chair:** Finally, Helen, you told us about quite a big fall in the number of childminders since July 2020. Is that because of the pandemic or is it a continuation of a longer-term trend of decline?

Helen Donohoe: It is continual decline over the last 10 years, unfortunately.

Q43 **Chair:** If we look back, was 10 years ago the point at which the maximum number of childminders were in place?

Helen Donohoe: I am not sure there was any particular utopia for childminding. We have done some research into this recently. I can certainly dig out the figures. I don't think the pandemic has helped, clearly, but it is nothing new. This is something that has been ongoing and we are consistently raising it with the DfE to understand better where and why those reductions are happening.

Q44 **Chair:** Jonathan, what is happening to the number of nursery places? Are we seeing an increase to make up for the fall in the number of childminders?

Jonathan Broadbery: In terms of the proportion of childcare places delivered in nurseries, we have seen that increase. At the same time, as Helen said, during the height of the pandemic we saw a net loss of 400 providers from the early years register as well. There is always turnover. There are always people leaving, whether that is closing the businesses full stop, retiring or being bought out, especially for those smaller single-site settings. When we are talking about net losses, we are talking about the number of new nurseries not keeping pace with the number that are closing. There has been a slight recovery in that net figure in recent months, and we are just waiting for Ofsted's latest publications on that.

Q45 **Chair:** Before the pandemic, were things reasonably stable or was the number of nursery places going up?

Jonathan Broadbery: The number of nurseries was reasonably stable. I would say the number of nursery places was stable but increasing slightly.

Chair: Okay. Thank you both very much indeed for giving us a very interesting session and lots of useful information, which we will make very good use of, I hope, as we formulate our recommendations to Ministers in due course. Thank you for joining us. That concludes our meeting this morning.