

SAVE THE CHILDREN – WRITTEN EVIDENCE (EUC0072)

The economics of Universal Credit

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. Our vision is that all children can realise their potential. But with rising levels of child poverty and a stubborn early learning gap between poorer children and their better off peers, many children in the UK are missing out. Our work in the UK focuses on children’s earliest years, as the roots of some of the deepest educational and social divides lie in these critical first few years. We focus on tackling the root causes of poverty and closing the early learning gap between children living in poverty and their peers.
- 1.2 We support the aims of Universal Credit (UC), to ensure people are always better off in work and to provide a smooth, simple transition into work for those who can. However, reductions in welfare support for families have directly contributed to the rise in child poverty rates.¹ With one in three children currently growing up in poverty in the UK and with this number set to rise², it is clear that we need to see a much stronger focus from government on ensuring the system genuinely supports families and actively reduces levels of child poverty.
- 1.3 Given the number of organisations with expertise on the ways that UC could be improved to better support families and children, Save the Children’s evidence will focus on the childcare element of UC, as this is an issue that has not received the same level of attention as some of the better known parts of the system.
- 1.4 Childcare is crucial in supporting parents to work and increase their incomes, but many parents struggle to pay high childcare costs. Under UC, parents must pay their childcare costs upfront, and then wait to be reimbursed a proportion of the costs through their monthly UC payment. This requirement to pay high childcare costs in advance each month triggers a cycle of debt and stress for many parents – with some forced not to take up, or leave, work because of this. Given that childcare costs are volatile, often increasing significantly during school holidays or when a parent moves from part-time to full-time work, the issue of upfront childcare costs under UC is an ongoing one for parents.

¹ Tucker, J. (2019) *Universal credit: What needs to change to reduce child poverty and make it fit for families? Report*. London: Child Poverty Action Group

² Corlett, A. (2019) *The living standards outlook 2019*. London: Resolution Foundation

- 1.5 We support the House of Commons Treasury Committee’s assessment therefore, that “requiring parents to pay for their childcare costs up front, before seeking reimbursement later, is a fundamental design flaw”.³
- 1.6 Although UC is designed to be a simpler way for families to access support, the way the childcare element is administered and the fact that parents won’t know what they’re due to receive in UC each month in advance, makes it confusing system for many families to navigate. Our conclusion is that the childcare element goes against the stated objectives of UC, given the effect the upfront costs mechanism has on parents’ ability to manage work and childcare, and its impact on their financial security.
- 1.7 To help achieve its stated aims, the government should look to make changes to the way childcare is provided to parents through UC. In the short term, the Department for Work and Pensions (DWP) should urgently look at introducing discretionary, non-repayable childcare grants, available to all families eligible for the childcare element of UC. In the longer term, DWP should explore ways to remove the childcare element from UC entirely and replace it with an improved system of support for low-income families.

2. The childcare element of Universal Credit

- 2.1 In recognition of the crucial role that childcare plays to support parents to work, UC includes a childcare element to help working parents with the cost of childcare. Working parents with a child up to the age of sixteen can claim up to 85 per cent of their childcare costs as part of their UC entitlement, up to a limit of £646 for one child or £1,108 for two or more children. This replaces the childcare element of Working Tax Credits, which provided parents with up to 70 per cent of their costs within the same limits in advance.
- 2.2 A key difference in the way childcare support is delivered through UC is that parents must pay their childcare costs upfront, before claiming the money back. Parents can only claim these costs once they have paid them and must provide proof of payment to be reimbursed. Given the average upfront cost of childcare for a full-time place for a one-year-old in England is £1,000⁴, this is a significant barrier for many.
- 2.3 Whilst parents in all nations of the UK will access childcare support through UC, it is important to note that broader support for childcare costs is different in each nation of the UK, resulting in a complex mix of reserved and devolved policies.

³ House of Commons Treasury Committee (2018) *Childcare: Ninth Report of Session 2017–19*. London: House of Commons

⁴ Save the Children (2018), *Making Childcare Work: Fixing upfront childcare costs for families on Universal Credit*. London: Save the Children.

3. How well Universal Credit has met its original objectives

- 3.1 The DWP estimates that under UC, an additional 113 million hours will be worked each year, with working mothers accounting for 95% of these additional hours⁵, with lone mothers contributing an additional 78 million hours alone. Given the childcare responsibilities felt by mothers, particularly single mothers, access to affordable and quality childcare is crucial for this ambition to be realised.⁶
- 3.2 Yet, Department for Education research shows that childcare is the biggest barrier to work for non-working mothers with children under five: almost one third (29 per cent) of mothers cite childcare as a reason for not working. 60 per cent of non-working mothers say they would prefer to work if they could arrange childcare that was convenient, reliable and affordable.⁷ This reinforces the need for parents to have access to affordable and accessible childcare to enable them to work and means that the childcare element in UC must work well for parents.
- 3.3 In recognition of the importance of access to affordable childcare for working parents, the childcare element of UC is more generous than the previous Working Tax Credits system. This is a welcome shift. Some of the key objectives of UC are to encourage more people into work and to tackle poverty. However, since parents are required to pay costs in advance of receiving childcare support at the point of need, the effectiveness of UC to support parents into work is significantly limited.
- 3.4 Our research has found that the design of upfront childcare costs under UC is forcing parents into debt and hardship each month, and significantly limiting their employment opportunities. This flies in the face of the stated objectives of the system.
- 3.5 A number of organisations have highlighted the risks of having to cover the first month of childcare costs upfront and the barriers this can pose to moving into work.⁸⁹¹⁰¹¹ The House of Commons Work and Pensions Committee found that upfront payments represent a 'insurmountable' barrier to employment and raise a significant risk of households falling into debt or rent arrears to pay for these costs upfront.¹²

⁵ National Audit Office (2018) *Rolling out Universal Credit*. London: NAO

⁶ House of Commons Work and Pensions Committee (2018). *Universal Credit: Childcare. Twenty-Second Report of Session 2017–19*. London: House of Commons.

⁷ Department for Education (2019) *Childcare and early years survey of parents: 2019*. London: DfE

⁸ Coram Family and Childcare (2018) *Managing childcare deposits and upfront payments*. London: Coram Family and Childcare

⁹ Gingerbread (2016) *Upfront: a childcare deposit guarantee*. London: Gingerbread

¹⁰ Joseph Rowntree Foundation (2019) *Briefing: where next for Universal Credit and tackling poverty?* York: Joseph Rowntree Foundation

¹¹ Save the Children 2018

¹² House of Commons Work and Pensions Committee 2018

3.6 These concerns were reflected in qualitative research with parents for Save the Children. Covering the first month's costs was raised as a significant issue by the parents interviewed, and caused worry and stress from the very beginning of the process of claiming UC, with some parents considering turning down work due to the barrier of childcare costs:

3.7 *"So she just said between those dates, if I put it in then I can get it, but I'd just literally been paid, so I knew that it would be a good four weeks until I got it. Then when I pay my rent and the bills and done the kids I was like... I don't know. There was part of me that thought shall I do it? Shall I take the job or not?"¹³*

3.8 Parents used a range of strategies to pay the costs upfront, including using personal funds such as savings, borrowing from friends and family, and negotiating with childcare providers.¹⁴

4 The role of Advance Payments and other forms of support

4.1 There is support available to help parents with the initial payment of upfront costs, including budgeting advances, UC advances and the Flexible Support Fund (FSF). UC advances are upfront payments of the UC entitlement for new claimants who would otherwise struggle to wait for five weeks before receiving their first payment. Budgeting advances are loans aimed at helping with large expenses, such as repairs or buying household items, or to help support employment. Both forms of payment involve getting a lump sum in advance, which is then deducted in instalments through UC payments.

4.2 However, restrictions for UC advances and budgeting advances mean many parents will not be eligible. For example, parents can't take out a budgeting advance if they already hold one, and the FSF is only available to jobseekers, meaning that those returning to work from maternity leave or starting to use formal childcare for the first time while in work will not be eligible. In addition, there are serious risks associated with encouraging parents to take on debt for paying for childcare, as this greatly increases the risk of parents falling into hardship and struggling to manage the reduced UC payments in later month.

4.3 *"My advance payment was only £400. So I still had to find the £670, so unfortunately I have to pay it out of my wage which left me with next to nothing."¹⁵*

¹³ Averill, P., Davies, M. & Mayer, M. (2019) *Parents' experiences of claiming the childcare element of Universal Credit*. London: National Centre for Social Research

¹⁴ Ibid

¹⁵ Ibid

- 4.4 The FSF is a non-repayable grant available through jobcentres and is aimed at supporting people to move into work. The fund is available to pay for costs associated with looking for work or starting a new job. However, parents are not able to claim support with their childcare costs through UC for the same month as they have received support with the FSF. This simply moves the problem forward by one month, as parents will have to pay the next month's costs upfront without having received support through the childcare element of UC.
- 4.5 The FSF is not available for parents who are already in work who face upfront childcare costs, such as parents returning from maternity leave, those moving over to UC from the legacy system, or those switching from informal to formal childcare. These groups of parents will still face having to pay large sums of money upfront and are likely to struggle, despite already being in work.
- 4.6 Crucially, addressing the issue of the first month can only go so far to solve the problem. Even where the first month's costs are covered, parents are still faced with having to pay these costs in advance on a regular basis, before being reimbursed up to a month later. This is equally likely to cause families to struggle. Income and childcare costs tend to fluctuate from month to month, meaning that it is not always possible to cover the next month's costs using the previous month's childcare element.

5. Which claimants have benefited most from the Universal Credit reforms and which have lost out?

- 5.1 It is important to acknowledge that parents will be receiving more support to cover childcare costs under UC than was the case under Working Tax Credits. However, due to the fact parents have to find the money in advance under UC, compared to getting the support they were entitled to in advance, many are struggling to manage the new system. Parents themselves have said they would prefer to receive less support, if they could get the support in advance of having to pay high childcare costs: *"I would 100 times rather have 70% in advance than 85% but have to find it first."*¹⁶
- 5.2 Single parents are most likely to be experiencing these problems, as they are significantly more likely to be receiving the childcare element. DWP figures show that, as of August 2019, 50,269 households were receiving the childcare element of UC. Of these, the vast majority (41,928) were single parents.¹⁷

¹⁶ House of Commons Work and Pensions and Education Committees (2019) *Oral evidence: School holiday poverty*. London: House of Commons

¹⁷ Department for Work and Pensions (2019) Universal Credit statistics. [<https://stat-explore.dwp.gov.uk/webapi/jsf/login.xhtml>]

5.3 Once UC is fully rolled out, up to half a million families will be receiving the childcare element. We have calculated that 78% of families on low income with children under five have no savings at all and are therefore unlikely to be able to cope with the expectation to pay childcare costs upfront.¹⁸

6. How has the world of work changed since the introduction of Universal Credit? Does Universal Credit's design adequately reflect the reality of low-paid work?

6.1 The design of the childcare element of UC does not reflect the reality of support needed to manage work and childcare for many parents. It assumes that childcare costs remain stable from month to month, to enable parents to use the previous month's childcare element to pay the next month's costs; however, in reality, childcare costs fluctuate across the year for a number of reasons.

6.2 Increased childcare costs in the school holidays are the main cause of fluctuations in costs; every six weeks, parents face having to cover additional costs, which in the summer holidays can be over £600. Even pre-school-aged children are affected by this, as the free hours entitlements are only available during term time.¹⁹ This causes enormous difficulties for parents and has caused some parents to reduce their working hours or be limited to term-time work only.

6.3 *"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. My bill went from £400 to well over £1,000. That's not something you just have in the bank."*²⁰

6.4 In addition, any changes to the amount of childcare used caused by changes in working hours will result in parents having to pay extra costs upfront. When a parent increases their working hours, there is likely to be a corresponding increase in childcare costs, as parents will need to use additional hours of childcare to cover their working hours. Rates of return to work, both part-time and full-time, increase sharply in the year following the birth of a first child and increase steadily in subsequent years, with a particular jump at the point when a child starts school. Changing working hours during the first few years is also relatively common, with mothers often moving from part-time to full-time work when children become eligible for free hours of childcare. This will cause problems for parents if they need to use additional childcare to cover their working hours.²¹

¹⁸ Save the Children (2019), *It's Just Constant Debt: Why parents need better support for childcare under Universal Credit*. London: Save the Children.

¹⁹ Ibid

²⁰ Ibid

²¹ Ibid

6.5 Other factors such as the different numbers of days in each month and some childcare providers charging on a termly, rather than a monthly, basis also cause fluctuations. Being faced with regular shortfalls makes getting support with childcare more complicated and disincentivises parents from changing their working patterns or increasing their hours as a result. This is in stark contrast to what UC is designed to do: support low-income people to move into work and increase their hours, to maximise their incomes and move out of poverty.

7. If Universal Credit does not adequately reflect the lived experiences of low-paid workers, how should it be reformed?

7.1 UC is designed to support parents into work, to enable them to increase their incomes and move their families out of poverty. But given the importance of childcare in supporting parents to work, the design of the childcare element runs contrary to these stated aims. In fact, the mechanism of parents having to pay upfront childcare costs before receiving childcare support makes it harder for parents to move into and stay in employment.

7.2 Now is the time for the government to act. Once fully rolled out, it is likely that many families will struggle to manage upfront childcare costs in the future. The government must make changes now, in order to see the progress towards the objectives of the policy.

7.3 In the short term, the government should urgently look at introducing discretionary, non-repayable childcare grants, available to all families eligible for the childcare element of UC. These could be available at limited times – for example, twice a year – and would provide a source of immediate support for parents who find themselves unable to pay their childcare bill, and unable to access help through other means.

7.4 In the longer term, the government should explore the options available for removing the childcare element from UC entirely and replacing it with an improved system of support for low-income families. This could draw on the existing Tax-Free Childcare system used by higher-income families, in which money is paid into a dedicated account and then transferred directly to the provider.

7.5 These reforms could have a transformative impact on parents – particularly for mothers – who could see their employment opportunities drastically improved. Half a million families stand to benefit from providing childcare support in advance through Universal Credit. These changes would ensure better financial security for parents, without requiring additional investment.

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