

Written evidence from Save the Children (SHP0005)

1. Introduction

- 1.1 Founded in the UK in 1919, Save the Children is a global organisation helping children survive and thrive in 120 countries, including here in the UK.
- 1.2 Childcare is crucial in supporting parents to work and increase their incomes, but parents struggle to pay soaring childcare costs. Under Universal Credit, parents must pay their childcare costs upfront – something many families simply cannot afford. The requirement to do so triggers a cycle of debt and stress.
- 1.3 Unlike rent or other bills, childcare costs fluctuate wildly week to week, month to month. This means upfront costs will strike a family at multiple periods during their young child's life; the most persistent and predictable of which is school holidays. Parents are faced with huge increases in costs during the holidays, which they have to find upfront and wait to be paid back.
- 1.4 Without a solution to upfront costs, school holidays could become a key driver of poverty for families with young children. This is not right and is antithetical to the principles of Universal Credit. Luckily, there are solutions to this design flaw.
- 1.5 Save the Children has used a combination of quantitative and qualitative research to look at the points over the year at which upfront costs strike the families of young children, what the impact is, and what the policy solutions are.

2. Childcare and poverty

- 2.1 2.2 million children in families with children under five are growing up in poverty in the UK. This has risen by more than a quarter since 2010, with families with young children accounting for almost three-quarters of the increase in overall child poverty since then.
- 2.2 Poverty has many causes, but the higher rates among families with young children are partly due to more limited employment opportunities for mothers, as well as changes to the benefits system and other factors. Poverty has a massive impact on a child's life: children growing up in poverty are 50% more likely to start school behind, and many struggle to catch up with their peers into adulthood. It does not have to be this way.
- 2.3 Although it is just one piece of the puzzle, childcare plays a crucial role in supporting parents to work and helping children to learn and develop.

3. Upfront costs and Universal Credit

3.1 The Government has expanded support for childcare costs, and the childcare element of Universal Credit (UC) provides essential help for parents on lower incomes. Once UC is fully rolled out, half a million families will receive support through this system.

3.2 However, the childcare element has one key design flaw: parents are required to pay their childcare costs upfront, before being reimbursed up to a month later. Instead of helping families, this means they are pushed into even greater difficulties, as they struggle to cover these high costs out of their own pockets.

4. Managing upfront costs on an ongoing basis causes difficulties – particularly in the school holidays

4.1 While the first month of upfront costs has received a lot of attention, there has been less focus on the problems caused by paying costs in advance on a monthly basis. Parents experience problems covering increases in costs, particularly in the school holidays, when they can be faced with increases of several hundred pounds to pay upfront.

4.2 The way in which the childcare element of UC works means that parents can only claim for childcare costs which they have already paid, paying the provider first before submitting receipts as proof. This is designed to eliminate the risk of fraud and overpayments from the legacy benefits system; however, this means that parents are required to find the money for these costs upfront every month before being reimbursed.

4.3 When the first month's costs have been paid for, through using savings, loans, advances or other means, it may be the case that parents are able to use the childcare element from the previous month to fund the costs for the next month. This is the principle underlying UC payments in general and could work well in cases where payments are made on time and costs do not change from month to month.

4.4 However, childcare costs differ from other costs in that they are highly volatile and change regularly depending on the time of year and parents' work situations. While costs such as rent, food and utility bills are likely to stay broadly the same from month to month, childcare costs rise and fall over the year and over the course of parents' and children's lives.

5. Parents' views

5.1 Parents Save the Children has spoken to describe the holidays as a key source of stress and financial hardship. Lucy, Vikki and Nichola talk about holidays, particularly the summer holidays, as being a major cause of stress and concern as they have to find a month or more's additional costs upfront.

5.2 Lucy's story

5.2.1 Lucy is a single mother of two from Manchester, who recently left her job in the police force to become self-employed. Lucy has repeatedly struggled to cover the extra

childcare costs during the holidays, particularly the summer holidays, as a month's extra costs come to around £280.

- 5.2.2 She has tried to access support through budgeting advances but has been told they cannot be used to pay childcare costs. More recently, she was also turned down for a budgeting advance because she was paying off a previous advance. Because of this, she borrows from her parents to pay for childcare, which results in her being in a constant cycle of debt and repayments.
- 5.2.3 Lucy says: *"The summer holidays, any two-week holidays, they're a nightmare. We're on half term now, I've had to pay for two days of childcare which is £70. I've just had to try and find that money. The next summer holidays, I don't even know where I'm going to find that.*
- 5.2.4 *I'll have to put bits away every week. Come July and August, that's going to be substantial amounts. I'm not sure what's going to happen. I'm still paying off the last budgeting advance so I can't get another one. It's just constant debt as I also need to repay my parents. You exhaust all options – they're my only option for borrowing money."*

5.3 Vikki's story

- 5.3.1 Vikki is a single mother of two from Newcastle, who is receiving childcare support through Universal Credit.
- 5.3.2 Vikki returned to work last year and has struggled with upfront childcare costs. She was paying for childcare for two pre-school children for three days per week, and her first month of childcare costs came to £1,400. She was forced to borrow money from family members to cover the fees, which took a while to pay back.
- 5.3.3 Following the first month, she faced high increases in the holidays, as her nursery did not offer the free hours entitlement throughout the year. In the summer holidays, her childcare bill increased by over £600, and she needed to borrow money from family again to cover this. Eventually, she had to take her children out of nursery as she was unable to pay the increased costs and had to take unpaid leave from work while she looked for another provider. She has now found a nursery that offers the free hours stretched over the year, which makes things easier.
- 5.3.4 Vikki says: *"The way the free hours work is you're only entitled to them in term time. If you don't just work term time then your pay's not the same, your childcare's not the same, your costs are going to fluctuate.*
- 5.3.5 *My bill went from £400 to well over £1,000. That's not something you just have in the bank. I get paid on the 29th and have to pay my childcare bill on the 1st. I obviously use the money I get on the 29th to pay the childcare on the 1st, but if your childcare fluctuates*

then you suddenly find yourself having to pay more. If your bill is £1,000 and you're only getting 85% of £400 you still have to find the rest. You're constantly playing catch-up.

5.3.6 *I was constantly borrowing hundreds of pounds from my parents and grandparents. I was borrowing from one source and paying them back, then borrowing from another source and paying them back. It was ridiculous, the situation I was in.*

5.3.7 *I had to take unpaid leave from work to find a new childcare provider. It was really stressful as I wasn't getting paid for the time I took off work and had to pay the upfront bill for the new nursery at the same time as paying the bill for the old nursery. It was a month of everything being really stressful."*

5.4 Nichola's story

5.4.1 Nichola is a single mother from West Sussex. She works as a benefits adviser and recently moved jobs to increase her salary and working hours. She voluntarily moved onto UC as she was slightly better off compared with the legacy system, but has found that the problems with the childcare element have left her in a worse position than before.

5.4.2 Nichola's childcare provider requires her to pay the full term's costs upfront, which means she is regularly faced with having to pay hundreds of pounds of childcare costs upfront. She is not eligible for a budgeting advance as she is still paying off her initial advance payment, and has also been told that, even if she were eligible, she would only get £36 because of the way budgeting advances are calculated.

5.4.3 Nichola says: *"It's enormous stress, you're always on the back foot, always concerned about it. I've often left work on a Friday not knowing how I'll find the money for childcare. I've often thought, is it worth it, is it worth the stress? I've borrowed from my family to pay the last half term and now I've got to pay this half term and I don't have it.*

5.4.4 *It's whenever your childcare might increase. Every six weeks there's a half term. Because I can't come up with the extra money I've taken time off, but I've only got one week's holiday left for this year and there's a six-week holiday coming up. How am I going to do this?*

5.4.5 *I increased my hours thinking we'd be better off, thinking my daughter would be better off, that we could participate in modern life a bit more."*

6. Costs during the school holidays

6.1 School holidays represent the key point in the year at which childcare costs spike. This affects school-age children, but also affects families with pre-school children who use free hours, which are only available during term time.

- 6.2 In England, some parents of two- to four-year-olds are entitled to some free hours of childcare, depending on the age of the child and the parents' income and working status.
- 6.3 Families with a two-year-old on low incomes or receiving certain benefits are eligible for 15 hours per week of free childcare for 38 weeks of the year. Around 40% of families are eligible.
- 6.4 All families with a three- or four-year-old are eligible for 15 hours per week of free childcare for 38 weeks of the year.
- 6.5 Additionally, parents of three- or four-year olds who are earning at least the equivalent of 16 hours per week at the minimum wage, and up to £100,000 per year each, are eligible for an extra 15 hours of childcare for 38 weeks of the year.

7. The limits of free hours

- 7.1 This means that, while the free hours are helpful in reducing childcare costs, there are 14 weeks of the year in which the free hours are not available. As most jobs do not provide enough annual leave to cover these periods, working parents are faced with having to pay extra childcare costs during this time, or use informal childcare if this is available (Coram Family and Childcare 2018).
- 7.2 While it is possible for childcare providers to offer the free entitlement "stretched" over the full year, not all providers offer this. The available evidence suggests that the majority of children do not access the entitlement in this way, particularly those accessing the 15 hours entitlement:
- 7.2.1 Department for Education census data shows that, last year, 87% of two-year-olds and 86% of three-year-olds using the 15 hours entitlement used 12-15 hours per week. This suggests it is unlikely that they used the offer year-round (as this would mean they would use less than 12 hours per week) (Department for Education 2018b).
- 7.2.2 Similarly, evidence suggests that most children accessing the 30 hours entitlement used the offer in term time only, although the numbers for this are lower. The recent evaluation of the 30 hours offer showed that 63% of parents used the offer in term time only, rising to 73% among lower-income parents (Paull & LaValle 2018).
- 7.2.3 A recent survey of childcare providers also found that over half (55%) of providers did not offer the 30 hours entitlement stretched over the year (Speight et al 2019). Maintained settings in particular tend to offer the entitlement during term time only, with 8% offering the entitlement year-round, compared with 50% of private, voluntary and independent (PVI) nurseries and 51% of childminders. As disadvantaged children are more likely to access their entitlement in the maintained sector (Gambaro et al

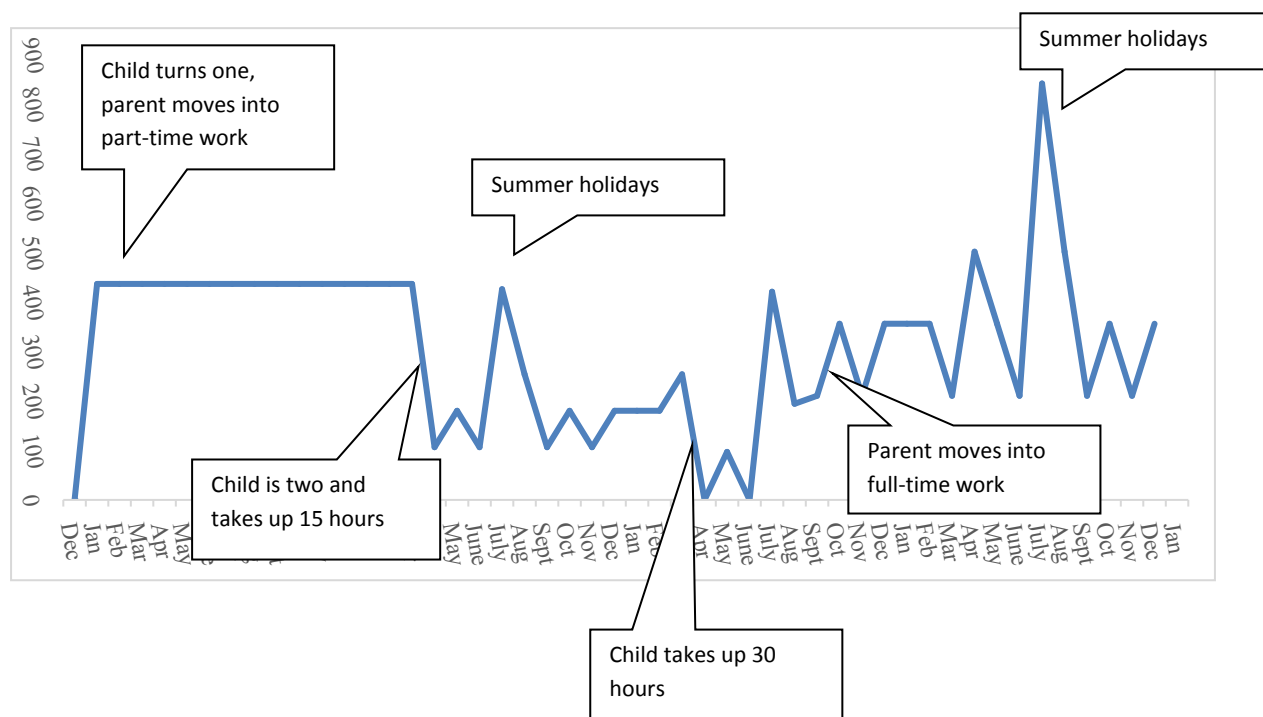
2014), this will have a disproportionate impact on lower-income families, who will be claiming UC.

7.3 Because the childcare element of UC is paid in arrears, this means that parents have to find the money for the costs upfront and wait up to a month to be paid back. This means that parents can be faced with paying hundreds of pounds in extra childcare costs to cover the holidays out of their own pockets – money which parents on low incomes don't have to spare.

7.4 The summer holidays in particular lead to clear spikes, with increases of over £630 for a three- or four-year-old not using the 30 hours entitlement during the holidays.

7.5 The chart below shows how childcare costs change in the first few years of a child's life. It shows that, once a child turns two and uses free hours, costs fluctuate regularly, with most of the surges occurring at school holidays - not just the summer holidays, but also at Christmas, Easter, and half terms.

Figure 1: Changes in childcare costs and UC childcare element over time, single parent moving from part-time to full-time work



Source: Save the Children analysis of childcare costs data from Coram Family and Childcare 2019

8. Average cost increases in the school holidays

8.1 These increases can be steep. The tables below show average childcare costs for part-time and full-time places for children of different ages, with and without the free hours, and the

average increases during the holiday periods, which parents on UC will need to cover before being reimbursed.

8.2 It shows that increases in costs are high, particularly during the summer holidays, when parents may need to find the costs for a month’s additional childcare upfront, but also during other holiday periods.

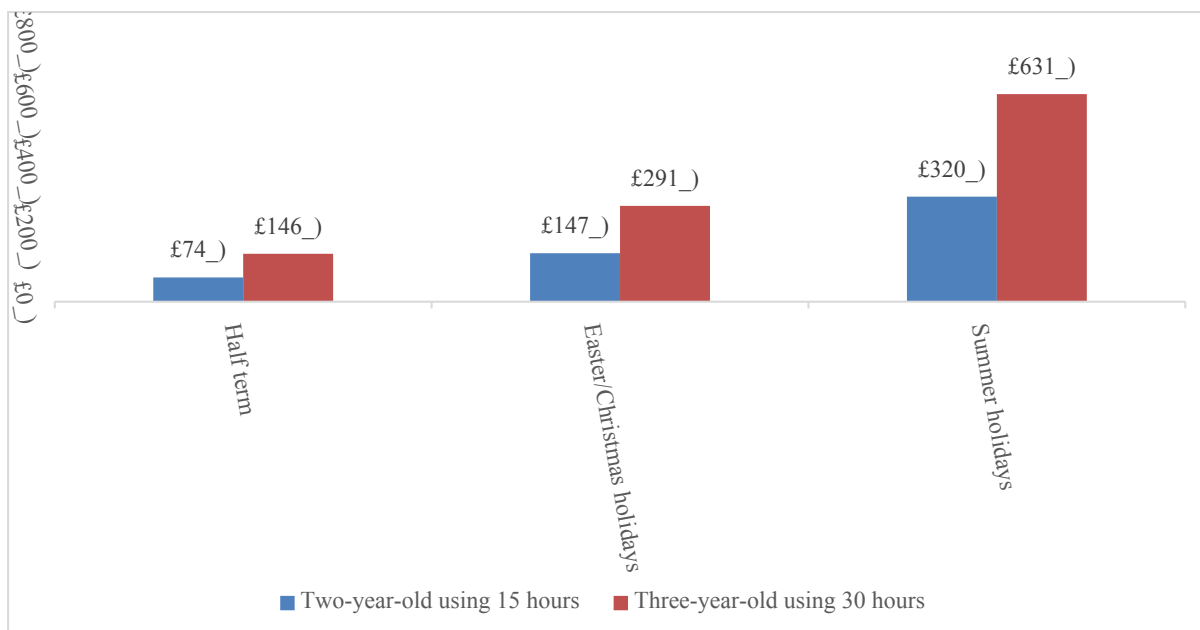
8.3 For example, a parent of a two-year-old using the 15 hours entitlement in England will be faced with an increase of almost £150 per month during a two-week holiday at Easter or Christmas, and a parent of a three- or four-year-old could be faced with an increase of over £630 during the summer holidays – costs they will need to finance out of their own pocket.

8.4 **Figure 2: Average childcare costs in England by age of child and free hours entitlements**



Source: Save the Children analysis of childcare costs data from Coram Family and Childcare 2019

Figure 3: Average monthly cost increases in the holidays in England



Source: Save the Children analysis of childcare costs data from Coram Family and Childcare 2019

9. Regional differences between increases in the costs

9.1 These differences also vary widely by region. The table below shows the extra costs families with a three- or four-year-old using 30 hours during term time will have to pay during the summer holidays by region: the increases range from £530 in the North West to over £830 in inner London.

9.2 Average monthly increases for three- and four-year-olds in the summer holidays in England by region

Region	Increase
East Midlands	£534.50
East of England	£618.93
Inner London	£832.85
Outer London	£748.87
North East	£642.56
North West	£529.26
South East	£653.87

South West	£620.26
West Midlands	£645.16
Yorkshire and Humberside	£554.22

Source: Save the Children analysis of childcare costs data from Coram Family and Childcare 2019

10. Recommendations

- 10.1 Reforming the system of childcare support could have a transformative impact on families' and children's lives. Childcare is an essential tool in helping families to move out of poverty and give their children the best opportunities they can. But currently, parents are being left to shoulder the burden of cost themselves – and are struggling.
- 10.2 Save the Children recommends two options for reforming the way the childcare element is paid under UC:
- 10.2.1 Upfront payments to parents: the childcare element could continue to be paid to parents, but be paid upfront before parents have paid the provider. Parents could agree costs with the provider in advance and receive a bill which they submit to the DWP. This would trigger the immediate processing of the claim for the childcare element and ensure parents are not left out of pocket through having to pay providers upfront.
- 10.2.2 Direct payments to providers: alternatively, the DWP could introduce direct payments to childcare providers. This would remove the risk of overpayments or fraud, and ensure that parents would not have to wait to be reimbursed before paying the provider. This could draw on some of the key design features of the childcare accounts used for Tax-Free Childcare, where money for childcare bills is held in a dedicated account and can be paid direct to providers – a system already in place for higher-earning families.
- 10.3 Now is a crucial time for the government to act. Hundreds of thousands of families are set to start claiming childcare through UC in the next few years: making sure that the system is ready to support them to work and do the best for their children should be a key priority for the government.

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