House of Commons

Work and Pensions Committee

Universal Credit and childcare costs: Government Response to the Committee's Fourth Report of Session 2022–23

Fifth Special Report of Session 2022–23

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Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Work and Pensions and its associated public bodies.

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Committee reports are published on the publications page of the Committee's website and in print by Order of the House.

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Fifth Special Report

The Work and Pensions Committee published its Fourth Report of Session 2022–23, *Universal Credit and childcare costs* (HC 127) on 20 December 2022. The Government Response was received on 27 March 2023 and is appended below.

Appendix: Government Response

The Government welcomes the Fourth Report of Session 2022–23, following the Committee's ongoing inquiry into Universal Credit and childcare costs.

The Committee published its report on 14 December 2022, which included nine recommendations for the Government to consider. The Government's response to these recommendations is set out below.

The Committee also sent a follow-up letter to the report on 15 February 2023 providing estimates for the cost of implementing three of the key recommendations. A response to them estimates is included in this response.

We, like the Committee, recognise that high childcare costs can be a real barrier to parents taking up employment or increasing their working hours. We share some of the concerns that the Committee highlights including initial up front childcare costs and the complexity and the need for clear communications.

We have set out below actions we have taken since the Work and Pensions Select Committee hearing on 20 April 2022:

- On 15 March 2023, the Chancellor announced that any Flexible Support Fund payment made to childcare providers will be disregarded from the Universal Credit (UC) childcare cost calculation; and an increase in the maximum amounts ('caps') of childcare costs payable to claimants.

- The Department has committed to deliver these measures at pace, looking for parents on Universal Credit to benefit from these changes from Summer 2023. Work on delivery has already started in earnest to meet this challenging timetable. Good progress has been made in the days since the announcement, with much more work on the successful delivery of these measures to come in the coming months.

- Free childcare support is expanding. By September 2025 every eligible working parent of children aged 9 months to when they start school will be able to access 30 hours free childcare in England. We announced other reforms too, including: uplifting the existing entitlement rates (£204m from this September, rising to £288m next year additional investment), attracting more people to childminding through an up to £7.2m start up grant fund and increasing the supply of wraparound care through £289m start up funding.

- The Department for Work and Pensions (DWP) in partnership with the Department for Education (DfE) and HM Revenue & Customs (HMRC), continues to deliver the Childcare Choices campaign which has been running since mid-2022.
- Flexible Support Fund guidance for Work Coaches has been refreshed and simplified.
- An ad hoc statistical publication was published in June 2022 showing the take up of Universal Credit for eligible claimants between March 2021 and February 2022.

We hope the Committee agrees that these changes clearly illustrate the progress the Government is making to make childcare less of a burden for working families and to smooth the transition from welfare benefits into work. We look forward to continued engagement with the Committee on this topic once further analysis on the Budget announcements has been completed.

Recommendations

1. ***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)

The Department is committed to monitoring the uptake of the UC childcare offer and aims to build on the previous statistical ad hoc publication published in June 2022.

Currently, the Department releases statistical data on a regular basis if there is value in publishing data more frequently and should be determined by its usefulness to users. Following the Budget announcements, we are reviewing these considerations as to the usefulness of more regular publications. We will be happy to keep the committee informed on this decision.

The Department is committed to gathering evidence and insight to inform how best to support low-income parents move into employment. In 2021 we commissioned some research on 'why take-up isn't higher'. This research has now been concluded but is still being quality assured. As we have said previously in the response to the Committee on 29 June 2022, the research was only intended to support policy development.

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)

UC childcare increase in financial support

The Government recognises that high childcare costs can be a barrier for parents in taking up paid work. That is why we are pleased to advise the Committee that the UC childcare maximum amounts (caps) payable to eligible UC claimants will be increasing from summer 2023. The caps are currently set at £646.35 for one child and £1,108.04 for two or more children and will increase to £950.92 for one child and £1,630.15 for two or more children. This should help parents overcome any barriers to moving in to work or when increasing their working hours.

The Committee wrote on 15 February 2023 providing an estimate for the cost of implementing an increase in the childcare maximum (caps). The Committee's estimates of £895 for a single child and £1,535 for two or more children per month are broadly in line to those announced in the Spring Budget noted above.

Holiday Activity and Food Programme support

More widely, there is additional support available to families, the Holiday Activities and Food Programme which has been successful in helping low-income families in England during major school holidays. The Government will be providing over £200 million a year to local authorities to enable this programme to run until the end of 2024/25. This programme will continue to provide enriching activities and healthy, nutritious meals to help with children's social skills and wellbeing, while also relieving some of the pressure on family budgets and helping low-income parents to continue work over major school holidays. In addition, Government is committed to continuing support for school breakfasts, and is investing up to £30 million until July 2024. This funding will support up to 2,500 schools in disadvantaged areas, meaning that thousands of children from low-income families will be offered free nutritious breakfasts to better support their attainment, wellbeing, and readiness to learn.

Wider DfE Support

The Government recognises that childcare is expensive in the United Kingdom by international standards. We are aware that the childcare industry is very labour-intensive, with 75% of costs driven by staffing and there are no easy or quick ways to reduce these costs. We are continuing to explore how we best support the early years sector to recruit and retain the staff it needs. We will work closely with the sector to develop plans to grow, develop and support the workforce.

We will invest £204 million in 2023–24 to uplift the rates for existing entitlements, rising to £288 million in 2024–25, with further uplifts beyond this. This ensures providers have the funding they need to deliver the existing free entitlements offers.

In addition, to increase the availability of high-quality childcare, DfE are providing start-up grants for childminders to remove a key barrier to them joining the profession.

International comparisons

However, the department does not intend to conduct a specific investigation into the funding schemes of Scotland and Scandinavian countries. We have previously carried out some internal work looking at international comparisons that focussed on availability and affordability of childcare, this comparison did include Scandinavian countries. The outcome of this work highlighted the high costs for childcare in the UK.

3. ***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)

Increasing awareness to remove barriers

The Department works closely with other government departments, especially with DfE to look at ways to support parents back in to work and progress in work. An example of this is where we have delivered, in partnership with DfE and HMRC, the Childcare Choices campaign that aims to increase parents' awareness of the wider government childcare offers.

Further support from the DfE Budget announcements

By September 2025, eligible working parents of children aged 9 months to when they start school will be able to access 30 hours of free childcare in England. The UC childcare element can be used to top up a claimant's eligible free childcare hours if more hours are worked and childcare required, including paying for the additional hours of wraparound childcare created as a result of the DfE's wraparound pathfinder programme which aims to support local areas and schools to start up and increase availability of wraparound from Sept 2024 with a view to sustainable wraparound being offered by most schools by Sept 2026.

Universal Credit – reflecting the world of work

In a previous Government response to the Committee's follow-up report in 2019 the Government outlined the reasons why we have no plans to make direct payments to providers. In addition to that report, in 2011 when UC was being designed, direct payments was considered and stakeholders who represented the interests of recipients of childcare advocated the preference that there should be no direct system of payment to childcare providers and wanted payment to go to recipients of UC.

It is important to remind the Committee of the original aims of UC and work. UC was originally designed to reflect the world of work and paid as a lump sum monthly. Whilst UC is made up of elements according to household circumstances, it was designed to be more like a salary. The aim was for households to make their decisions in the same way as those in working households who were not on benefits, including decisions on things such as hours of work, spending, childcare etc. In this way this type of benefit was designed to reduce or remove any 'culture shock' for people moving into work and eventually off benefits. The original intention was also to eliminate some of the incentive issues with legacy benefits which led to claimants being caught up in a 'benefit trap.' Paying directly to childcare providers would undermine the fundamental aspect of the design of UC.

Alternative Payment Arrangement model comparisons

While there are suggestions that the childcare element can be paid directly to the provider in a manner comparable to Alternative Payment Arrangements (APA), the fluctuations in the childcare costs, seasonal and otherwise, would make this impossible to do with any consistency, and would require the childcare element to be paid on estimates because payments would have to be made upfront. This would ultimately risk the claimant being overpaid and potentially get into debt.

APAs are for vulnerable UC claimants who cannot manage their single monthly payment and there is a risk of financial harm to the claimant and/or their family. APAs are a discretionary decision based on a best interest test and only applied when a claimant is unable to manage their single monthly payment.

Housing costs are verified in advance of any APA being paid. The value of a managed payment to a landlord is either the value of the housing element or the value of the residual award if lower. If a claimant already had a managed payment of housing costs or the residual UC award is lower than the childcare element, there may well be insufficient UC to also pay a childcare element to a provider.

The Assessment Period (AP) for UC runs from the effective date of claim and each subsequent AP will begin on the same date of the month.

The award under this approach will therefore reflect the claimant's circumstances at the point of payment and will better anticipate their needs over the forthcoming month—the period for which we would expect them to use this money to budget and pay for living expenses. This balances the requirement that UC be a benefit paid in arrears with the need to reflect as accurately as possible the circumstances a claimant will be in for the month ahead.

4. ***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 Universal Credit and childcare costs the next month. We note that there has been a substantial underspend in the FSF (Flexible Support Fund) in every year of its operation to date which would contribute to the cost of this measure.*** (Paragraph 44)

Following the announcement at the Spring Statement, we are pleased to advise the Committee that the Department will be making a change to the Universal Credit Regulations 2013 to exempt any FSF payment made to childcare providers from the UC childcare cost calculation. This additional payment will allow UC claimants to receive a FSF payment in the usual way to pay for childcare costs where this enables them to take up a job or significantly increase their working hours. Claimants will then submit evidence of that payment (paid by DWP) to claim back that same set of childcare costs within that same assessment period where the childcare has been delivered.

The parent can then set this additional money aside to pay most of their next set of costs so this would support claimants to get into the UC childcare payment cycle sooner.

In the Committee's follow up letter an estimated cost of this measure was provided. In response, the Government's costings for this measure were estimated by using the current FSF spending on childcare and the number of claimants on flowing to UC each month. This used UC administrative data to estimate the eligible population for increased FSF spending, multiplying the average childcare award by the identified population and increasing it by CPI in future years. The costing accounts for a behavioural response due to the policy supporting more people to use childcare in order to work more hours and earn more.

	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28
Exchequer Impact	0	-100	-95	-75	-70	-60

Throughout the financial year spend is reviewed to ensure Departmental goals are achieved, customer needs are met at a local level and that spend remains within budget. The Department is aware of spend being within a range of 0.2% and 11.9% of budget for the period 2016–20.

A below budget spend was also shown in the DWP Annual Report & Accounts 2020–21. During this period COVID-19 restrictions and the extension of the furlough scheme which resulted in a less demand for the FSF than anticipated.

The purpose of the FSF isn't just to pay for upfront childcare costs, it supports work coaches in providing additional funding in removing various barriers for those seeking, starting work or training such as purchasing clothing or equipment and paying traveling cost.

In 2022 the FSF guidance was refreshed and made simpler for work coaches to follow. Improvements were also made to the levels of FSF delegated purchasing authority (DPA) for childcare and limits were raised to allow a greater pool of authorisers to be available to speed the authorisation process where possible.

The Department is dedicated to supporting those on low-income and to alleviate poverty a periodic review of the benefit cap levels was undertook and decided to increase them in line with the annual Consumer Prices Index to September 2022 (10.1%) as announced in the Autumn Statement on 17 November 2022, this will ensure that households will see an increase in their benefit following the annual Benefits Up-rating in April 2023.

5. ***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)

As you know, the FSF provides Work Coaches with the flexibility and discretion to make awards that enhance the employment prospects of claimants. Service leaders commit and reforecast expenditure throughout the financial year to meet local demand, re-adjusting the FSF forecast across different locations to react to local needs.

In a previous response to the Work and Pensions Select Committee report in 2019, the Department committed to providing the Committee with FSF expenditure information, which includes data on upfront childcare costs, this annual statement sent to the Committee is the only routine FSF publication.

The Department would not want to risk introducing a reporting system to such a granular level of detail that may drive undesirable behaviour across Jobcentres, for example to meet an expenditure target rather than meeting individual claimant need.

6. ***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)

The Government recognises that high childcare costs can be a barrier for parents to take up paid work. That is why we are increasing the UC childcare maximum amounts (caps) of childcare costs payable to eligible UC claimants with a provisional implementation date of summer 2023. The caps are currently set at £646.35 for one child and £1,108.04 for two or more children and will increase to £950.92 for one child and £1,630.15 for two or more children. This increase will support parents to move into employment and to increase their working hours.

As part of the recent budget, the OBR certified the Department's costing of increasing UC childcare in line with CPI each year thereafter until 2027–28. However, future uprating of UC childcare will form part of the Departments annual uprating review.

7. ***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)

The Department has worked hard internally to promote the use of the UC childcare and the FSF and to ensure that the right guidance is in place to support and develop Work Coaches understanding so they can help claimants better understand the generous UC childcare offer.

There is a variety of training resources online that distils all the vital information in a digestible way and operational staff can access this at any point. The training materials outline UC childcare costs specific scenarios to ensure that Work Coaches are having childcare conversations with claimants at the right time. Work Coaches and Case Managers are encouraged to remind parents to utilise all information available, in particular, the very helpful Childcare Choices website. By having the information online allows all operational staff to signpost claimants online for support—which is important.

The rationale why self-employment has 'Enhanced Capability Work Coaches' is that it is a particularly complex area of UC to deliver, and supporting self-employed claimants is considered sufficiently different to working with employed claimants that Work Coaches need additional training to be able to do it effectively. In particular, this additional training provides Work Coaches and their team leaders the knowledge and skills they need to assess whether or not a claimant is Gainfully Self-Employed (GSE) for UC purposes, support claimants during the start-up period, and signpost them to external provision.

Many self-employment Work Coaches have a mixed caseload; it only tends to be the larger Jobcentre sites that have the capacity to allow those working with the self-employed to do so exclusively.

The Department does recognise how confusing the childcare landscape can appear. It is for this reason that we have put in place over 30 childcare Champions nationally whose aim is to co-ordinate the promotion of the UC childcare offer and how it fits with other relevant help with childcare for UC families.

We have also put in place an established network of upfront childcare Subject Matter Experts within the districts. These are specialists in each district and encourage operational colleagues to ask for assistance if unsure about any aspect of upfront childcare support.

We welcome the estimated costs that the Committee provided on having a specialist childcare Work Coach in every Jobcentre. As we have put in place the Childcare Champions and Subject Matter Experts in regions to support Work Coaches in every Jobcentres, we are not considering having Specialist Work Coaches in every Jobcentres in addition to these roles. Therefore, we have not carried out any estimate of costing for this work.

Not having Work Coach specialists is in line with the UC model, in which Jobcentres assign claimants a named Work Coach who provide support on a wide range of topics.

8. ***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)

The campaign to raise awareness of the cross-government childcare offers continues to drive positive engagement with parents who could benefit from more support. We will undertake a full evaluation at the end of this campaign period.

There is also a wide variety of information that covers all the Government childcare offers on the Childcare Choice website. This is a valuable tool for parents and acts as a platform to additional information. The UC section provides the link to an 'independent benefits calculator' that helps a claimant identify what they could be entitled to. There is also access via a link to the Gov.uk website that provides full information on the UC childcare offer.

The Department does not agree with the Committee that developing specific calculations on payments for UC childcare would be beneficial for claimants and feel that it could be misleading as there are several variables involved within the UC calculation, with childcare costs often fluctuating from month to month. We encourage frequent conversation with the claimant's Work Coach or Case Manager either in person or raised via their journal.

9. ***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)

Although the Department works closely with the DfE on a wide range of childcare issues it does not have any jurisdiction to work with childcare providers and therefore, we do not intend to consult with providers. The regulatory of childcare lies solely within the DfE remit.

When UC was being designed, the Department considered the best way to avoid parents from getting into debt. We wanted to avoid overpayments and there was evidence that there was problems in the Working Tax Credits system which was susceptible to uncertainty for parents. Paying equal UC childcare payments throughout the year would increase the potential for parents to move into dept due to the fluctuations that occur in childcare costs and when claimants moving in and out of work. The current system of paying childcare costs on receipt of actual costs paid protects the claimant from getting into debt.