

Written evidence from Save the Children (UCR0257)

Save the Children submission to the Work and Pensions Committee inquiry into childcare costs under 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.
- 1.2 Through our work in the UK, we aim to narrow the early learning gap between poorer children and their better-off classmates. We know the first few years of life are crucial in determining children's future chances. Yet too many pre-school age children are growing up in poverty and are starting school behind. This has a profound impact on children's future life chances as many struggle to catch up.
- 1.3 Save the Children is developing policy proposals on how to provide affordable, accessible and quality support to ensure all families are able to give their children the best start. We also deliver programmes across the UK, including behaviour change and parental engagement initiatives in partnership with schools, nurseries and major corporate partners to support better early learning at home.

2. Summary

- 2.1 To increase parental employment, and improve family incomes, the Government must invest in childcare support for those most likely to be out of work or working low hours. The **cost** and **complexity** of accessing childcare support is preventing many low-income families with young children from getting back into work – thus reducing their earning potential and ability to stay out of poverty. Investing in the childcare support offered through Universal Credit (UC) is a critical way to correct this.
- 2.2 Finding a job or moving into better paid work is one important way that families with young children can escape poverty. Not all parents want to work when their child is young, but many do. Paying for childcare is one of the biggest barriers parents with young children face when thinking about returning to work or looking for a better paid job.
- 2.3 The Government has made welcome investment in supporting parents with the cost of childcare, but **these policies have predominantly benefited higher and middle-income families**. For example, the introduction of the Government's flagship offer of 30 hours of free childcare particularly benefits wealthier families and is unlikely to have a significant impact on employment, because many of the parents taking up the offer of free hours will already be in work. This means childcare costs often remain prohibitively high for low-income families looking to move into employment or increase their working hours.

- 2.4 The childcare element of UC has the capacity to support parents to realise their employment aspirations and boost their family incomes, yet the current design of the system makes it difficult for parents to access the childcare support offered by the new benefit.
- 2.5 Parents must pay childcare costs upfront and wait to be reimbursed. This makes it harder for them to move into employment or increase their working hours, and risks pushing them into unsustainable debt. **As a priority, the Government urgently needs to allow parents to receive support for childcare costs upfront.**
- 2.6 Evidence shows that a high proportion of low-income families are also failing to access childcare support due to the complexity of the system. **The Government must take steps to help low-income families navigate an increasingly complex system of childcare support.**
- 2.7 Given the multifaceted problems low-income families have accessing affordable childcare, there is a strong case for increasing the level of childcare support offered under UC. **The Government should consider raising the childcare element of UC, from a maximum of 85% to a maximum of 100% of eligible costs.** This would improve parents' capacity to work and the financial returns for doing so and address the prohibitively complex system with a clear offer of completely free childcare for moving into employment for those on the lowest incomes.
- 2.8 Supporting low-income families with the cost of childcare is a shared responsibility that cuts across reserved and devolved areas and is a key way the Government can support low-income families in all parts of the UK.
- 2.9 Relatively few families with young children are currently receiving UC, but once fully rolled out, half a million families will be getting childcare support under UC. There is a crucial window of opportunity for the Government to address these issues before they start to affect many more families. If action is not taken, it risks seriously undermining the ability of UC to boost employment.

3. The importance of investing in childcare for the poorest families

- 3.1 Childcare is essential for parents and children alike. It is a lifeline for many parents, enabling them to work and increase their family's income. High-quality childcare can also ensure children flourish in their early years.
- 3.2 Yet research shows that childcare is still the number one barrier to employment for parents:
- Childcare is the top barrier to work for non-working mothers, with 20% citing this as a reason.¹

¹ Department for Education (2017), *Childcare and early years survey of parents: 2017*. London: DfE

- Half (50%) of non-working mothers said they would prefer to work if they could arrange quality childcare, which is convenient, reliable, and affordable. Almost half (46%) of mothers working part-time said they would increase their hours or work full-time if there were no barriers to doing so.²
 - UC claimants cite childcare as a significant barrier to work, and perceive childcare to be prohibitively expensive, despite available support.³
- 3.3 This has a particularly detrimental impact on the poorest families. Families with young children make up the largest group of those in poverty: almost half (48%) of families in poverty have a child under the age of five. We know that families are less likely to be working when their children are young: among all families with a child under five, two in five (40%) are either not working at all or, if they are in a couple, only one adult is working. This figure falls to a quarter of families with a school-age child.
- 3.4 Although no longer a guaranteed route out of poverty, helping more low-income families to work could improve family incomes and reduce child poverty.
- 3.5 When all adults in the household work full-time, it greatly reduces the risk of poverty for children: only 3% of children in poverty have two parents in full-time work, and 4% have a lone parent in full-time work. Almost half (46%) of children in poverty live in a household where at least one adult is not working.⁴
- 3.6 Family income also has a direct impact on children’s development, with income poverty linked to lower developmental outcomes for children independent of other factors. It also indirectly influences children’s early learning by shaping their environment and experiences.⁵

4. Childcare support under Universal Credit

A complex process

- 4.1 Childcare support is a complex patchwork of policies: for example there are currently seven different ways in which parents can claim support in England, depending on: income; working status; and the age of their child. UC adds further complexity.
- 4.2 Research commissioned by Save the Children in a forthcoming report by NatCen shows that parents find the system confusing and are not always aware of the support they are eligible for.⁶

² Ibid

³ DWP (2017), *Understanding how Universal Credit influences employment behaviour*. London: DWP

⁴ DWP (2018), *Households Below Average Income*. London: DWP

⁵ Cooper, K. & Stewart, K. (2017) *Does Money Affect Children’s Outcomes? An update*. London: CASE

⁶ Chadwick, T, Chidley, S., Jones, H & Husain, F. (forthcoming), *Low and middle-income parents’ understanding of childcare entitlements: A qualitative study*. London: NatCen

- 4.3 The Social Mobility Commission found that just under half of all parents (47%) had no idea, or were confused about, the childcare support available to them. Lower-income families are more likely to have low awareness of the different forms of childcare support: the proportion of parents who had no idea, or were confused about, the support that was available to them was higher among low-income families (54%) than it was for high-income families (36%).⁷
- 4.4 With the continued rollout of UC, there is a clear opportunity to improve information and make the complex system easier to navigate for low-income parents. Work coaches play a crucial role in informing parents about the options available and help them make informed decisions about work and childcare.
- 4.5 However, there is worrying evidence to suggest that work coaches are not always fully informing claimants about the childcare support available to them, including the childcare element of UC.
- 4.6 Recent studies by the DWP have found that only two-thirds of claimants with children were aware that they could claim back childcare costs,⁸ and that only some claimants had been made aware of the childcare element by their work coach.⁹ Some of the claimants interviewed had been given conflicting information through different sources, and many were confused about which forms of childcare support were part of UC.
- 4.7 Work coaches are critical to the success of UC and are relied upon as a trustworthy source of information by low-income families. It is unacceptable that so many families are not aware of the childcare entitlements offered under UC and the wider system of support offered across the DWP and DfE.
- 4.8 **To address this the Government must ensure training for work coaches includes awareness of all aspects of childcare support and how they interact across the UK, to ensure parents are able to make informed decisions about work and childcare.**

The affordability of childcare

- 4.9 Childcare costs across the UK are high: the most recent data on childcare costs shows that costs have risen above inflation and wages, and now stand at £125 per week for a part-time nursery place in England.¹⁰ Research consistently finds that parents perceive childcare to be expensive, and that this impacts their decision-making around childcare use and returning to work.¹¹

⁷Gulc, B., Silversides, K., (2016) *Parents' experience of services and information in the early years*, London: Social Mobility and Child Poverty Commission

⁸ Department for Work and Pensions (2018) *Universal Credit Full Service Survey*. London: DWP

⁹ Department for Work and Pensions (2017) *Universal Credit test and learn evaluation: families*. London: DWP

¹⁰ Coram Family and Childcare (2018) *Childcare Survey 2018*. London: Coram Family and Childcare

¹¹ See: NatCen report; Roberts, E. & Speight, S. (2017) *Childcare use and attitudes: Literature review and feasibility study*. London: National Centre for Social Research; DWP (2017), *Understanding how Universal Credit influences employment behaviour*. London: DWP

- 4.10 Support under UC is designed to help, by providing support for up to 85% of childcare costs for some. Although support for childcare costs has increased under UC, the net impact of transitioning to UC will leave some parents worse off. Around 100,000 families previously received support for up to 96% of their childcare costs, through a combination of tax credits, housing benefit and council tax benefit, and are now set to lose out under UC.¹²
- 4.11 Even where 85% of costs are covered, a family paying for full-time childcare could still be left facing costs of £100 or more per month – a significant amount for families on low incomes.
- 4.12 The amount of childcare costs covered by UC reduces as earnings rise, meaning that a high number of families on UC will receive less than 85% of their childcare costs as they increase their working hours. This increases the childcare costs they must cover themselves. Shouldering childcare costs greatly reduces incentives to work or increase hours.
- 4.13 There are significant concerns that work incentives for some groups, especially for second earners, are already low under UC – organisations such as the Resolution Foundation and Centre for Social Justice have repeatedly warned that UC provides low incentives to work due to the impact of the earnings taper on second earners.¹³ As the amount that you can earn before your Universal Credit payment is affected are provided to households rather than individual earners, this can be a particular problem for second earners who may have their UC entitlement withdrawn from the first penny they earn.¹⁴
- 4.14 For instance, our research shows a second earner with two children in childcare would only retain 27% of their hourly wage on moving into part-time work, which decreases to just 9% when increasing their hours to 35 hours per week – meaning that they would only keep 69p for every hour worked. This is likely to have an impact on incentives and UC's key aim to support more people into work and help them get on once in work.
- 4.15 Given the number of challenges facing low-income families accessing affordable childcare, the low incentives for second earners to increase working hours and the complexity of the system, there is a strong case for increasing the level of childcare support offered under UC.
- 4.16 **The Government should consider raising the childcare element of UC, from a maximum of 85% to a maximum of 100% of eligible costs.** This would improve work incentives and significantly reduce the amount that families will have to spend on their childcare costs

¹² Alakeson, V. & Hurrell, A. (2012), *Counting the Costs of Childcare*. London: Resolution Foundation

¹³ Centre for Social Justice (2017) *Universal Credit – Work and Pensions Select Committee Submission*. London: Centre for Social Justice

¹⁴ See: Brewer, M. Finch, D. & Tomlinson, D. (2017) *Universal Remedy: Ensuring Universal Credit is fit for purpose* London: Resolution Foundation; Finch, D. (2015) *Making the most of UC: Final report of the Resolution Foundation review of Universal Credit* (London: Resolution Foundation)

once in work. It would give families on the lowest incomes clarity that their childcare would be free when they move into work and ensure that childcare is never a barrier to work.

The difficulty of upfront costs

- 4.17 There is a clear imbalance between how support is claimed under UC by lower-income families and the Tax-Free Childcare system for higher-earning parents.
- 4.18 As with 30 hours, parents are eligible for Tax-Free Childcare if they are each working at least 16 hours per week and earning up to £100,000 per year each. Parents have an online account for their childcare costs; for every £8 parents put in, the Government tops up £2. This means that parents using this system can receive support for their childcare upfront, rather than covering the costs themselves and receiving the money in arrears.
- 4.19 This is a simple system for parents to use. They are not required to provide proof of payment and the money can be used at any point during the year, enabling parents to plan for increased costs during certain periods such as school holidays.
- 4.20 In contrast, childcare support under UC works by reimbursing claimants a month in arrears. This means that parents are required to cover the costs themselves, before submitting proof of payment and receiving the money as part of their UC entitlement at the end of the assessment period.
- 4.21 For low-income parents, this can be a significant barrier to returning to work and leave them facing a choice between taking on debt to pay for childcare or staying out of work altogether.
- 4.22 A survey by Citizens Advice found that 90% of childcare providers require payment in advance, and 59% require payment monthly.¹⁵ Save the Children's analysis shows that parents paying a month's childcare costs in advance, plus a deposit, will be faced with having to shoulder very significant costs – up to £1,000 for a full-time place for a one-year-old, or £680 for a part-time place.¹⁶
- 4.23 Save the Children has calculated that a couple working full-time with two children would need to pay an average upfront cost for childcare of over two-thirds of their monthly income, and a lone parent in the same situation would be faced with an upfront bill of more than their monthly income, leaving them with a £70 deficit for the first month of being in work.¹⁷
- 4.24 Families on the lowest incomes have an average of just £300 in savings and financial assets,¹⁸ and half of low-income families have no savings at all.¹⁹ This means that families will be

¹⁵ Citizens Advice (2014) *The practicalities of childcare: an overlooked part of the puzzle?* London: Citizens Advice

¹⁶ Save the Children (2018), *Making Childcare Work: Fixing upfront childcare costs for families on Universal Credit*. London: Save the Children

¹⁷ Ibid

required to take on debt to pay these costs, or alternatively will not be able to return to work at all.

- 4.25 Sarah is a single parent, and her daughter has just turned four. She hasn't been working since having her daughter but is excited to have recently been offered a full-time job. Sarah's daughter is currently receiving 15 free hours of childcare through the Department for Education, but she will need to pay for additional childcare upfront when she starts working.
- 4.26 Sarah told us: *"Whilst I'm excited about the prospect of working again, I'm worried about how I'm going to afford and sort out childcare. I am so concerned that I now have to apply again for 30 hours (free childcare). After working stuff out I'm not any better off and I'm so stressed because I'm worrying how I will be able to pay for extra childcare in the holidays which has to be paid upfront."*
- 4.27 *"I simply don't have funds to do that. I'm so worried that my daughter is going to result now in multiple care settings which is no good for any child. I simply don't know how I'm expected to pay upfront costs it's just degrading, and I don't want to lose a job because of this."*
- 4.28 *"I'm so worried about how I'll cover the costs. I've been told you can ask for a loan to cover upfront costs but wasn't given much info on how that would work, and I don't want to have to take a loan out as it'll put me in worse situation."*
- 4.29 Gaynor is a single mum of three who runs her own hairdressing business. She is struggling with her childcare payments and at times, this has forced her to stop working. She has particularly struggled with upfront costs and told us:
- 4.30 *"How is anyone supposed to find the money to pay for childcare in advance? It's very, very stressful. I owe my mum and dad thousands, if it wasn't for them I would have to give up work and I'd be living off food banks. I've had to sacrifice a hell of a lot. There was a point when I had to stop my business for a while. My payments have been delayed and are inconsistent. I get conflicting information about what I am entitled to and nobody seems to know what's going on."*
- 4.31 These are not unique stories: Citizens Advice, Gingerbread, the Resolution Foundation and Coram Family and Childcare have all identified this as a significant issue which could cause families financial hardship²⁰, and the Treasury Select Committee highlighted it as a

¹⁸ Office for National Statistics (2018) *Wealth in Great Britain Wave 5: 2014 to 2016*. London: ONS.

¹⁹ Department for Work and Pensions (2018) *Family Resources Survey: financial year 2017/17*. London: DWP.

²⁰ See: Citizens Advice (2014) *The practicalities of childcare: an overlooked part of the puzzle?* London: Citizens Advice; Gingerbread (2016) *Upfront: a childcare deposit guarantee*. London: Gingerbread; Coram Family and Childcare (2018b) *Managing childcare deposits and upfront payments*. London: Coram Family and Childcare; Resolution Foundation (2017) *Universal Remedy: Ensuring Universal Credit is fit for purpose*. London: Resolution Foundation.

‘fundamental flaw’ of the policy, which undermines the objective of supporting parents into work.²¹

4.32 While there are forms of support in place to help with these upfront costs, for example: the Flexible Support Fund (FSF); UC advances; and budgeting advances, there are several limitations and drawbacks with these forms of support. Importantly, they were designed to support emergency costs, rather than monthly expenses. In particular:

- UC advances are only available for new claimants who would otherwise struggle to wait for five weeks before receiving their first payment. As parents will have to pay upfront costs every month, this support could only be used for the first month.
- The maximum amount available for a budgeting advance, £812, does not cover average upfront costs for a full-time childcare place, meaning that parents will have to pay the remaining costs themselves.
- The fact that two loans cannot be held at the same time means that parents still paying off a previous loan will not be eligible. Recent research by the DWP has found that over half (53%) of UC claimants received an advance payment meaning that a high number of families would not be eligible.²²
- As the period for paying off the loan can be up to a year, this could mean that parents will face long waits before accessing a new loan and will have to make the decision to take out a loan in the knowledge that they will not be able to use another one in case of emergency until the loan is paid off. This could deter many from accessing support.
- Eligibility criteria for budgeting advances mean that many will not be eligible: claimants can only hold one advance at a time and must have earned less than £2,600 (£3,600 jointly for couples) in the past six months. This means that support will not be available to many families, particularly to parents with a partner in work or wanting to increase their hours
- Finally, the FSF is generally seen as a fund to cover small costs, such as travel to interviews, and evidence suggests that the fund is largely not being spent on childcare costs

4.33 Even if these limitations are resolved, the nature of repayable loans means that parents are encouraged to get into debt in order to return to work. Nor would encouraging families to take on multiple loans be an acceptable answer. Having to pay advance costs monthly, means that parents will constantly be behind on payments. This could leave them with a monthly shortfall which can be difficult to pay off for many low-income families and puts them on the back foot before they have even started work.

4.34 Vikki is a single parent to two children aged two and four, she recently returned to work and has been struggling with monthly re-imbursments for childcare. She said:

²¹ House of Commons Treasury Committee (2018) *Childcare: Ninth Report of Session 2017–19*. London: House of Commons.

²² Department for Work and Pensions (2017) *Universal Credit Test and Learn Evaluation: Families*. London: DWP.

4.35 *“I have childcare costs of £700 - £800 a month. I have had to beg borrow and steal to make ends meet, and each month I always seem to be playing catch up. I waited at least three months to start receiving childcare reimbursements and wasn’t able to pay the nursery fees on time, this meant I had late payment fees added on top. It has made me feel like a terrible parent, and it’s had an impact on the opportunities I can give my children.”*

4.36 In addition, a recent Trussell Trust report found that repayments of advance loans were the most common issue faced by claimants, with the majority having difficulty repaying the loans and struggling with their finances as a result.²³

4.37 To support low-income parents’ employment aspirations and lift their children out of poverty, the Government must make it as simple and affordable as possible to access the childcare needed. However, in its current form, childcare support is placing greater financial barriers on struggling parents thus exacerbating inequality between low-income and higher-income families.

4.38 **The Government must urgently adopt a system in which parents are able to receive money for childcare costs upfront. This could be done by implementing a system in which parents agree costs with their provider for the month ahead and submit a bill to the DWP without paying the costs themselves – and then receive the childcare element of their payment immediately.**

4.39 **Alternatively, the Government could implement a system of direct payments to providers, to mirror the Tax-Free Childcare system for higher-earning parents.**

4.40 **The Government should also take further steps to reduce the problems caused by upfront payments. These include:**

- Strengthening the role of the FSF in supporting job-seeking parents with upfront childcare costs, including: more generous allocations; an indicative budget for upfront childcare costs to guide spending decisions; and better management of the fund within local areas and across the year
- Implementing an awareness-raising campaign aimed at parents moving on to UC, to empower them to ask their work coach for extra help with upfront childcare costs. This could include tailored communications to parents on UC.
- Monitoring parents’ awareness and experiences of accessing existing support for upfront childcare costs through UC, and making a firm commitment to take further immediate action if awareness and experiences do not improve

September 2018

²³ Trussell Trust (2018) *Left Behind: Is Universal Credit Truly Universal?* Salisbury: Trussell Trust.