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Work and Pensions Committee

Universal Credit and childcare costs

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Work and Pensions Committee

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Contents

Abbreviations

ADF	Adviser Discretion Fund (Northern Ireland)
BA	Budgeting Advance
DfE	Department for Education
DWP	Department for Work and Pensions
FSF	Flexible Support Fund
HB	Housing Benefit
HMRC	HM Revenue and Customs
OECD	Organisation for Economic Co-operation and Development
TFC	Tax Free Childcare
UC	Universal Credit
WTC	Working Tax Credits

Summary

Affordable and accessible childcare is key to enabling parents to work and to increase their working hours, as Universal Credit (UC) aims to encourage. Our predecessor Committee found aspects of the childcare element of UC were acting as a barrier to work for low-income families. That Committee made several recommendations to improve the system in its 2018 report, but we found many of these problems remain. This is particularly pertinent given the cost of living crisis, with families facing increased costs against a backdrop of high inflation. With vacancies in the UK currently over 1 million, tackling barriers to work is vital.

The UC childcare costs element is more generous than the Working Tax Credits (WTC) system it replaces, as it offers a higher rate of reimbursement. At present, however, the childcare support provided with UC is only sufficient to cover part-time hours, because the cap it is subject to has been frozen for six years. The Autumn Statement recognised the impact of inflation on those on low incomes by uprating benefits and the benefit cap and set out an ambition to support UC claimants to increase their hours. The eligible childcare costs support cap in UC should be uprated to support this ambition.

Only 13% of households who may be eligible for the childcare element of UC claimed it in February 2022. We recognise the reasons for this may be complex, and some are outside of the Department for Work and Pensions' responsibility. The Government should commission research to explore why take-up is not higher, and regularly publish these statistics so progress can be measured.

The UK has one of the most expensive childcare systems in the world, and in a cost of living crisis, this affects families at most income levels. However, the pressure is most acute on low-income families.

The UC system is based on payment in arrears. This is designed to make it more dynamic and responsive to changing circumstances, therefore incentivising work. However, we heard that as payment for childcare usually needs to be made in advance, and parents then have to wait weeks for reimbursement, they often face a choice between taking on debt or turning down work. We understand the issues around fraud under WTC and UC more widely. But workable solutions presented by other systems, including Tax Free Childcare, should help overcome this obvious barrier to work, and we ask the Government to bring forward proposals.

When defending the system of payment in arrears the Government often refers to the Flexible Support Fund (FSF), but we have heard those who may be eligible find it very difficult to access, if they even know it exists. Job Centre Plus Work Coaches must be adequately trained and empowered to use this discretionary fund. To monitor progress on this, the Government should publish FSF spending figures annually. In addition, parents should be reimbursed for costs paid by the FSF, as they can be in Northern Ireland, so that upfront costs can be offset, rather than just pushed back a month.

In addition to the problems with the UC system itself, we heard that it continues to be difficult for parents to understand what support they are eligible for and what choices they have. We recognise the complexity of UC makes it difficult to design a simple

calculator. However, there are significant improvements that could be made to both the training of Work Coaches and to the information available online. We recommend the Government develops "childcare specialist" Work Coaches, in line with existing self-employment and disability employment specialist roles. The Childcare Choices website should be a single portal for childcare support information, and should include information, advice and calculations so UC claimants can understand their options. A redirect to the main UC site is not good enough.

On upfront and variable costs, the Government acknowledged that it was the providers' standard operating model to require payment in advance. We heard very few examples of providers willing to offer alternatives such as equal monthly payments, and providers themselves may have limited options due to the small margins they operate on. This is not an issue that should fall solely on providers. The Government should bring forward proposals on ways that costs could be spread more evenly for those on UC.

1 Introduction

1. Access to childcare is vital for working parents. For those on low incomes, and particularly women and single parents, the support provided by the Government can make the difference between being able to re-join the workforce or becoming economically inactive for extended periods. However, as Coram Family and Childcare, a charity focused on childcare and early years, explained, "even with the support available through Universal Credit, childcare costs are an insurmountable barrier to work for many families."[1]

2. In 2018, our predecessor Committee published a report, *Universal Credit: childcare,* highlighting some of the challenges facing Universal Credit (UC) claimants.[2] We launched this inquiry in late 2021 after hearing that many of the issues raised in 2018 persist for low-income households accessing childcare. This is particularly pertinent given current pressures on the cost of living, with families struggling with increased costs as seen with inflation reaching 11.1% in October 2022.[3] The recommencement of 'managed migration' will also see more families with children moved to UC, and consequently move from the childcare support offered by Working Tax Credits (WTCs) to the new regime. In addition, the number of vacancies in the UK remains over 1 million, making tackling barriers to work vital.[4]

3. In addition to receiving written evidence, we held three oral evidence sessions in early 2022, hearing from charities that support parents, early years organisations, welfare and poverty campaigners with personal experience of UC and childcare costs, policy experts, and Ministers and officials from the Department for Work and Pensions (DWP). We are grateful to everyone who contributed to this inquiry, especially those who shared their personal stories.

1 Coram Family and Childcare (UCC0016)
2 Work and Pensions Committee, Universal Credit: childcare, Twenty-Second Report of Session 2017–19 (HC 1771), 23 December 2018
3 ONS Consumer price inflation, UK: October 2022
4 ONS, Vacancies and jobs in the UK: December 2022

Box 1: Key recommendations made by previous Work and Pensions Committee (2018) and Government response/action

1. We recommend the Department develops Universal Credit's systems to enable childcare costs to be paid directly to childcare providers. This would alleviate the problem of prohibitive upfront costs, help claimants with budgeting and give providers themselves much needed certainty of Income. Direct payments would also substantially reduce the risk of fraud and error. (Rejected)

2. We recommend the Department amend its guidance to Work Coaches and Universal Credit staff to make clear that Budgeting Advances are not an appropriate option for claimants struggling with the day-to-day costs of childcare. The guidance should make clear that claimants struggling with such costs are to be directed to the Flexible Support Fund in the first instance. (Partially accepted. Agreed to promote use of FSF but felt Budgeting Advances still had a role to play)

3. We recommend the Department set out in response to this report its strategy for promoting the use of the Flexible Support Fund to help with upfront childcare costs to Work Coaches, claimants and other interested parties such as childcare providers. This should include details of any mandatory or optional training and development taken on by Work Coaches and other JCP staff and managers. (Accepted)

4. We recommend the Department publish a quarterly statistical update on the use of the Flexible Support Fund. This should include breakdowns of both the purposes for which the Fund is used and differences in spending by Jobcentre Plus district. (Rejected)

5. We recommend the Department trial a childcare deposit scheme using the Flexible Support Fund. This would involve paying deposits direct to providers from the Fund. The Department should see this as an opportunity to pilot paying costs direct to providers. We therefore recommend it commission and publish an evaluation of the trial that includes lessons learned for further direct payments to childcare providers. (Rejected)

6. We recommend the Department:

> *i) Review the maximum caps on childcare costs that can be reimbursed under Universal Credit. This should include modelling the effect of higher caps on work participation amongst claimants with children and introducing a "London weighting" to account for the very high costs of childcare in the capital. The Department should use this work to inform its thinking on whether further regional variations would be appropriate; and*
>
> *ii) Carry out its own modelling of the costs and effect on work incentives of increasing the maximum reimbursement under Universal Credit from 85% to 100% of allowable costs. The Department should commit to implementing the approach that will have the greatest impact on work incentives, prior to scaling up "managed migration" in 2020.* (Rejected. Caps have not been reviewed, wider analysis DWP undertaking yet to be shared)5

7. We recommend the Government divert funding from the schemes aimed at wealthier parents (Tax Free Childcare and the 30 hours free childcare) towards Universal Credit childcare. (Rejected)

5 Correspondence with the Minister for Welfare Delivery and the Minister for Employment on Universal Credit and childcare costs, 29 June 2022

8. We recommend that Government updates the Gov.uk Childcare Calculator to calculate fully Universal Credit entitlement as it currently does for tax credits. This should be operational before the Department starts moving large numbers of claimants to Universal Credit in mid-2020. (Rejected)

9. We recommend that alongside developing the Childcare Calculator, the Department engages with Citizens Advice (its delivery partner for the Universal Support service) about how in-person, expert advice and support on childcare schemes can be included in and funded via Universal Support. (Accepted)

Source: Work and Pensions Committee, Universal Credit: childcare, Twenty-second Report of Session 2017–19 (HC 1771), 23 December 2018; Work and Pensions Committee, Universal Credit: childcare: Government Response to the Committee's Twenty Second Report, Twenty-fifth Report of Session 2017–19, (HC 2078), 11 April 2019

Importance of accessible and affordable childcare

4. The decision to return to work and seek childcare is often a complex and personal one for parents. There are benefits to both children and parents, beyond the most obvious financial incentives. There can be an educational benefit when children attend formal childcare. The Local Government Association (LGA) explained that this is particularly true for disadvantaged children:

> Good quality early education can make an enormous difference to children's early development and their long-term life chances. By the time disadvantaged young people sit their GCSEs at age 16 they are, on average, 18.4 months behind their peers and around 40 per cent of that gap has already emerged by age five.[6]

Our predecessor Committee noted DWP research that showed children in workless families face negative long-term impacts that can persist throughout their lives.[7] UC is designed to support parents who work, and to ensure they benefit from increasing their pay.

5. Gemma Widdowfield, a welfare campaigner and mother of one, and Vikki Waterman, an anti-poverty campaigner and mother of two, explained when they spoke to us in March why getting back to work was important to them, even if the financial gain was limited or non-existent. Ms Widdowfield said:

> I would always go back to work. I want to pass on good ethics to my little girl. For my own sanity and mental health as well, I need to work. There is absolutely no question.[8]

Ms Waterman added:

> My youngest daughter was one when I went back to work and she was ready to go into some type of childcare provider and have that interaction. My oldest daughter was three at the time and she loved nursery. It contributed

6 The Local Government Association (UCC0008)
7 Work and Pensions Committee, Universal Credit: childcare, Twenty-Second Report of Session 2017–19 (HC 1771), 23 December 2018, p7
8 Q71

> massively to her education and all of that kind of stuff. Not only that—it is so difficult to be 24/7 with two young children. I adore my job. I absolutely love it. There was never a question for me not to go back to work.
>
> In the beginning, I would have been better off not working, and that is an absolute fact. I would have been better off financially if I hadn't worked, but I chose to stick with it even though I was financially worse off. I think it was about £50 to £80 a month—something like that at the time—to be able to get my foot in the door back in the workplace and then since progress in that workplace, which is what I have done, but it has been a long slog.[9]

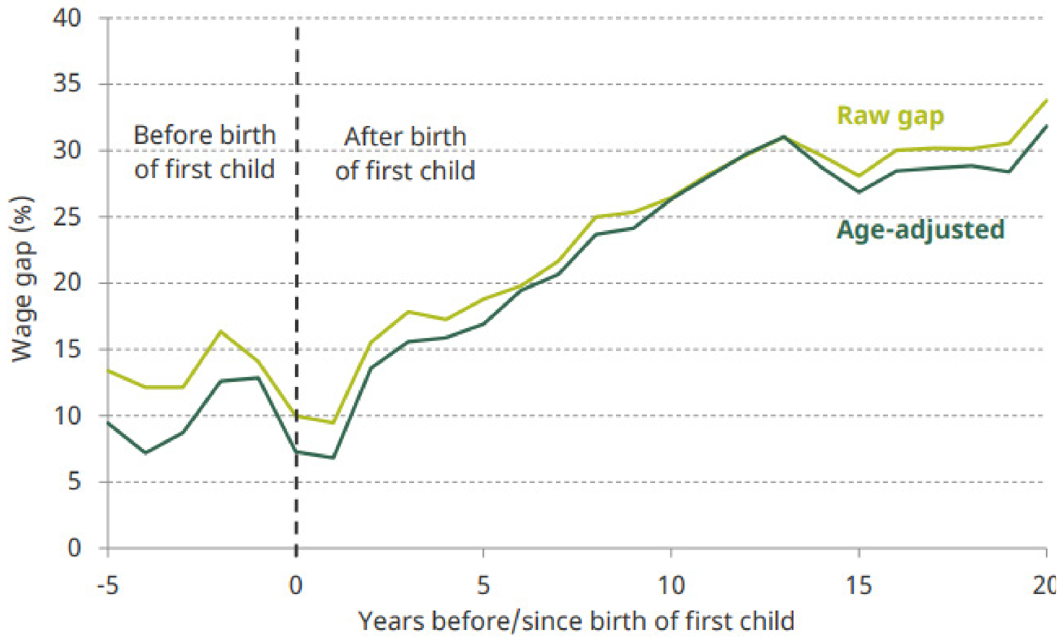
6. For other parents, returning to work may simply be a financial imperative. The Centre for Social Justice (CSJ), a think tank, referenced its surveys in which "81 per cent of parents cited finances as the main factor pressurising either themselves or their partner into returning to work".[10] There is also a clear benefit to the economy. The Centre for Progressive Policy, a think tank focused on inclusive growth, estimated that:

> If women had access to adequate childcare services, and were able to work the hours they wanted, they would increase their earnings by between £7.6bn and £10.9bn per annum, generating up to £28.2bn in economic output per annum.[11]

7. The LGA also noted that "the provision of affordable and accessible childcare is key to reducing gender inequality and the gender pay gap".[12] As Figure 1 shows, the gender pay gap widens considerably after the birth of a first child, and the Institute for Fiscal Studies (IFS) attributes much of the gap to 'child penalties'.[13]

9 Q71
10 Centre for Social Justice (UCC0019)
11 Centre for Progressive Policy, Women in the labour market, October 2021
12 The Local Government Association (UCC0008)
13 Institute for Fiscal Studies, Women and men at work, 6 December 2021

Figure 1: Gender pay gap by time to and since birth of first child



Source: House of Commons Library, The gender pay gap, research briefing 7068, 7 April 2022, p.16/ IFS BN223 Figure 5

Cost of childcare as a barrier to work

8. While different systems can be difficult to compare precisely, the UK has one of the most expensive childcare systems in the world. For example, using the metric of net fees as a percentage of women's median full-time earnings, the UK system is the most expensive for those on median earnings, and in the top three for those on low earnings, among OECD countries.[14]

Table 1: Prices of 25 and 50 hours a week childcare for children under two and aged two at nurseries and childminders

	Nursery				Childminder			
	25 hours a week		50 hours a week		25 hours a week		50 hours a week	
	Under two	Two	Under two	Two	Under two	Two +	Under two	Two +
GB	£138.70	£133.69	£269.86	£262.16	£124.41	£122.03	£237.28	£235.73
England	£140.68	£135.28	£273.57	£265.38	£124.83	£122.33	£237.58	£236.01
Scotland	£108.62	£106.62	£212.99	£206.85	£119.17	£117.77	£238.35	£235.89
Wales	£125.73	£125.88	£246.79	£247.19	£118.99	£118.47	£230.69	£230.26

Source: Coram Family and Childcare, Childcare Survey 2022, pp.11–13

14 OECD Is Childcare Affordable? 2020, p2, Figure 1.
Note: Data reflects the net cost (gross fees less childcare benefits/rebates and tax deductions, plus any resulting changes in other taxes and benefits following the use of childcare) of full-time care in a typical childcare centre for a two-child family, where both parents are in full-time employment and the children are aged 2 and 3

Table 2: Prices of 25 and 50 hours a week childcare for three- and four-year-olds in nurseries and childminders

	Nursery		Childminder	
	25 hours a week	50 hours a week	25 hours a week	50 hours a week
England	£54.10	£105.76	£48.67	£93.98
Scotland	N/A	£85.03	£46.69	£93.36
Wales	£50.37	£98.58	£47.33	£92.94

Source: Coram Family and Childcare, Childcare Survey 2022, pp.15–16

Notes: Includes free childcare entitlements, see figure 2 below

9. The Women's Budget Group (WBG) explained that using Coram's data it had calculated:

> A woman whose median annual earnings were £11,324, had 63% of her wages absorbed by childcare costs if she had a child under 2 in nursery part-time. For a woman whose median annual earnings were £28, 021, 49% of her salary is absorbed by the costs of having a child under 2 in full-time nursery.[15]

10. With the National Living Wage currently £9.50 per hour, rising to £10.42 in April 2023, and unpaid travel time also often needing to be covered, the cost of childcare quickly becomes prohibitive for low earners, particularly those with more than one child, and single-parent families. As women are in most cases still the primary caregivers in two-parent families, and represent 90% of single-parent families, they are disproportionately affected by this barrier to work.[16]

Government support for childcare

11. Given the high costs outlined above, even those on more comfortable incomes face difficult choices. Reflecting this, not all subsidised childcare is targeted towards low earners, but includes some universal, and near-universal, support. Figure 2, produced by Coram Family and Childcare, shows the different schemes available in Great Britain.[17]

15 Women's Budget Group (UCC0014)
16 The Local Government Association (UCC0008)
17 Coram excludes Northern Ireland from its surveys as the childcare funding system is very different, making it hard to draw direct comparisons.

Figure 2: Childcare and early years provision in England, Wales and Scotland

Childcare support	Age of child	Nation	Applicability
Funded childcare for 2 year olds	2 year olds	England	15 hours a week for 38 weeks a year for parents in receipt of benefits (including in-work benefits) or children who are disabled or looked after.
		Scotland	Up to 1140 hours / year for parents in receipt of certain benefits (including in-work benefits) or children who are looked after.
		Wales	12.5 hours a week for 39 weeks a year for 2 to 3 year olds in Flying Start areas (geographic areas which are deprived).
Universal funded childcare for 3 and 4 year olds	3 to 4 year olds	England	15 hours a week for 38 weeks a year for all 3 and 4 year olds.
		Scotland	From August 2021, all 3 and 4 year olds are entitled to 1140 hours a year. (30 hours a week during term time, or 22 hours spread across the year)
		Wales	10 hours a week for all 3 and 4 year olds. Increased to 12.5 hours for 3 year olds in Flying Start areas.
Funded childcare for 3 and 4 year olds with working parents2	3 to 4 year olds	England	3 and 4 year olds with working parents are entitled to an extra 15 hours a week free childcare for 38 weeks of the year, meaning they get 30 hours a week in total.
		Scotland	As above.
		Wales	3 and 4 year olds with working parents are entitled to 30 hours per week for 48 weeks a year.
Tax-free childcare	Aged under 12 or under 17 if child has a disability	All nations	Covers 20% of childcare costs up to a maximum of £2,000 per child per year or £4,000 for disabled children. Tax-free childcare replaces the childcare vouchers scheme which has closed for new applications. Parents and their partner (if they have one) must earn at least the equivalent of 16 hours a week at the National Minimum Wage or Living Wage. Parents' earnings cannot exceed £100,000 / year. Can be received alongside the 30 hours extended entitlement, but not Working Tax Credit or Universal Credit.
Universal Credit	Any age, with Ofsted registered providers	All nations	Pays up to 85% of childcare costs up to £175 per week for one child and £300 for two or more children. This is set to replace tax credits and other benefits. Universal Credit can be claimed alongside funded childcare, but not with Working Tax Credit or Tax-Free Childcare. Parents must have an income below a certain level – this varies depending on families' circumstances.

Source: Coram Family and Childcare, Childcare Survey 2022, p.10

12. Our predecessor Committee recommended some of this funding be redirected to low earners (see Box 1, recommendation 7). The Government at the time noted the recommendation and restated the different offers available that reflect "different family circumstances."[18] Gavin Rice, Policy Director, Centre for Social Justice, told us:

> I think a significant shift was the extension of the free childcare entitlement to 30 hours for families where both parents are working. As a consequence there has been a significant upwards and regressive shift within the allocation of overall UK childcare subsidy funding towards middle and higher-income households at some significant cost. It seems strange to me—and I know I have made this point already—that we should be subsidising childcare of households that can have incomes of up to £200,000 a year while at the same time we are quibbling over concerns of slight potential overpayments within the Universal Credit system for families that are on the very lowest

18 Work and Pensions Committee, Universal Credit: childcare: Government Response to the Committee's Twenty-second Report, Twenty-fifth Report of Session 2017–19, (HC 2078), 11 April 2019, pp.11–12

> incomes. Also the amount that we spend on incomes in the bottom five income deciles has fallen over the last five or six years or so. We are seeing an upward skew in how we are allocating our resources.[19]

He also explained:

> The percentage to which we focus that spending on lower-income households—working ones—has declined from 45% in 2007 to around 17% now. We spend only about 27% of total funding on lower income households, whether you categorise them as working or not.[20]

13. The Government does not separate childcare from the rest of UC spending. However, in 2019 DWP estimated it would be around £400 million for 2019–20, rising to £1.4 billion by 2023–24, as more people move off legacy benefits.[21] The Government estimates it spends £6 billion a year on childcare support.[22] Of this, around £4 billion is spent on schemes that are not targeted to those on low incomes, including more than £3 billion on funded hours, which do not have an income limit.[23] However, those on low incomes can also use these schemes to supplement the targeted support they receive. Responsibility for the Government's childcare support is spread across three departments—DWP, the Department for Education (DfE) and HMRC. We discuss DfE's offer in Chapter 5.

Universal Credit childcare support

What is available

14. Through UC, working parents can be reimbursed for up to 85% of eligible childcare costs, up to a maximum amount each month of £646.35 for one child and £1,108.04 for two or more children.[24] In two-parent households, both parents will usually need to be in work to qualify, except if either are unable to work due to disability or a health condition.[25] There is no minimum work hours condition, but it must be paid work rather than voluntary.

15. Any childcare which is claimed for needs to come from a registered provider.[26] This can include nurseries, childminders, breakfast clubs, after school care and holiday clubs.[27] Parents must pay their childcare costs upfront and then claim them back. The cash limits

19 Q90

20 Q76

21 PQ HL441 [on Universal Credit: Children], 5 November 2019. This may change as managed migration is delayed. We also know that in February 2022, 119,900 households received the childcare element with an average entitlement of £329. This would represent spending of around £473 million for the year if the figures for February remained constant, although they will fluctuate month to month. (DWP, Official Statistics: Universal Credit claimants eligible for and receiving the childcare element between March 2021 to February 2022, Updated 29 June 2022 [Applies to England, Scotland and Wales]

22 Q141

23 Estimates based on: Universal 15 hours: £2.29 billion, Extended 30 hours: £894 million (Department for Education, Dedicated schools grant 2022 to 2023, 17 November 2022); Tax Free Childcare £525 million (HM Treasury, Main Supply Estimates 2022 to 23, p359) HMRC employer supported childcare: £340m a year in 2021/22 (HMRC, Tax relief statistics (December 2021), 17 August 2022)

24 Department for Work and Pensions (DWP), Universal Credit: What you'll get, [accessed 28 October 2022]. Parents must be working, or due to start a job in the next month.

25 Ibid

26 Ofsted in England, Care Inspectorate Scotland/Wales. See DWP, Universal Credit guidance on Childcare costs (v23, updated November 2022) for full details.

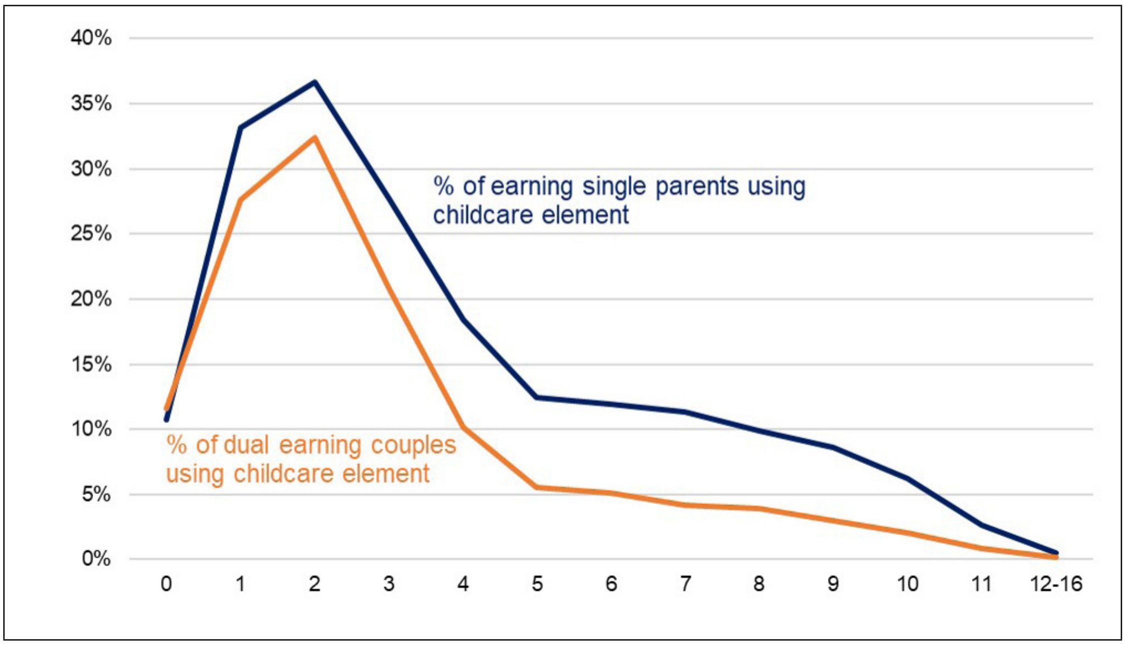
27 Ibid

mean UC will cover a maximum of 85% of a £760 monthly childcare bill for one child. Parents must pay the remaining 15%, and any amount over this limit. The childcare element of UC is not included in the benefit cap, but the usual taper rate does reply, so actual support can be reduced as earnings increase over and above the work allowance.[28]

Take-up and barriers

16. DWP's original submission to this inquiry stated that "there is not an official estimate of UC childcare take-up."[29] However, in June 2022 the Department published statistics that showed "13% of households with all parents earning and children aged between 0 to 16 were paid the childcare element in February 2022."[30] As Figure 3 shows, it is slightly higher for single parents (14%) than two-parent households (12%), and peaks when children are aged two.[31] After this point, other forms of childcare support become available, such as free childcare hours or Tax Free Childcare. We discuss these later in this report.

Figure 3: Total childcare recipients as a proportion of households where all adults are earning, by age of youngest child, February 2022



Source: DWP, Official Statistics: Universal Credit claimants eligible for and receiving the childcare element between March 2021 to February 2022, Updated 29 June 2022 [Applies to England, Scotland and Wales]

28 The benefit cap places a maximum on support a household can receive in welfare benefits, but excludes childcare costs from any resultant reduction: Chapter E5 ADM guidance, GOV.UK.
The taper rate reduces the total amount of UC paid as earnings increase, over and above the work allowance. The rate is currently 55%, reduced from 63% in the Autumn 2021 budget. This does apply to the childcare element as well as the other components of UC. Work allowance amount is different according to whether the claimant receives Housing Support. See DWP, Universal Credit work allowances

29 Department for Work and Pensions (UCC0015)

30 DWP, Official Statistics: Universal Credit claimants eligible for and receiving the childcare element between March 2021 to February 2022, Updated 29 June 2022 [Applies to England, Scotland and Wales, accessed 28 October 2022]

31 Ibid.

17. The 13% take-up rate is already slightly above the 12.5% the Government estimated it might be after UC rollout was completed when our predecessor Committee carried out its inquiry in 2018.[32] It is still a relatively small proportion of working UC claimants with children. DWP gave some possible reasons for low-income parents having difficulty accessing the childcare market:

- "Government support is only available to Ofsted-registered providers in England (with similar requirements for Scotland and Wales), which is not required for childcare provision for children aged 8 years old and over;
- the underlying cost of childcare even when subsidised–for example, the average cost of a full-time place of one child under 2 in England is over £260 per week, almost 75% of which is due to staffing costs;
- the lack of flexibility for parents working non-standard or fluctuating hours;
- the requirements of providers for upfront payment for childcare, sometimes up to a term ahead; and
- a shortage of school holiday provision."[33]

In addition to these, the Department explained UC take-up may be specifically limited by:

- "parents using the Government's free childcare offers;
- a preference for parents to use friends and family to provide childcare; and
- availability of local childcare providers."[34]

18. While these will play a part, we have also heard of additional barriers to take-up, which in turn act as barriers to parents working. One is awareness of the UC childcare support itself. Charlotte McDonough, Policy Adviser, Save the Children UK, explained:

> 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.[35]

We discuss the issue of awareness of entitlement further in Chapter 4. In the next chapters we will examine other major barriers that may prevent parents taking up UC childcare support, or cause hardship for those that do. We note that two of these specifically—the need for upfront payment, and the maximum reimbursement amounts—were discussed extensively by our predecessor Committee but have not been rectified.

19. **The Department is currently exceeding its expected proportion of claimants in receipt of childcare support, but it admits that some low-income parents still have difficulty accessing appropriate childcare, for reasons both within and outside its direct**

32 Work and Pensions Committee, Universal Credit: childcare, Twenty-second Report of Session 2017–19 (HC 1771), 23 December 2018, p5
33 Department for Work and Pensions (UCC0015)
34 Ibid.
35 Q9

control. ***We recommend the Department commits to producing a quarterly statistical update on the proportion of eligible claimants on UC childcare, and that it commissions research into why take-up is not higher and how it could be improved.***

20. ***Good quality childcare can have a transformative impact on the lives of children and their families, and a lack of childcare, or support with paying for it, should never be a barrier to work. Childcare is expensive for all, but the pressures are most acute for low-income families and we recommend the Government increase the financial support it provides to them. Additionally, the Department should assess the childcare funding schemes in Scotland and Scandinavian countries, investigating whether their costs are offset by societal benefits such as increased economic activity, additional tax and personal wellbeing.***

2 Upfront costs

Initial payments

21. UC requires parents to arrange and pay for their childcare costs themselves and then reclaim, at the reimbursement rates and up to the maximum amounts detailed. However, in most cases, providers ask for payment in advance. This may be weekly, monthly or even for whole terms, and so can represent a significant outlay. In addition, many providers require deposits or retainers on top of their standard fees to secure a place for a child, and this may not be reimbursed until the child leaves. The previous Committee concluded:

> These upfront costs for childcare are not only a disincentive to work: for some Universal Credit claimants they will either make working unaffordable, or force them to take on debt in order to do so.[36]

Citizens Advice research shows:

> Families receiving UC with children under 5 have, on average, only £200 left over for food and other costs every month, including childcare, once they have paid housing costs and essential bills, and just £121 in savings.[37]

This can make it difficult for parents to find the money to pay costs upfront, which can be £1,000 a month or more for a full-time place.[38]

22. Dr Rita Griffiths, Research Fellow, Institute for Policy Research, University of Bath, detailed the impact this had:

> 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.[39]

Vikki Waterman explained the challenge she personally faced:

> When I went back to work after having my second child I needed to find £1,400 up front to be able to put my children in childcare before I returned to work. I recently had become a single parent. I was not expecting to become a single parent—I do not think many of us do—so my circumstances had changed and I did not have £50 to spare, let alone £1,400. It was just completely bizarre to me that I was supposed to find this huge amount of money when I was already struggling to then just be able to go back to work.[40]

36 Work and Pensions Committee, Universal Credit: childcare, Twenty-second Report of Session 2017–19 (HC 1771), 23 December 2018, p5
37 Citizens Advice (UCC0010)
38 See Save the Children UK (UCC0006); Child Poverty Action Group (UCC0013)
39 Q2
40 Q47

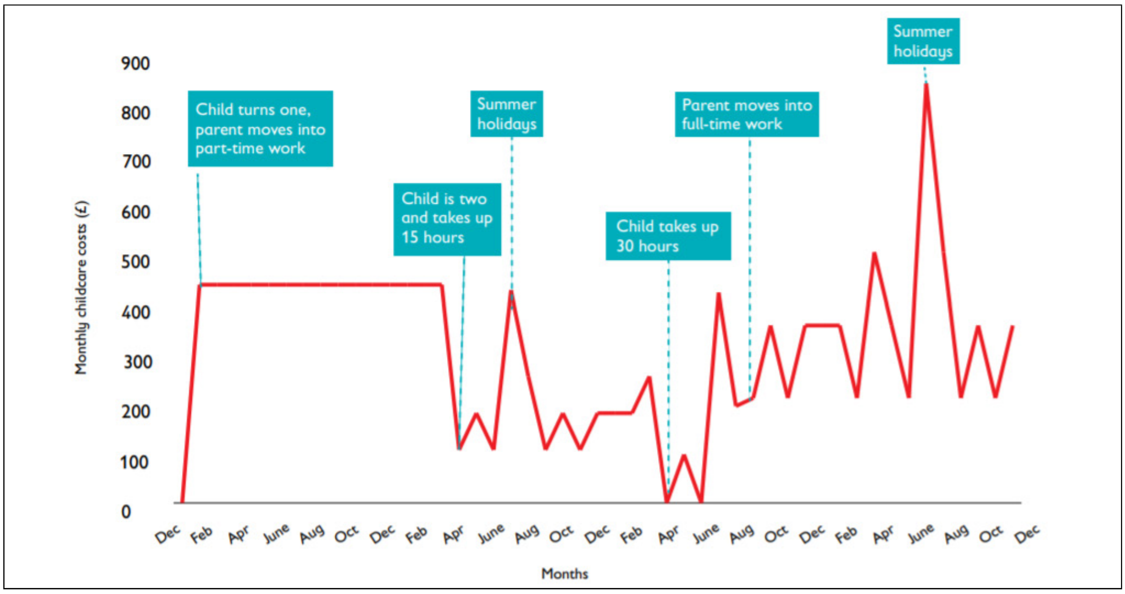
Some parents have to borrow to cover these initial payments, either from family and friends or by taking on loans or credit card debt.[41] Islington Council noted: "This can lead to a spiral of debt as parents struggle to recover from meeting these initial costs, and it can act as a disincentive to employment."[42] Nichola Salvato told us about the stress this caused her as she borrowed to pay upfront costs, and Ceri Smith, Head of Policy and Campaigns, Gingerbread, noted that "single parents have lower financial resilience than couple families", so the risk of taking on debt to cover upfront costs caused them particular anxiety.[43]

Ongoing costs

23. While after the first month parents can submit receipts and claim back a proportion of their costs, that money will then often be needed immediately to pay the next month of childcare in advance. This can make it very difficult to repay any loans for initial costs, and the nature of the UC system means parents will always be covering the costs themselves before reimbursement.

24. Childcare costs can fluctuate greatly from month to month, so the next invoice may be for significantly more than the previous month. Costs often increase during school holidays, either because children would otherwise be in school, or because some other schemes, such as the 30 hours free childcare for 3- and 4-year-olds, cover term-time only. There will also be an initial outlay if parents increase their hours, as they will have to cover the increased childcare costs upfront before they are paid for those extra working hours. They may also then face a reduction in support through the taper rate. Figure 4 gives an example of how costs may fluctuate:

Figure 4: Childcare costs over time, single parent moving from part-time to full-time work



Source: Save the Children UK (UCC0006)

41 See for example Nichola Salvato Q48; Gemma Widdowfield Q51; Professional Association for Childcare and Early Years (PACEY) (UCC0017);
42 Islington Council (UCC0012)
43 Q48; Q6

25. Another feature of UC that can make it difficult for parents to budget and cover upfront payments is the UC assessment periods, which are based on the date the claimant first applied. These do not necessarily align with calendar months for which parents are often invoiced. This interplay can mean that there is sometimes a further delay to receiving payments for new or increased costs, as they may be split over two assessment periods. When fees are required termly or quarterly, there is an even greater delay. Citizens Advice Sutton gave an example: "payments are required a quarter [3 months] in advance typically for school breakfast/after school clubs and they are reimbursed in arrears over up to 3 assessment periods."[44] We explore this further in Chapter 5.

Why UC is paid in arrears

26. The Government is aware that this model can cause problems. While acknowledging that it could "create some cash-flow issues", David Rutley MP, then Minister for Welfare Delivery at Department for Work and Pensions, explained:

> One of the fundamental design principles of Universal Credit is that we want to understand people's actual costs and actual hours worked, their earnings, to then work out a whole payment—not just the standard element but the other elements, including the childcare element.[45]

27. The system is designed to be more dynamic and more readily reflect changing circumstances, encouraging people to work. It is the payment in arrears that allows for this responsiveness. The Government also maintains that paying in arrears under the UC system addresses the high levels of childcare-related fraud and error seen under the tax credits system, which the previous Committee discussed in its report.[46] Neil Couling, Director General, Change Group at DWP, explained:

> HMRC has a big problem in tax credits with fraud with childcare. If we were paying in advance and had the same level of fraud that tax credits have in Universal Credit, it would have cost £170 million last year. In fact, the amount we lost to fraud in childcare was only £1 million by paying it in arrears.[47]

UC more generally does suffer from high rates of fraud and error, with the overpayment rate 14.7% (£5.9bn) for FYE 2022.[48] DWP also noted:

> The UC childcare reimbursement model is calculated on the actual childcare costs paid by the claimant to the provider which greatly reduces the risk to parents of having to repay overpayments, as is present in the WTC system which is susceptible to error and uncertainty.[49]

44 Citizens Advice Sutton (UCC0001)
45 Q106
46 Work and Pensions Committee, Universal Credit: childcare, Twenty-Second Report of Session 2017–19 (HC 1771), 23 December 2018, pp8–9
47 Q106
48 Department for Work and Pensions, Fraud and error in the benefit system Financial Year Ending (FYE) 2022, 26 May 2022
49 Department for Work and Pensions (UCC0015)

Delivery of other childcare schemes and options for reform

Working Tax Credit (WTC)

28. The most directly comparable childcare costs provision is Working Tax Credit (WTC), which UC will replace. The main difference for childcare costs in UC is the need for claimants to cover upfront costs and reclaim, rather than making an estimate and adjusting afterwards in case of variance, as is the case for WTC. Nichola Salvato, a welfare campaigner and single mother of one, told us how the difference affected her when she moved over from WTC:

> I had presumed that the Universal Credit system would work in a similar way and was pleased to hear that it was 15% higher [see note] potentially, depending on your earnings. I moved voluntarily on to Universal Credit, and I very quickly found out that that is not how it worked and I needed to find the costs up front. I borrowed money in the first month, for the first month's wraparound breakfast and after school club, so the impact first of all was stress. I was constantly robbing Peter to pay Paul, worried about the fact that I was behind on childcare costs, even dropping my daughter off and not going too close to the door because they might grab me and ask me where the money was.[50]

While the Government maintains that UC allows more accuracy by being calculated on actual costs, some prefer the legacy system, as the Institute for Policy Research detailed:

> The complexity of UC's design and the requirement to reclaim childcare costs monthly were contrasted by couples who had formerly claimed tax credits with the relative simplicity of financial help under the legacy system. This did not require upfront payments or the monthly evidencing of and reclaiming of fees and could be relied on to pay a consistent monthly amount for a year if circumstances did not change, allowing parents to budget and to plan work-care arrangements ahead of time. As one participant explained, *"If they can stick to the same payment each month and know what you're getting, then it would be fine"*.[51]

Charlotte McDonough also highlighted the issue of complexity:

> 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 [Dr Griffiths] 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.[52]

50 Q48; 15% higher refers to the 85% maximum reimbursement on UC vs 70% under WTC
51 Institute for Policy Research, University of Bath (UCC0005)
52 Q9

Fifteen and 30 hours free childcare

29. While tax credits also involve parents paying providers, the 15 and 30 free hours of childcare schemes are paid directly. These schemes are administered by local councils, with funding coming from central Government through the early years national funding formula.[53] The formula aims to ensure appropriate funding by taking a base rate, adding provision for additional needs, and then adjusting for area, taking account of regional cost variation. Jonathan Broadbery, Director of Policy and Communications, National Day Nurseries Association (NDNA), described the benefit of this: "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."[54] While the regional adjustment was welcomed, we heard the hours are underfunded, and this impacts elsewhere in sector. We discuss this in Chapter 5.

30. The free childcare hours schemes are popular and take-up is higher than for UC, even accounting for eligibility. Responding to a request for estimated take-up rates, the Government said:

> In January 2022, 92% of all three and four year olds were receiving some form of funded early education (1.2 million children in total), and 384,100 eligible three and four year olds were registered for a 30 hours place in January 2022.[55]

Donna Ward, Director for Poverty, Family and Disadvantage at DWP, explained the cost of these schemes:

> They are very popular and they get high take-up, but they just are expensive. I think DfE was spending about £3.7 billion on free entitlements in the most recent data.[56]

Tax Free Childcare

31. The Tax Free Childcare (TFC) system was cited as a model that could avoid the problems of upfront costs, with less risk of fraud than WTC. Parents have a TFC account, and for every £8 a parent pays in the Government will add an extra £2, up to a maximum of £2,000 per child per year. Costs can then be paid to providers from this account. Save the Children UK commented that "this system appears to work well and means that parents are not required to pay the costs themselves upfront."[57] Charlotte McDonough added:

> 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.

53 There is a separate formula for calculating the rate of funding for the 15 hours for disadvantaged two-year-olds scheme, although it is also paid by the DfE in the Early Years Block of each local authority's Dedicated Schools Grant. See House of Commons Library, Early Years Funding (England), Research briefing 8052, February 2022 for more detail.

54 Q38

55 PQ 399 1, [on Children: Day care] 25 July 2022

56 Q141

57 Save the Children UK (UCC0006)

> 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.[58]

The LGA and Gingerbread, a charity working with single parent families, also advocated for a model similar to TFC.[59] Jonathan Broadbery cited several potential benefits of a single account, or 'childcare passport' system:

> 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.[60]

32. While it is perhaps less straightforward for parents than the direct-funding free hours, the take-up rate of TFC is higher than for UC childcare element:

> An estimated 1.3 million families are eligible for Tax Free Childcare (TFC). The TFC Official Statistics show that 384,000 families (30%) used TFC in March 2022. 512,000 families (39%) used TFC at some point in 2021–22.[61]

Direct or advance payments

33. The previous Committee recommended the Government developed UC's systems to allow direct payments to childcare providers (Box 1, recommendation 1), highlighting that it could alleviate the problems of upfront costs, reduce fraud and give certainty to providers. The Government responded simply that it had "no plans" to do so.[62] Gavin Rice highlighted this solution, whereby invoices could be submitted directly to DWP for payment. Addressing the question of resistance from providers, who may not wish to await payment from the Department, he added:

> I accept that resistance from the sector would probably be the chief hurdle for such a policy proposal, but you could easily envisage a system of formally registered provision of partnership with the DWP so that there would be guarantee of bill payment built into the system. As I say, there are precedents for this with the DFE in the 15-hour universal entitlement.[63]

Ceri Smith, highlighted another precedent for direct payment:

> 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

58 Q3
59 The Local Government Association (UCC0008); Gingerbread (UCC0011)
60 Q29
61 PQ 399 1, [on Children: Day care] 25 July 2022
62 Work and Pensions Committee, Universal Credit: childcare: Government Response to the Committee's Twenty Second Report, Twenty-fifth Report of Session 2017–19, (HC 2078), 11 April 2019, p.9
63 Q82

> 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.[64]

34. Alternative Payment Arrangements are not the default method of payment for housing costs support but are available to claimants "who cannot manage their single monthly payment and there is a risk of financial harm to the claimant and/or their family."[65] DWP recently wrote to us, explaining why it felt direct or advance payments would not work under UC:

> Universal Credit is a dynamic benefit which is paid as a single monthly payment in arrears. The structure of UC means that the individual elements which make up the award such as the childcare costs element, cannot be ring fenced or separated from the monthly award or paid for example by direct invoice to a childcare provider before the end of the assessment period.
>
> As UC is paid monthly in arrears, entitlement is decided at the end of each assessment period (following the real time assessment of what a claimant has earned and the application of the earnings taper and any deductions). Because of this no separate element of Universal Credit can be paid in advance. If UC childcare costs were paid on an invoice before the end of the assessment period but the claimant's earnings were high, there may not be any entitlement to UC to allow for UC childcare costs to have been paid. This would mean that the claimant was overpaid and would need to pay this money back.[66]

35. **Households claiming Universal Credit are, by definition, amongst the poorest households in the country, yet the childcare support to them via that system requires them to find substantial sums to meet up-front costs: both initially and on an ongoing basis. Other schemes, such as Tax Free Childcare, allow reimbursement in advance despite being aimed at much wealthier households.** ***The Department must solve this obvious barrier to work. We recommend it work with the DfE and childcare providers to produce a solution to this problem, if necessary by establishing a direct payment system modelled on those used elsewhere, such as Alternative Payment Arrangements for housing, or funded childcare hours. If this cannot be achieved within the Universal Credit system, childcare support should be removed from it entirely and a solution based on a single childcare account, such as that used for Tax Free Childcare, should be implemented.***

Support available

Flexible Support Fund

36. When rejecting the previous Committee's recommendation on direct payments, the Government highlighted the Flexible Support Fund (FSF).[67] This is a discretionary fund allocated by Jobcentre Plus Work Coaches. It can be paid directly to providers to cover the

64 Q3
65 Department for Work and Pensions, Alternative Payment Arrangements, updated 13 May 2020
66 Correspondence with the then Secretary of State relating to the cost of living, 7 April 2022
67 Applies to England, Scotland and Wales.

period between starting work and receipt of their first wages and is not repayable by the claimant. It is not available for those already in work, for whom the Government suggests Budgeting Advances are more appropriate. It can be used to cover deposits and retainers, fees and the costs of taster sessions or settling in periods. DWP noted that "in Spring 2021 the FSF childcare payment limits were increased by £15 per day to further support claimants to move into work."[68] The current limits are:

Flexible Support Fund childcare payments for 1 child limits	£50 per day £250 per week
Flexible Support Fund childcare payments for 2 or more children limits	£75 per day £375 per week

Source: Correspondence with the then Minister for Welfare Delivery relating to the Universal Credit and childcare costs inquiry, 21 April 2022

37. We have heard that, due to its discretionary nature and lack of awareness, not everyone who could benefit from this help is getting it. When we spoke to three campaigners who are also mothers and UC claimants in March, none of them had been able to get assistance from the FSF.[69] The Government has acknowledged the need for greater awareness, both for claimants and work coaches.[70] The LGA noted that "the FSF budget has been underspent in every year since it was introduced."[71] Data on its use has historically been quite sparse, although DWP has provided some figures on use of the fund for different categories, which shows childcare makes up a relatively small amount:

Flexible Support Fund Expenditure 2020–21 by Category (£'000)

Category	Total
Partnerships	4,249
Removing Barriers	14,611
Training	24,371
Childcare	1,317
Other	1,823
Total	**46,372**

Source: Correspondence from the Minister for Employment relating to the Flexible Support Fund, 30 December 2021

38. While the FSF can be used to cover the initial costs, as it is a grant rather than a repayable loan these costs are not considered as having been paid for by the claimant for the purposes of UC. This means that they cannot be reimbursed through the UC childcare element. Claimants therefore still need to find the money for the second month's worth of costs, without having received a UC childcare payment. Oliver Crunden, Senior Policy and Research Officer, Child Poverty Action Group, summarised: "Currently the Flexible Support Fund delays the problem of up-front costs rather than solving it."[72] Save

68 Department for Work and Pensions (UCC0015)
69 Qq48–52
70 Q121
71 The Local Government Association (UCC0008)
72 Q3

the Children recommend the Government "should reform the Flexible Support Fund so that parents are able to receive the childcare element of UC for the first month of work as well as receiving the FSF."[73]

Adviser Discretion Fund (NI)

39. The Adviser Discretion Fund (ADF), which is similar to the FSF, is available in Northern Ireland, and provides non-repayable grants up to £1,500 over 12-months, administered by Work Coaches. Like the FSF it can be used to overcome barriers to employment, including childcare. It functions in a similar way to the FSF with payments made direct to providers, but has a key difference:

> A receipt for the upfront childcare costs paid through the ADF can also be submitted for the purposes of calculating the parent's Universal Credit entitlement.[74]

This allows claimants to receive a UC childcare payment, which can then be used to fund the next month's costs. Citizens Advice, Gingerbread, Child Poverty Action Group, Professor Neville Harris, the Institute for Policy Research and others all suggested this model could be used to improve the FSF.[75]

40. The then Minister highlighted some differences between the schemes, such as the daily cap on the FSF rather than a maximum grant.[76] Neil Couling also noted that parents in Northern Ireland did not have the same entitlement to free childcare hours as those in Great Britain.[77] Donna Ward reiterated the cost of such a scheme: "The Northern Ireland scheme has been going for six months or so and we do want to see how that works, but it is an expensive proposition to double-fund that first month."[78]

Budgeting Advances

41. As the FSF is only available to those taking up employment, the Government also suggests Budgeting Advances to cover upfront childcare costs for those already working. These are loans available to UC claimants for one-off costs, up to £812, which are then repaid through deductions. To be eligible, claimants must have earned less than £2,600 (£3,600 jointly for couples) in the past 6 months. This equates to around 10.5 hours per week at the National Living Wage for a single person and less for a couple, so would not be available for parents already working more than this and wishing to increase their hours further.

73 Save the Children UK (UCC0006)
74 NI Direct, Adviser Discretion Fund (ADF)
75 Citizens Advice (UCC0010); Gingerbread (UCC0011); Professor Neville Harris (UCC0003); Child Poverty Action Group (UCC0013); Institute for Policy Research, University of Bath (UCC0005)
76 Q121
77 Q121
78 Q123

42. The previous Committee concluded that these were not an appropriate means of support for people already struggling with day-to-day costs (Box 1, recommendation 2). We have heard again in this inquiry that they are not a satisfactory solution, as they need to be repaid. The LGA said this can push people "into poverty or debt".[79] Child Poverty Action Group explained:

> Advances can provide a vital source of financial support. However, taking on a loan whose automatic repayments pushes families deeper into poverty is not a sustainable or desirable mitigation to the problems caused by upfront childcare costs.[80]

43. **DWP, entirely reasonably, wants to reduce the amount that it loses to fraud via childcare payments in UC. However, we have heard that in doing so, by making payments in arrears, it has created an insurmountable barrier to work for some households. DWP's recent efforts to encourage Work Coaches to make greater use of the Flexible Support Fund to address this problem do not seem to be having the desired effect.**

44. ***We recommend the Government amend the regulations on the use of the Flexible Support Fund so that receipts for payments made from the Fund can be submitted as if the parent had paid the childcare costs themselves. This would have the effect of removing, or largely offsetting the upfront cost, rather than simply pushing it in to the next month. We note that there has been a substantial underspend in the FSF in every year of its operation to date which would contribute to the cost of this measure.***

45. **DWP maintains that it does not collect or publish regular statistical updates on uses of the Flexible Support Fund, on the basis that it does not want to detract from its discretionary nature. The FSF is a core element of support for working parents, and without this data, the Department cannot verify whether it is being used as intended.** ***We appreciate that the Department has sent us data for some recent years on request, but recommend the Department commit to publishing an annual update on Flexible Support Fund spending.***

79 The Local Government Association (UCC0008)
80 Child Poverty Action Group (UCC0013)

3 Caps and maximum reimbursement

46. Both UC and WTC set maximum proportions of actual childcare costs that can be reimbursed. In addition to this, each benefit has a 'cap' limiting the maximum amount of childcare support households can get. While the reimbursement rates are different, the caps mean that the maximum eligible childcare costs for one child under both systems is £760 a month.

47. Although the UC reimbursement rate and maximum support were increased in 2016, the caps are not routinely uprated. There have been calls to both increase the percentages paid, and to uprate the childcare cost caps on which the maximum reimbursements are based. Some benefits are required to be uprated by law.[81] Others, mostly 'working-age benefits' such as UC, are reviewed and uprated at the discretion of the Secretary of State but are commonly uprated in line with prices. In the Autumn Statement on 17 November 2022, the Chancellor announced that benefits, and the benefit cap, would rise by 10.1% in April 2023, in line with the September 2022 CPI figure. However, there is no statutory requirement or policy to review caps on support for childcare costs, so these will remain the same. The Government has defended the level of the cap, noting that only 8% of claimants reach it under UC.[82]

Comparing WTC and UC

48. The WTC childcare element provides help with up to 70% of eligible childcare costs up to a maximum cost of £175 a week for one child, and £300 for two or more children. This means that the maximum support that a WTC claimant can receive is £122.50 a week for one child, and £210 for two children.

49. The UC childcare costs element covers 85% of childcare costs up to a maximum reimbursement of £646.35 a month for one child, or £1,108.04 a month for two or more children. The reimbursement rate increased from 70% to 85% in 2016.

50. The UC childcare costs element appears unambiguously more generous than the WTC childcare element. However, families in receipt of WTC who also get Housing Benefit (HB) can get additional help with childcare through the childcare costs disregard in HB.[83] This can mean families who receive both WTC and HB can effectively get support covering up to 89.5% of eligible childcare costs, up to the cap.

81 Social Security Administration Act 1992, part X; See also House of Commons Library Research Briefing 9498: How benefit levels are set, 14 April 2022, Section 2.2 p.21

82 Q148

83 Childcare costs up to the same limits as WTC can be disregarded for the Housing Benefit income assessment if parents work 16+ hrs a week, with some exemptions. See regulations 27(1)(c), 27(3), and 28 of The Housing Benefit Regulations 2006, SI 2006/213.

Table 3: Maximum reimbursement under WTC and UC for childcare

	Weekly maximum: one child	Weekly maximum: two children+	Monthly maximum: one child	Monthly maximum: two children+	Maximum percentage of monthly eligible costs cap (one child £760)
Working Tax Credits	£122.50	£210	£532.29	£912.50	70%
WTC and Housing Benefit	£156.63	£268.50	£680.59	£1166.70	89.5%
Universal Credit	£148.75	£255	£646.35	£1108.04	85%

Source: HMRC, Working Tax Credit: help with the costs of childcare, WTC5, April 2021, p.9; Department for Work and Pensions, Universal Credit: What you'll get, Note: Tax credits limits are set weekly, UC limits are set monthly. Equivalents calculated to allow comparison.

Cap on eligible costs

51. The Department announced in August 2013 that it would increase the reimbursement rate in UC from 70% to 85% of relevant childcare costs, effective from April 2016.[84] From this date the cap on total reimbursement was also increased, from £532.29 for one child and £912.50 for two or more children to the current rates. However, the cap on total eligible costs remains £760. Failure to increase the effective maximum cap on eligible childcare costs means that, despite the increase in the percentage of childcare costs eligible for reimbursement, the UC childcare element covers fewer hours of childcare than did WTC in 2008. This is because of the increase in average hourly childcare costs since then.[85]

52. Oliver Crunden explained:

> 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.[86]

53. The reduced number of hours covered by the childcare element of UC compared to WTC in 2008, despite the higher percentage of maximum reimbursement, highlights how the increased costs of childcare have effectively devalued the support offered. This comparison does not, however, account for changes to the wider childcare offer, which includes the introduction of the 15 and 30 free hours schemes in 2011 and 2018 respectively. For parents of eligible children, these will have offset some of the increase. Those with younger children, who do not qualify for other schemes, will have to cover more of the increase themselves. The two systems also interact in different ways with other benefits, which should be considered when making direct comparison. Figures 5 and 6 below illustrate the different childcare costs of two hypothetical families under UC and WTC.

84 See DWP, Universal Credit: Increasing the Childcare Offer, December 2014; and The Universal Credit and Miscellaneous Amendments Regulations 2015, SI 2015/1754
85 Child Poverty Action Group (UCC0013)
86 Q6

Figures 5 and 6: Weekly childcare costs for two hypothetical working families 2010–22

Figure 5: Family 1

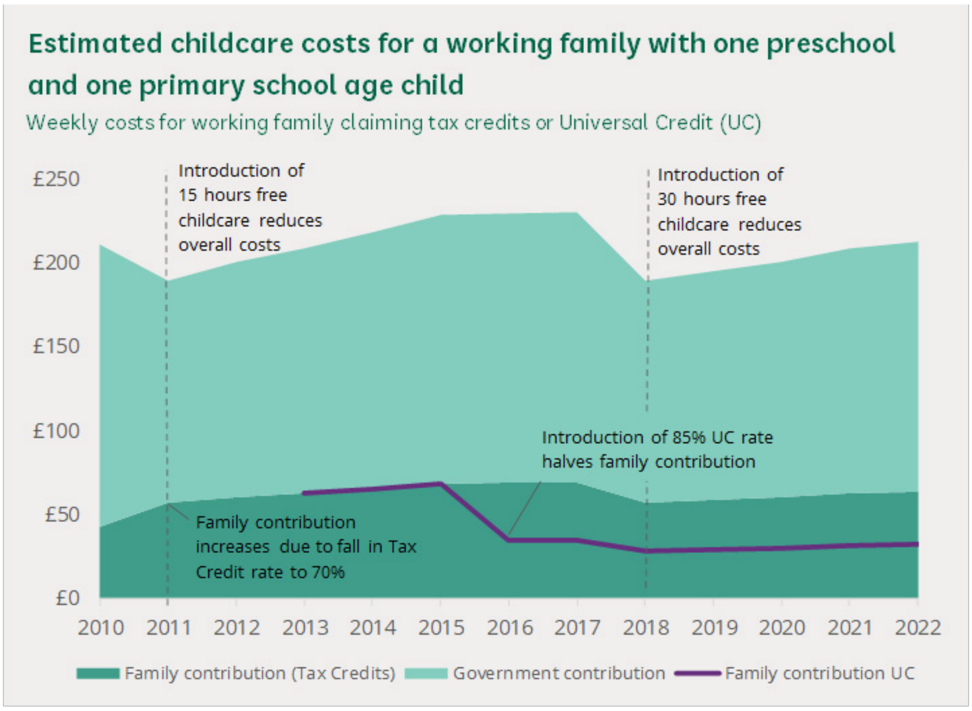
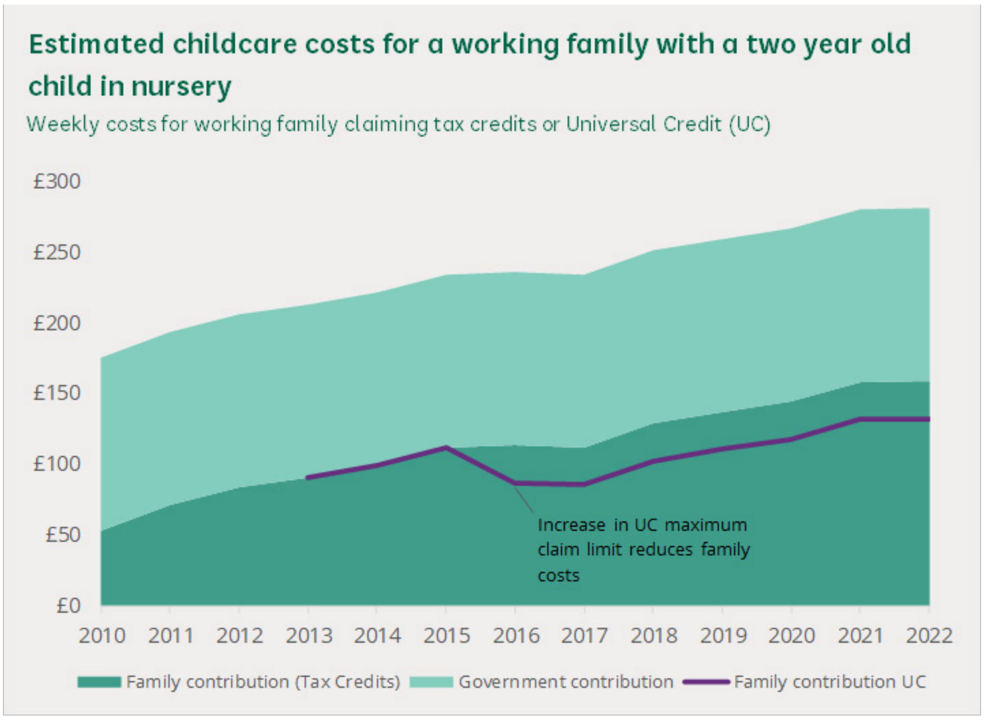


Figure 6: Family 2



Source: Childcare costs taken from the Family and Childcare Trust's Childcare Survey (various years).

Notes: To enable a consistent time series, costs are multiples of an average hourly rate based on the published survey costs for 25 hours per week provision. Family 1 assumes nursery provision of 50 hours a week plus 15 hours childminding or afterschool provision for primary school age child. Family 2 assumes full time nursery provision with parents' income exceeding qualification for two-year old provision.

54. Single Parent Rights, a campaign group, highlighted that the cap only affects a relatively small number of claimants:

> It should be noted, currently only 8% of families claim the maximum amount, rising to 23% in London and down to 4% in some areas. Increasing the maximum amount is likely to be utilised by only a minority of claimants but would ensure those families who need this crucial support the most can access it.[87]

55. The Government also published analysis showing that the average childcare element paid in February 2022 was £329, suggesting that there were not significant numbers who were just below the cap.[88] These figures may not, however, capture those who may wish to either start work or increase their hours, but are put off by the cap. For example, Citizens Advice Sutton noted the cap "has a particular impact on working parents with younger children who cannot access some free provision and is a significant disincentive for parents to work."[89] Professor Neville Harris commented:

> Average weekly childcare cost rates reported in the Coram survey and current UC childcare costs caps do not appear to be greatly out of line with each other. Indeed, government statistics show that in the year to July 2021 only 8 per cent of UC payments with the childcare costs element were in effect capped at the maximum, although 23 per cent in London. But average rates do not tell the whole story. In England, the highest price for nursery care was 49 per cent above the average and the lowest was 31 per cent below it. Furthermore, Coram survey rates relate only to 25 hours of care per week. Claimants with under-three-year-olds may be disincentivised from moving from part-time to full-time work.[90]

Regional variation

56. The cap and maximum reimbursement amounts are the same across the UK, but childcare costs vary significantly. Citizens Advice Sutton said that in its area, the maximum "equates to approximately 27 hours of care with a childminder at an average rate or just over 2 days a week at a nursery."[91] Child Poverty Action Group noted that "childcare in inner London is over 30% more expensive than in Britain as a whole", meaning parents effectively receive reimbursement for fewer hours than those outside of London if they reach the cap.[92] The table below demonstrates the variation in costs across the nations and regions.

87 Single Parent Rights (UCC0004)
88 Universal Credit claimants eligible for and receiving the childcare element between March 2021 to February 2022, Updated 29 June 2022
89 Citizens Advice Sutton (UCC0001)
90 Professor Neville Harris (UCC0003)
91 Citizens Advice Sutton (UCC0001)
92 Child Poverty Action Group (UCC0013)

Table 4: Price of 25 hours a week childcare for children aged under two

	Cost per week	Difference to GB price
Great Britain	£138.70	N/A
England	£140.68	£1.98
Scotland	£108.62	-£30.08
Wales	£125.73	-£12.97
East Midlands	£133.16	-£5.54
East of England	£153.08	£14.38
London, inner	£183.56	£44.86
London, outer	£155.19	£16.49
North East	£130.53	-£8.17
North West	£129.74	-£8.96
South East	£147.06	£8.36
South West	£133.40	-£5.30
West Midlands	£137.14	-£1.56
Yorkshire and Humberside	£122.17	-£16.53

Source: Coram Family and Childcare Survey 2022, Table 1, p.11

57. The previous Committee recommended the Government consider a 'London Weighting' for childcare costs to reflect the considerably higher costs (Box 1, recommendation 6). The response did not specifically address this, again simply "noting" the recommendation.[93] When we asked the then Minister about the prospect of accounting for regional variation in April, he would only say that "it would be incredibly complicated in a system that already has its own complexities built into it and would make it very challenging."[94]

Marginal impact of increasing hours

58. The Government notes that "most parents on UC work part-time."[95] If the UC childcare element were intended to only enable part-time work, it may be adequate. However, the combination of the cap and the way UC is reduced as claimants' earnings increase may disincentivise a move to full-time. Gavin Rice described this:

> Even after the Chancellor's change at the comprehensive spending review [to reduce the taper rate], a parent, whether a second earner or a lone parent who is encountering the taper and is having to pay some of their childcare costs themselves, will still be encountering one of the highest effective marginal tax rates in our economy—higher than those experienced by even the highest earners through the income tax system.[96]

The illustration below, provided by Citizens Advice Sutton, gives an example of how a claimant's hourly income will fall as their hours increase.

93 Work and Pensions Committee, Universal Credit: childcare: Government Response to the Committee's Twenty-second Report, Twenty-fifth Report of Session 2017–19, (HC 2078), 11 April 2019, p.11
94 Q158
95 Department for Work and Pensions (UCC0015)
96 Q91

Case study: Interaction of Earned Income, Childcare Costs and UC

		(i)	(ii)	(iii)	(iv)
		20 hours a Week	**25 hours a Week**	**27 hours a Week**	**30 hours a Week**
		£	**£**	**£**	**£**
	UC Childcare Cost Element (note)	478.55	598.40	644.55	644.55
A	Universal Credit Payment (includes housing costs)	1,805.84	1,826.28	1,836.56	1,783.08
B	Net Earnings (after tax & Ni)	934.32	1,115.06	1,180.34	1,277.58
	Total Income (A&B)	2,740.16	2,941.34	3,016.96	3,060.66
C	**Cost of Childcare**	-563.33	-704.17	-760.00	-845.00
D	**Net Income after Childcare (B-C)**	**2,176.83**	**2,237.17**	**2,256.96**	**2,215.66**
	Marginal Difference per month > 20 hours		**+60.34**	**+80.13**	**+38.83**
	Marginal Benefit per hour worked over 20 hours		**2.79**	**2.64**	**1.35**

The illustration shows:

i) a single parent aged 26 with a child (aged 1) living in a two-bedroom rented flat. The parent works 20 hours a week for £11 per hour and has childcare costs of £6.50 per hour. Their Universal Credit is made up of standard element, child element, housing costs and childcare costs.

ii) if the parent increases their working hours by 5 each week to 25 hours, after paying for childcare and adjustments for childcare costs element and taper, the marginal improvement from working an additional 21.67 hours a month to the household income will be £60.34 a month or £2.78 for each additional hour worked.

iii) the parent would only be able to access a maximum of 27 hours a week childcare at an average price of £6.50 before they would reach the maximum childcare cap and their net income after childcare costs of £760.50 will be at its optimum level of £2,256.90. The marginal improvement for an additional 30 hours a month would be £2.64 per hour.

iv) If they worked 30 hours a week they would be worse off by £21.51 a month after increased costs of childcare than if they worked just 25 hours, the marginal benefit for working an additional 43 hours a month would be £1.35 an hour.

Source: Citizens Advice Sutton (UCC0001)

59. The then Minister responded specifically to this example:

> With a one year-old, it can be more challenging because, first, the provision is not always as readily available and it can be a lot more expensive. Again, you can look at that particular case, but once you start getting to a two-year-old, if that person is disadvantaged they will be getting more support—an extra 15 hours—and the situation changes. The thing with the one-year-old's situation is that is going to be a difficult choice for parents whatever the income they are on.[97]

97 Q137

He also explained:

> If you look at the marginal rate, that is one thing, but if you look at the benefit of going to work or the benefit of work in the wider picture, that is significant not just financially, but also in terms of confidence and progression in time as well.[98]

Donna Ward said:

> It is always going to be the case that if somebody has exceeded the maximum support available for childcare and they are now paying for it themselves, the marginal hours will not be worth it. That is going to be the case wherever you put the childcare cap.[99]

60. **The UC childcare offer is, in some ways, more generous than the system it replaces, as it offers a higher percentage reimbursement. However, support for childcare for some of the poorest families in the country has failed to keep pace with inflation because the maximum cap of childcare that can be claimed for has stayed at the same level since 2005. This is particularly pertinent given the current rate of inflation and cost of living crisis, which the Government has recognised in uprating benefits, and the benefit cap, in the Autumn Statement.** ***We recommend the Government uprate the childcare cost caps to better reflect the true cost of childcare in 2022 and then index them annually.***

98 Q135
99 Q135

4 Understanding support and eligibility

What schemes are available

61. Within Chapter 1, Figure 2 details the variety of childcare offers available across Great Britain, including universal schemes. Chapter 2 details the further support available to those claiming Universal Credit. These include:

- The Flexible Support Fund, a discretionary fund to those taking up employment;
- The Adviser Discretion Fund, available in Northern Ireland for those taking up employment; and
- Budgeting Advances, loans available to those already in employment.

Why do people find it difficult to understand what they can claim?

62. Due to the variety of schemes available from across Government, many claimants find it difficult to understand their entitlement to childcare. The Local Government Association (LGA) notes:

> The childcare offer is currently complex and can be difficult for families to navigate due to the variety of schemes in place, with different policies and eligibility criteria.[100]

63. 85% of childcare costs can be reimbursed but depending on parental earnings and the application of the taper, the actual amount they receive can be significantly less than 85%.[101] The interaction with assessment periods, as we discuss in Chapter 5, can also leave parents receiving less than they expect. This combination proves to be extremely difficult to understand, as explained by Nichola Salvato:

> I think all of that is really difficult to understand, so your immediate reaction when you see £83 for childcare costs listed on your payment is, "What has gone wrong there, because I thought it was up to 85%?" The way that they calculate it is so complicated and it is impossible to see at a glance whether you have been paid correctly, so then you have to go back to them and no doubt take up a lot of their time in administration. They are trying to explain to you and I do not believe that they fully understand it either. It is not the work coach; it is a case manager that will be making these calculations or looking into your thing, so the frontline person is limited in what they can say to you and what they can explain to you because they do not really understand. That is passed on to the case manager.[102]

64. For those trying to get back into work or taking up additional hours on a fluctuating work pattern, this can result in administrative complexities, due to the burden of producing evidence, as well as causing confusion over eligibility.[103] The Institute for Policy Research found:

100 The Local Government Association (UCC0008)
101 Citizens Advice Sutton (UCC0001)
102 Q55
103 Professor Neville Harris (UCC0003)

> Many struggled with the practical consequences of a monthly means test. The complex relationship between monthly earnings and entitlement - made worse with two working parents with potentially fluctuating earnings– meant it was virtually impossible to calculate the financial impact that working additional hours would have on the UC payment. Uncertainty over how much they would be refunded acted as a disincentive to working longer hours. As one participant explained, "It didn't help me to be able to work more because I didn't know how much childcare element I'd get … I can't commit to another day knowing that actually I might not actually get the payment back for it … I'd think sometimes … am I better off doing less hours? … I love my work, but I don't know actually if I'm worse off working".[104]

Gingerbread therefore concluded:

> The current childcare support is therefore a barrier for low-income parents to move into, progress and sustain work and as such is poor value for money for the Government.[105]

65. Professor Neville Harris explained that in 2015 the Social Security Advisory Committee said that it was "essential that co-ordinated information and guidance is made available for claimants to enable them to make informed and sensible choices".[106] He added: "It is clear that not enough is being done to ensure parents understand the current system.[107]

66. **There are a wide range of childcare support schemes available to people claiming Universal Credit, all with different eligibility criteria and application systems. We heard in this inquiry that it continues to be very difficult for parents to understand what the best childcare option for them is, and how this might change with their circumstances.**

What support does the Government provide to help with understanding entitlement?

Jobcentre Plus Work Coaches

67. Jobcentre Plus Work Coaches can provide Universal Credit claimants with information about childcare support, and are able to administer the Flexible Support Fund, the discretionary fund to help with the first month of childcare costs when parents move into work.[108]

104 Dr Rita Griffiths (Research Fellow at Institute for Policy Research, University of Bath); Professor Jane Millar (Emeritus Professor of Social Policy at University of Bath); Fran Bennett (Associate Fellow at University of Oxford); Dr Marsha Wood (Research Assistant at Institute for Policy Research, University of Bath) (UCC0005)

105 Gingerbread (UCC0011)

106 Social Security Advisory Committee, Universal credit: priorities for action (SSAC Occasional Paper No.15) (2015)

107 Professor Neville Harris (UCC0003)

108 Dr Rita Griffiths (Research Fellow at Institute for Policy Research, University of Bath); Professor Jane Millar (Emeritus Professor of Social Policy at University of Bath); Fran Bennett (Associate Fellow at University of Oxford); Dr Marsha Wood (Research Assistant at Institute for Policy Research, University of Bath) (UCC0005)

68. However, the evidence we received suggested that there are problems with Work Coaches communicating what childcare support is available to claimants, or knowing what support is available themselves, which has been met with widespread calls for improvement.[109] In reference particularly to the Flexible Support Fund, we heard that the Work Coaches were often not aware of the very fund they are able to administer.[110] Citizens Advice suggested that the onus is often placed on the claimant to ask what support is available.[111] Nichola Salvato explained it is often the case manager rather than the Work Coach who has more of an understanding regarding aspects of childcare.[112]

69. The Department has recognised that more needs to be done to improve communication of the current offer via Work Coaches.[113] We heard from the then Minister for Employment Mims Davies MP that many Work Coaches may be exercising unnecessary prudence when awarding from the Flexible Support Fund.[114] This, coupled with the issue of awareness, has likely led to the underspending of the fund in every year since it has been introduced.[115]

70. As the then Minister Mims Davies explained, Work Coaches often have huge workloads and are expected to retain a large knowledge base.[116] We heard that the Department is currently working through plans to improve the awareness of the childcare offer with Work Coaches.[117]

Childcare Choices website

71. Alongside the main GOV.UK page on Universal Credit[118], most of the information for help with childcare costs is within the Childcare Choices webpage.[119] Childcare Choices is a Government webpage that provides the following functions:

- How to find the 'right offer' - which prompts the user to enter their details and outlines the various childcare offers available;
- Using Childcare schemes together - which provides information on what schemes can be used in conjunction with each other;
- How to apply for the 30 hours free childcare;
- How to use tax-free childcare and;
- Information for childcare providers.[120]

109 Professor Neville Harris (UCC0003)
110 Qq49–50
111 Citizens Advice (UCC0010)
112 Q55
113 Ibid
114 Q124
115 The Local Government Association (UCC0008)
116 Q108
117 Q108
118 Understanding Universal Credit - Children and childcare | GOV.UK [accessed 21 November 2022]
119 Childcare Choices | 30 Hours Free Childcare, Tax-Free Childcare and More | Help with Costs | GOV.UK [accessed 21 November 2022]
120 Ibid

72. We heard concerns about the information available. For example, the webpage does not reference the support available for those claiming Universal Credit, such as the Flexible Support Fund.[121] Our predecessor Committee also noted in 2018:

> LITRG [Low Incomes Tax Reform Group] noted that there is a childcare calculator available on Gov.uk, accessed via the Childcare Choices website. It allows parents and carers to calculate how much support they can receive with childcare and which schemes they are eligible for. Although Universal Credit is listed as a source of support on Childcare Choices, however, the Calculator does not currently include Universal Credit.[122]

73. Our predecessor Committee recommended that the Government update the Calculator within the Childcare Choices webpage, to calculate fully Universal Credit entitlement as it currently does for tax credits. But the Government did not accept this recommendation and explained that as UC childcare costs are intrinsically linked to the total UC award, and are impacted by earnings and taper elements, the issue is too complex to include this functionality in the calculator. However, it agreed to implement work to improve the information on the childcare offer to parents on the childcare choices and other platforms.[123]

74. We heard that the Government consulted stakeholders about the webpage in 2019, however at the time of collecting written evidence, Gingerbread explained that no updates had been implemented to date.[124] Gingerbread further explained:

> The current departmental childcare webpages do provide an overview of childcare, but this information is complex, as is the childcare payment system. Whilst the current webpages set out the basics of the childcare system, they are less clear on the interactions between the different childcare offers, for example the three-year-old offer and support through Universal Credit. Many single parents are not finding the information that they need from the webpages or from their work coach.[125]

75. **The Government offers support on childcare options: notably, the Childcare Choices website and via Jobcentre Plus Work Coaches. DWP told us that Work Coaches receive training in advising UC claimants on their childcare options, but our evidence suggests further work is needed. We also heard that currently, UC claimants referring to the Childcare Choices webpage are often directed back to general information on Universal Credit, as the information on the webpage is not sufficient.**

76. ***Work Coaches already receive training on childcare support for UC claimants, but given the range of schemes available, the way that payments and suitable options can change with a claimants' circumstances, and the need for timely information, there is a case for introducing specialist Work Coaches in this area. We recommend***

121 Gingerbread (UCC0011)
122 Work and Pensions Committee, Universal Credit: childcare, Twenty-Second Report of Session 2017–19 (HC 1771), 23 December 2018
123 Work and Pensions Committee, Universal Credit: Childcare: Government Response to the Committee's Twenty-Second Report, HC 2078, 11 April 2019
124 Gingerbread (UCC0011)
125 Gingerbread (UCC0011)

the Department develop "childcare specialist" Work Coaches, in line with its existing Self-employment and Disability Employment specialist roles. The Department should introduce one in each job centre in the next 6 months.

77. **The range of childcare support schemes available to parents is complex, and they need access to good quality, timely information to make the best decisions about their finances.** ***We recommend the Department for Work and Pensions develop a single portal for childcare on the current Childcare Choices model: crucially, this must include information and calculations on payments for Universal Credit childcare claimants that is integrated with advice on other programmes.***

5 Childcare Industry

The role of the Department for Education

78. The majority of policy for provision of childcare sits within the Department for Education (DfE), which further places responsibility on local authorities to secure sufficient childcare for working parents, as laid out in statutory guidance.[126] The DfE is responsible for funding three out of the seven Government schemes for early years provision.

Table 5: Early years funding from the Department for Education

Funding option	Cost	Entitled families	Responsible Department	Numbers benefitting in England
Universal 15 hours offer for three and four year olds	£2.29 billion	Families with a three or four year old child	DfE	793,000 children (excluding children in reception classes)
Extended 30 hour offer for three and four year olds	£894 million	Working families with three and four year olds	DfE	315,000 children
15 hour offer for disadvantaged 2 year olds	£433 million	Low income families with 2 year olds	DfE	132,000 children

Source: Department for Education, Dedicated schools grant 2022 to 2023, 17 November 2022

79. The 15 and 30 free hours offers are paid directly to childcare providers. These schemes are administered by local councils, with funding coming from central Government through the early years national funding formula.[127] Parents using these schemes may still face additional charges, as funding is often not sufficient to cover the total providers' costs.[128] Our predecessor committee found:

> In attempting to offset funding shortfalls, childcare providers are charging for "top ups" such as food or activities, restricting the availability of free hours, or reducing the quality of care. The 30 hours can be claimed alongside Universal Credit—and by households earning up to £200,000. Better-off parents may opt to pay the top-ups or find a provider offering higher quality childcare. But the poorest households could find they have little choice but to accept lower quality, less convenient care; or even that the additional costs are prohibitive. "Top up" costs cannot be reimbursed under Universal Credit or the Flexible Support Fund if claimants are in work. And it is questionable whether DWP should, in the long-term, pick up costs resulting from DfE's policy.[129]

126 Department for Education, Early education and childcare, (June 2018), p4

127 There is a separate formula for calculating the rate of funding for the 15 hours for disadvantaged two-year-olds scheme, although it is also paid by the DfE in the Early Years Block of each local authority's Dedicated Schools Grant. See House of Commons Library, Early Years Funding (England), Research briefing 8052, February 2022 for more detail.

128 Work and Pensions Committee, Universal Credit: childcare, Twenty-second Report of Session 2017–19 (HC 1771), 23 December 2018

129 Ibid.

The LGA more recently noted:

> Changes to the early years national funding formula in 2018 mean that councils now have to pass 95 per cent of the Early Years Funding Block to providers. As a result, councils' dedicated early years teams have faced budget reductions which impacts on their ability to carry out vital improvement work with their local early years sector and provide direct support for parents and families.[130]

80. The previous Education Committee, in their 2019 report on *Tackling disadvantage in the early years*, found that the funding streams available from the DfE has tilted public childcare spending towards better-off families, and there was a concern that the extended entitlement was widening the gap between disadvantaged children and those from more advantaged backgrounds.[131] We learnt that the Government has established an inter-ministerial group on family, which is chaired by the Secretary of State for Education.[132] The group has met twice so far and is looking at the wider offer of childcare across Government.[133]

Universal Credit assessment periods and variable childcare costs

81. Universal Credit entitlement is decided following an assessment period which evaluates what a claimant has earned and the application of the earnings taper and any deductions.[134] Childcare reimbursement is made according to delivery rather than payment date. The guidance says:

> claimants who pay for more than one month's childcare in one assessment period, will have any eligible support apportioned across the periods the childcare covers up to a maximum of 3 assessment periods.[135]

Therefore, there are often differences between the amount awarded in one assessment period and the actual payments for childcare made by the parents.[136] Childcare costs can also often vary month to month due to out of term provision. Charlotte McDonough, Policy Adviser, Save the Children explained:

> 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

130 The Local Government Association (UCC0008)
131 Education Committee, Tackling disadvantage in the early years, Ninth Report of Session 2017–19 (HC 1006), 7 February 2019
132 Q100
133 Q162–Q192
134 Correspondence with the then Secretary of State relating to the cost of living, 7 April 2022
135 DWP, Universal Credit guidance on Childcare costs (v23, updated November 2022)
136 Citizens Advice Sutton (UCC0001)

> 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.[137]

82. Increasing working hours will also mean parents need to pay increased childcare charges before receiving their additional wages or reimbursement through UC. We have previously discussed the impact of upfront payments being a barrier to accessing childcare support via UC. Research conducted by the Institute for Policy Research—which explored the experience of couples on UC—found that many did not use the UC offer of childcare support, as they struggled with assessments and the payment regimes it dictated, which did not help them pay their childcare costs in a manageable, affordable or timely manner.[138]

83. One parent we heard from was able to find a workaround, with a childcare provider willing to split the hours over the course of the year so the costs were the same every month, however she had to compromise on the quality of provision her child was receiving.[139] The parent explained:

> I did move my youngest child into a nursery. The way that I managed it was I moved her into a nursery that was not as good, the reviews and the Ofsted report were not as good, it was not in as good a location, there was much less outdoor space, but they allowed me to spread the cost of my childcare over the year, so that my childcare costs were the same monthly, which was a huge help. Unfortunately I had to take my youngest daughter out of an environment that she absolutely loved and put her in one that she did not love for quite a while, just to allow me to have that consistency with what was coming into the household […] Instead of having the fluctuation of costs, as I have explained, they took my yearly childcare bills, effectively, and they divided them by 12, so my childcare award was exactly the same monthly. That meant that everything coming into my household was about the same monthly. It allowed me to budget much more easily.[140]

Charlotte McDonough further explains:

> 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.[141]

84. However, we found few examples of providers willing to help parents with similar workarounds. Jonathan Broadbery explains:

> They will do what they can but, as margins become tighter and tighter, the capacity for that extra support is taken away[142].

137 Q2

138 Dr Rita Griffiths (Research Fellow at Institute for Policy Research, University of Bath); Professor Jane Millar (Emeritus Professor of Social Policy at University of Bath); Fran Bennett (Associate Fellow at University of Oxford); Dr Marsha Wood (Research Assistant at Institute for Policy Research, University of Bath) (UCC0005)

139 Q15

140 Qq59–69

141 Q15

142 Q35

The then Minister for Welfare Delivery at the Department for Work and Pensions agreed that the system in place for childcare reimbursements through UC creates issues due to the requirement of childcare providers for payment in advance.[143]

85. **It is evident that the current system for receiving childcare reimbursements is failing those on Universal Credit, and often leads to further debt and/or compromising circumstances. Variable childcare costs are unfortunately unavoidable due to differing costs during term time and out of term, but the Government and childcare providers can and should do more to protect those receiving UC.**

86. ***We recommend that the Department for Work and Pensions consult providers on a way that costs can be split evenly for people claiming Universal Credit childcare support.***

Ratios

87. Ratios in childcare refers to the number of qualified staff necessary to supervise the number of children.[144] The DfE Early Years Foundation Stage Statutory Framework dictates the following ratios:

Table 6: National Mandatory Minimum staff: child ratios in England

Age of Child	Early years provider (other than childminders)
Under 2	1:3
2	1:4
3+	1:8 (or (1:13 if led by a teacher)

Source: DfE, Early Years Foundation Stage Statutory Framework, 3 September 2021, paras 3.28 to 3.44.

88. UC claimants need flexibility with childcare if they are to increase their hours at short notice. Jonathon Broadbery, explains:

> 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 [...] 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 [...] 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.[145]

89. There have been calls to decrease ratios in childcare settings, as well as calls to maintain them. We heard that most of the costs associated with childcare settings is staffing and, by decreasing ratios, providers may be able to improve affordability and availability.[146] We

143 Q106
144 House of Commons Library, Childcare ratios in England [Accessed 03 November 2022]
145 Q25
146 Q189

heard examples of how other countries such as Scotland and France have lower ratios.[147] Annabel Denham, Director of Communications, Institute of Economic Affairs, told us about ratios and links to childcare affordability in the US:

> We know from quite robust evidence in the US that staff-child ratios and qualification requirements, which of course vary enormously between states and regions, have a big impact on prices. One study found that increasing the staff-child ratio by one child across all age groups could reduce prices by between 9% and 20%, or between 2% and 5% when examining four-year-olds only.[148]

Gavin Rice gave further evidence from Sweden for decreasing ratios:

> Sweden, for example, has no national minimum staff-to-pupil ratio and yet by most accounts has an extremely good quality of childcare. One thing that they do, though, is that regionally they link that to high quality provision. You can be exempt from any regulations for ratios provided that you have suppliers of high enough quality. I certainly think that is something that we could investigate in this country[149].

90. However, there is some resistance to decreasing ratios based on concerns over safeguarding and educational attainment. Annabel Denham also discussed finding the balance between educational attainment and affordability.[150] Furthermore, Neil Leitch, CEO of the Early Years Alliance, in a press release commented "The government knows full well that the sector is opposed to this ludicrous, pointless and potentially dangerous policy".[151]

91. A petition launched on 14 May 2022 received 109,488 signatures asking not to reduce staff-child ratios in early years childcare due to concerns over safety.[152] The petition triggered a debate in Parliament held on 14 November 2022.[153] The debate included arguments for maintaining current ratios, based on overseas examples. In response to the petition, on 17 May 2022, the Department for Education explained that decreasing ratios would align the English system for ratios for that of Scotland, who have lower ratios for two-year olds.[154] However, during the debate, Catherine McKinnell MP, Chair of the Petitions Committee, argued that this is not comparable, as in Scotland providers' staff must meet the requirement of higher qualifications than in England.[155] She also cited an example from the Netherlands, a country that has a further relaxed ratio of 1:8 for two-year olds and explained that in 2021, the early years workforce went on strike, with trade unions calling for an increased ratio as one of their demands.[156]

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147 Q189
148 Q77
149 Q78
150 Q80
151 Alliance slams "ludicrous, pointless and potentially dangerous" plans to relax childcare ratios | early years alliance (eyalliance.org.uk) [accessed 04 November 2022]
152 Petitions (parliament.uk) Do not reduce staff-child ratios in early years childcare [accessed 04 November 2022]
153 HC Deb, 14 November 2022, VOL722WH [Westminster Hall]
154 Ibid
155 Ibid
156 Ibid

92. The Department for Education published a government consultation on changing childcare ratios in England on the 4 July 2022. Its proposals aim to give providers greater flexibility in staffing according to the needs of the children and in turn, expand their reach so that as many families as possible can benefit from affordable, flexible childcare.[157] During the petition debate on 14 November 2022, Claire Coutinho MP, the Minister for Children, Families and Wellbeing, said it was right to for DfE to be considering childcare ratios, as it is important to look at the affordability of childcare and giving providers flexibility.[158]

93. The Government had originally planned to publish its response to the consultation in Autumn 2022.[159] The Minister for Children, Families and Wellbeing said that the Government plans to publish its response in due course, alongside further evidence it has sought from providers using impact assessments.[160]

94. **We heard some evidence on how the Department for Work and Pensions could improve or alter conditions in the childcare industry. But we recognise that much of the responsibility for childcare policy sits outside DWP, in the Department for Education. In particular, we heard evidence on whether childcare ratios for children of different ages should be altered, to improve the availability and affordability of childcare.**

157 Department for Education, Childcare: Regulatory Changes [accessed 04 November 2022]
158 HC Deb, 14 November 2022, 722WH [Westminster Hall]
159 Department for Education, Childcare: Regulatory Changes [accessed 04 November 2022]
160 HC Deb, 14 November 2022, 722WH [Westminster Hall]

Conclusions and recommendations

Introduction

1. The Department is currently exceeding its expected proportion of claimants in receipt of childcare support, but it admits that some low-income parents still have difficulty accessing appropriate childcare, for reasons both within and outside its direct control. *We recommend the Department commits to producing a quarterly statistical update on the proportion of eligible claimants on UC childcare, and that it commissions research into why take-up is not higher and how it could be improved.* (Paragraph 19)

2. *Good quality childcare can have a transformative impact on the lives of children and their families, and a lack of childcare, or support with paying for it, should never be a barrier to work. Childcare is expensive for all, but the pressures are most acute for low-income families and we recommend the Government increase the financial support it provides to them. Additionally, the Department should assess the childcare funding schemes in Scotland and Scandinavian countries, investigating whether their costs are offset by societal benefits such as increased economic activity, additional tax and personal wellbeing.* (Paragraph 20)

Upfront costs

3. Households claiming Universal Credit are, by definition, amongst the poorest households in the country, yet the childcare support to them via that system requires them to find substantial sums to meet up-front costs: both initially and on an ongoing basis. Other schemes, such as Tax Free Childcare, allow reimbursement in advance despite being aimed at much wealthier households. *The Department must solve this obvious barrier to work. We recommend it work with the DfE and childcare providers to produce a solution to this problem, if necessary by establishing a direct payment system modelled on those used elsewhere, such as Alternative Payment Arrangements for housing, or funded childcare hours. If this cannot be achieved within the Universal Credit system, childcare support should be removed from it entirely and a solution based on a single childcare account, such as that used for Tax Free Childcare, should be implemented.* (Paragraph 35)

4. DWP, entirely reasonably, wants to reduce the amount that it loses to fraud via childcare payments in UC. However, we have heard that in doing so, by making payments in arrears, it has created an insurmountable barrier to work for some households. DWP's recent efforts to encourage Work Coaches to make greater use of the Flexible Support Fund to address this problem do not seem to be having the desired effect. (Paragraph 43)

5. *We recommend the Government amend the regulations on the use of the Flexible Support Fund so that receipts for payments made from the Fund can be submitted as if the parent had paid the childcare costs themselves. This would have the effect of removing, or largely offsetting the upfront cost, rather than simply pushing it in to*

the next month. We note that there has been a substantial underspend in the FSF in every year of its operation to date which would contribute to the cost of this measure. (Paragraph 44)

6. DWP maintains that it does not collect or publish regular statistical updates on uses of the Flexible Support Fund, on the basis that it does not want to detract from its discretionary nature. The FSF is a core element of support for working parents, and without this data, the Department cannot verify whether it is being used as intended. *We appreciate that the Department has sent us data for some recent years on request, but recommend the Department commit to publishing an annual update on Flexible Support Fund spending.* (Paragraph 45)

Caps and maximum reimbursement

7. The UC childcare offer is, in some ways, more generous than the system it replaces, as it offers a higher percentage reimbursement. However, support for childcare for some of the poorest families in the country has failed to keep pace with inflation because the maximum cap of childcare that can be claimed for has stayed at the same level since 2005. This is particularly pertinent given the current rate of inflation and cost of living crisis, which the Government has recognised in uprating benefits, and the benefit cap, in the Autumn Statement. *We recommend the Government uprate the childcare cost caps to better reflect the true cost of childcare in 2022 and then index them annually.* (Paragraph 60)

Understanding support and eligibility

8. There are a wide range of childcare support schemes available to people claiming Universal Credit, all with different eligibility criteria and application systems. We heard in this inquiry that it continues to be very difficult for parents to understand what the best childcare option for them is, and how this might change with their circumstances. (Paragraph 66)

9. The Government offers support on childcare options: notably, the Childcare Choices website and via Jobcentre Plus Work Coaches. DWP told us that Work Coaches receive training in advising UC claimants on their childcare options, but our evidence suggests further work is needed. We also heard that currently, UC claimants referring to the Childcare Choices webpage are often directed back to general information on Universal Credit, as the information on the webpage is not sufficient. (Paragraph 75)

10. *Work Coaches already receive training on childcare support for UC claimants, but given the range of schemes available, the way that payments and suitable options can change with a claimants' circumstances, and the need for timely information, there is a case for introducing specialist Work Coaches in this area. We recommend the Department develop "childcare specialist" Work Coaches, in line with its existing Self-employment and Disability Employment specialist roles. The Department should introduce one in each job centre in the next 6 months.* (Paragraph 76)

11. The range of childcare support schemes available to parents is complex, and they need access to good quality, timely information to make the best decisions about

their finances. *We recommend the Department for Work and Pensions develop a single portal for childcare on the current Childcare Choices model: crucially, this must include information and calculations on payments for Universal Credit childcare claimants that is integrated with advice on other programmes.* (Paragraph 77)

Childcare Industry

12. It is evident that the current system for receiving childcare reimbursements is failing those on Universal Credit, and often leads to further debt and/or compromising circumstances. Variable childcare costs are unfortunately unavoidable due to differing costs during term time and out of term, but the Government and childcare providers can and should do more to protect those receiving UC. (Paragraph 85)

13. *We recommend that the Department for Work and Pensions consult providers on a way that costs can be split evenly for people claiming Universal Credit childcare support.* (Paragraph 86)

14. We heard some evidence on how the Department for Work and Pensions could improve or alter conditions in the childcare industry. But we recognise that much of the responsibility for childcare policy sits outside DWP, in the Department for Education. In particular, we heard evidence on whether childcare ratios for children of different ages should be altered, to improve the availability and affordability of childcare. (Paragraph 94)

Formal minutes

Wednesday 14 December 2022

Members present:

Rt Hon Sir Stephen Timms, in the Chair

Debbie Abrahams

Siobhan Baillie

Steve McCabe

Nigel Mills

Selaine Saxby

Dr Ben Spencer

Chris Stephens

Rt Hon Sir Desmond Swayne

Draft Report (*Universal Credit and childcare costs*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 94 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fourth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 11 January at 9 am.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 26 January 2022

Charlotte McDonagh, Policy Advisor, Save the Children UK; **Ceri Smith**, Head of Policy and Campaigns, Gingerbread; **Dr Rita Griffiths**, Research Fellow, Institute for Policy Research, University of Bath; **Oliver Crunden**, Senior Policy and Research Officer, Child Poverty Action Group — Q1–21

Helen Donohoe, Policy Adviser, Professional Association for Childcare and Early Years; **Jonathan Broadbery**, Director of Policy and Communications, National Day Nurseries Association — Q22–45

Wednesday 2 March 2022

Gemma Widdowfield, welfare campaigner; **Vikki Waterman**, anti-poverty campaigner; **Nichola Salvato**, welfare campaigner — Q46–74

Aria Babu, Senior Researcher and Head of the Female Founders Forum, The Entrepreneurs Network; **Annabel Denham**, Director of Communications, Institute of Economic Affairs; **Gavin Rice**, Policy Director, Centre for Social Justice — Q75–98

Wednesday 20 April 2022

David Rutley MP, Minister for Welfare Delivery, Department for Work and Pensions; **Mims Davies MP**, Minister for Employment, Department for Work and Pensions; **Neil Couling**, Director General Change and Resilience and SRO for Universal Credit, Department for Work and Pensions; **Donna Ward**, Director, Poverty, Family & Disadvantage, Department for Work and Pensions — Q99–195

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

UCC numbers are generated by the evidence processing system and so may not be complete.

1 Centre for Social Justice (UCC0019)

2 Child Poverty Action Group (UCC0013)

3 Chloe, (UCC0018)

4 Citizens Advice (UCC0010)

5 Citizens Advice Sutton (UCC0001)

6 Coram Family and Childcare (UCC0016)

7 Department for Work and Pensions (UCC0015)

8 GIPSIL Community Support Centre (UCC0007)

9 Gingerbread (UCC0011)

10 Griffiths, Dr Rita (Research Fellow, Institute for Policy Research, University of Bath); Millar, Professor Jane (Emeritus Professor of Social Policy, University of Bath); Bennett, Fran (Associate Fellow, University of Oxford); and Wood, Dr Marsha (Research Assistant, Institute for Policy Research, University of Bath) (UCC0005)

11 Harris, Professor Neville (UCC0003)

12 Islington Council (UCC0012)

13 Professional Association for Childcare and Early Years (PACEY) (UCC0017)

14 Save the Children UK (UCC0006)

15 Single Parent Rights (UCC0004)

16 The Local Government Association (UCC0008)

17 Women's Budget Group (UCC0014)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2022–23

Number	Title	Reference
1st	The appointment of Dominic Harris as the Pensions Ombudsman and the Pension Protection Fund Ombudsman	HC 465
2nd	The cost of living	HC 129
3rd	Protecting pension savers – five years on from the pension freedoms: Saving for later life	HC 126
1st Special	Children in poverty: No recourse to public funds: Government Response	HC 328
2nd Special	The Health and Safety Executive's approach to asbestos management: Government Response to the Committee's Sixth Report of Session 2021–22	HC 633
3rd Special	The cost of living: Government Response to the Committee's Second Report of Session 2022–23	HC 671

Session 2021–22

Number	Title	Reference
1st	DWP's preparations for changes in the world of work	HC 216
2nd	Disability employment gap	HC 189
3rd	Children in poverty: Measurement and targets	HC 188
4th	Pension stewardship and COP26	HC 238
5th	Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings	HC 237
6th	The Health and Safety Executive's approach to asbestos management	HC 560
7th	Children in poverty: No recourse to public funds	HC 603

Session 2019–21

Number	Title	Reference
1st	DWP's response to the coronavirus outbreak	HC 178
2nd	The appointment of Dr Stephen Brien as the Chair of the Social Security Advisory Committee	HC 733
3rd	Universal Credit: the wait for a first payment	HC 204

Number	Title	Reference
4th	The temporary increase in Universal Credit and Working Tax Credit	HC 1193
5th	Protecting pension savers—five years on from the pension freedoms: Pension scams	HC 648
6th	The appointment of Sarah Smart as Chair of the Pensions Regulator	HC 1358