MAKING CHILDCARE WORK

Fixing upfront childcare costs for families on Universal Credit

Savethechildren.org.uk
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Executive summary

Poverty ruins children's lives, especially when they are young. Finding a job - or better paid work - helps families with young children to avoid poverty. But issues with our childcare system are proving a big barrier for many parents who want to work.

Most parents starting a new job have to pay for childcare in advance, before they get their first pay cheque. For low-income parents, the government provides help with childcare costs, but a lot of this support comes too late. Struggling parents still have to pay upfront and wait weeks to be reimbursed.

Universal Credit, the government's flagship welfare reform policy, risks making this problem worse. Childcare support through Universal Credit is more generous than in the old Working Tax Credit system. But it is much less flexible. Parents will have to pay for childcare upfront, submit their receipts and wait – sometimes up to two months or more – to be reimbursed. By contrast, Tax-Free Childcare, which helps higher earners with childcare costs, will be much easier to use.

Upfront costs are prohibitively high for many low-income parents, who tend to lack savings. On average, parents in England will have to pay upfront costs of:

- £680 for a part-time place for a one-year-old, including a month's fees in advance and a deposit
- £360 for a full-time place for a three-year-old, even if they can also get 30 hours of free childcare a week during term-time.

These high upfront costs will dissuade many low-income parents from taking up a new job and push others into debt. This could seriously undermine the government's ambition for Universal Credit: to help more parents into work and improve their pay.

There is some support for low-income parents faced with upfront childcare costs – but it is inadequate. The Flexible Support Fund gives jobcentre staff a pot of money to help parents with the cost of looking for work. But this support is highly discretionary and tends to be used to pay for small, one-off expenses like a day's childcare to attend a job interview – rather than paying for a month's childcare in advance when parents start work.

Parents receiving Universal Credit can also get an advance, which could be used to pay for upfront childcare costs. But parents have to pay this back through future Universal Credit payments - pushing families into debt, just for getting a new job. Many parents are not aware of the existing support - work coaches don't always make parents aware - and it can be difficult to understand and arrange.

Relatively few families with young children are currently receiving Universal Credit. But once it's rolled out, half a million families will be getting childcare support under Universal Credit. The government must urgently act to address the problem of upfront childcare costs before it really starts to bite. Otherwise, low-income parents who want to work or get a better job won't have the support they need.

As a priority, the government should enable parents to agree upfront childcare costs with their chosen provider, submit a written bill and quickly receive a payment through Universal Credit. This way, parents wouldn't have to wait to use their childcare place before submitting receipts and then waiting to be reimbursed. The government should also consider whether it can pay the childcare element of Universal Credit direct to providers, to further reduce the burden on low-income parents.

The government can also take some immediate steps to mitigate the risk of upfront childcare costs. Universal Credit work coaches urgently need better guidance and training about existing support for parents, and the Flexible Support Fund needs to be improved. Parents need much clearer information, and the government should consistently monitor parents' awareness and experiences of accessing support for childcare costs through Universal Credit.

Swift action could help more families to make the right choices for them about work and family life. It would also help to deliver the government's ambition for Universal Credit. It's critical that the government acts now to help low-income parents get on and do the best for their young children, rather than being held back by the stress of unaffordable upfront childcare costs.

Introduction

Growing up in poverty can have an enormous impact on children – particularly in the early years. The risk of poverty is higher during their early years, when it does greater damage to their learning.

Although no longer a guaranteed route out of poverty, finding a job or moving into better paid work is one important way that families with young children can avoid poverty. Not all parents will 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. Successive governments have tried to help through different schemes to help parents with the cost of childcare. But this support can be difficult to access and doesn't always fit with everyday family life.

One big challenge is how quickly parents can get help with their childcare costs before they start a new job. Most childcare providers need parents to pay for childcare in advance, but few low-income parents have savings to cover this initial outlay. Universal Credit, the government's flagship welfare reform policy, provides more generous support for childcare – but looks set to worsen the problem of upfront costs.

In this briefing, we explain why upfront childcare costs are such a burden for low-income parents and why Universal Credit will make things worse. The government has big ambitions for Universal Credit to cut the number of workless households and help parents improve their pay once they are in work. We argue that, without swift action from the government, the problem of upfront childcare costs could seriously undermine these ambitions, cutting thousands of parents off from work or finding a better job. We set out some immediate priorities, as well as longer-term reforms that the government must consider.

As well as supporting parents to move into work, better support for upfront childcare costs would also help more low-income parents to access good quality childcare that can boost children's early learning. Swift government action could, therefore, have a double dividend for young children growing up in poverty.

This is an important time for the government to act. Relatively few families with children have moved onto Universal Credit, but increasing numbers of parents will have to use the new system in the coming years. Eventually, 500,000 families will be claiming childcare support under Universal Credit. By acting now, the government can make sure that upfront childcare costs are not a barrier to work, before this problem starts to bite for thousands of families and risks undermining the success of Universal Credit.

This briefing is part of a wider programme of work at Save the Children to make preschool childcare more affordable for low-income families in England. We'll be publishing further reports on this vital issue later in the year. This is part of our broader strategy to strengthen the early learning of young children growing up in poverty across the UK by reducing child poverty, improving the quality of early education, and supporting parents. The focus in this briefing is families in England but, given that Universal Credit applies across the UK, we recognise it will have wider relevance.

Low-income parents taking up a new job often have to pay for childcare in advance

When parents with a young child take up a new job – whether they've been out of work or are choosing to work longer hours – they often need to secure childcare arrangements before they can start working. This is particularly true for lone parents and for 'second earners' – typically, mums in a couple where dad is already working.

Most preschool childcare providers in England ask parents to pay for the first month of childcare before their child can take up a place, and parents will be expected to continue paying for childcare in advance. Many providers also charge deposits, registration fees and other fees in advance. Parents have to pay these before their child can start at nursery or a childminder, enabling a parent to start a new job.

It is estimated that:

- 90% of childcare providers in England require payment of fees in advance
- 59% require payment on a monthly basis
- 40% charge deposits of up to £150 (Citizens Advice Bureau 2014).

Charging parents upfront is essential for many providers to ensure reliable cash flow and enable them to meet business costs. However, finding the money for these advance payments can be a big challenge for parents on a low income who are keen to return to work or increase their working hours.

Many low-income families in England can get some help with the cost of childcare through the government's free childcare entitlements. This will reduce the upfront costs that families have to pay:

- Families with a two-year-old and whose income puts them in the 40% poorest families can receive 15 hours a week of free childcare.
- All families with a three- or four-year-old are eligible for 15 free hours a week
- Families with a three- or four-year-old where both parents (or a lone parent) are working more than 16 hours per week can receive 30 hours a week.

Parents should be able to access these entitlements free at the point of use. They shouldn't incur additional charges, including having to make payments to childcare providers in advance.

However, these free entitlements leave important gaps in childcare support for low-income families who want to work or increase their hours:

- Families with a child under two will not receive any free hours.
- Free childcare is only available for 38 weeks a year, but working parents rely on childcare all year round.
- 15 hours a week is often insufficient to enable parents to work, especially if they want to take better paying jobs of more than a few hours a week.

While free childcare entitlements provide much-needed help for many low-income families, many will also need to top up this support to get the childcare they need so they can achieve their employment aspirations and avoid poverty.

There is government help for extra childcare costs – but it comes too late

Working parents on a low income can get extra help to top up the childcare support they receive through free entitlements. Currently, this is mostly provided through the childcare element of the Working Tax Credit, which reimburses eligible parents for up to 70% of their out-of-pocket childcare costs, up to a maximum of £122.50 a week for one child or £210 for one or more children. Couples must be working at least 24 hours a week between them, or 16 hours a week for lone parents.

The government's flagship welfare reform programme will replace the Working Tax Credit – and several other benefits – with Universal

Credit, which brings together six means-tested benefits together into a single, monthly payment for low-income households. Universal Credit retains a childcare element, reimbursing parents for up to 85% of their childcare costs, with similar monthly limits as under the Working Tax Credit. There is no working hours limit on eligibility for the childcare element – parents simply need to demonstrate they are doing some paid work.

The childcare support available in Universal Credit is therefore somewhat more generous overall than in the Working Tax Credit. In theory, this should enable many low-income parents to pay for the childcare they want in addition to the free hours.

However, the childcare element – in both Working Tax Credits and Universal Credit – is a way of *reimbursing* parents for out-of-pocket childcare costs, rather than providing childcare that is free or affordable at the point of use. This can make it a more difficult form of support for low-income parents to make use of.

The old Working Tax Credit system offered greater flexibility to parents to help them manage upfront childcare costs. But there is a serious risk that the new Universal Credit system greatly reduces this flexibility, making it much harder for low-income parents to access the improved childcare support that the new benefit offers:

- Under Universal Credit, parents must pay any upfront childcare costs, get a receipt from their provider, submit this to the Department for Work and Pensions (DWP) and wait to be reimbursed. This will leave hundreds of thousands of parents significantly out-of-pocket for several weeks. It is likely to dissuade some parents from taking up the childcare support available to them through Universal Credit, considerably reducing the likelihood of them moving back into work or seeking a better-paid job with longer hours.
- Parents get reimbursed at the end of their monthly 'assessment period', which depends on when their Universal Credit claim started. The assessment period may not match the period of upfront childcare costs that parents have to pay – in fact, those upfront costs may fall across two assessment periods. This could see parents having to wait up to two months to get the full amount reimbursed – further disincentivising moving into work or a better-paid job.
- Parents often face higher childcare costs in the holidays, because the free childcare entitlements only cover 38 weeks a year and are often delivered during traditional school term-time. Under Universal Credit, parents may find themselves having to pay a much larger childcare bill in advance, at particular times of the year, and then wait a month or more to be reimbursed.

In addition, parents are currently required to take their receipts in person to the jobcentre, or send them by post, with no option to scan and send electronically. This adds to the complexity of claiming support and puts further pressure on busy working parents. It also risks delaying the point at which parents receive their money: if they are unable to submit receipts before the end of their assessment period, they would not receive their money until the next assessment period – meaning they may have to wait up to two months to get paid.

By contrast, the old Working Tax Credit system offers more flexibility for parents to manage upfront childcare costs. Parents are able to estimate their childcare costs for the whole of the upcoming year and then start receiving equal weekly or four-weekly payments to cover childcare costs, up to seven days in advance of starting to use childcare. This means that parents are not left out-of-pocket for several weeks after paying for childcare and can prepare for spikes in costs during holidays.

The design of childcare support in Universal Credit also contrasts with Tax-Free Childcare – the new childcare subsidy for higher-earning parents. Under Tax-Free Childcare, parents have an account where they pay in whatever they want, when they want to, and the government adds an extra 20% up to a limit of £2,000 per year per child. The money is paid directly to a registered childcare provider and parents can use the money at any point in the year, making the system considerably simpler to use and avoiding the need to claim costs in arrears.

The simplicity and flexibility of the Tax-Free Childcare system contrasts strongly with the design of childcare support under Universal Credit. While higher-income parents are able to receive their funding upfront and avoid the need for complex proof of payments, low-income families are forced to wait several weeks for payment – an inequality between the two systems which urgently needs to be addressed.

It must be the government's priority to make it as simple and affordable as possible for low-income parents to access the childcare they need, to support their employment aspirations and lift their children out of poverty. However, childcare support in its current form is placing greater financial barriers on struggling parents, and exacerbating inequality between low-income and higher-income families.

Low-income parents can't afford to wait for the government to reimburse their childcare costs

Universal Credit has the potential to provide more support for childcare costs for low-income parents. But the way parents will have to access that support is flawed. Few low-income parents will have the luxury of being able to pay for childcare in advance then wait to be reimbursed through Universal Credit. The cost of childcare can be prohibitively high and families on Universal Credit will typically have few savings to draw on. The risk is that upfront childcare costs put off parents from looking for a better job or push them into unsustainable debt, seriously undermining the goals of Universal Credit.

Table 1 provides estimates of the costs of full-time and part-time childcare places for children of different ages, once free childcare entitlements have been accounted for. These estimates are based on the most recent data on average childcare costs in England from the Family and Childcare Trust (Family and Childcare Trust 2018a), as well as the Citizens Advice survey noted above:

- Low-income parents who want to use formal childcare for a one-year-old face very high childcare costs on average - £680 for a part-time place or £1,000 for a full-time place - due to the lack of free hours and the high cost of childcare for the youngest children.
- Low-income parents with a preschool-age child of any age face considerable childcare costs if they want to have a full-time place, which may be essential, even if one parent chooses to work part-time (for example, to allow for travel time or to take a better paying part-time job of more than a few hours a week).
- Even parents who are eligible for 30 hours of free childcare a week face substantial childcare bills in advance, if they have to pay a deposit and need 40 hours of childcare a week to allow them to work full-time.

Details of the calculations are in the appendix.

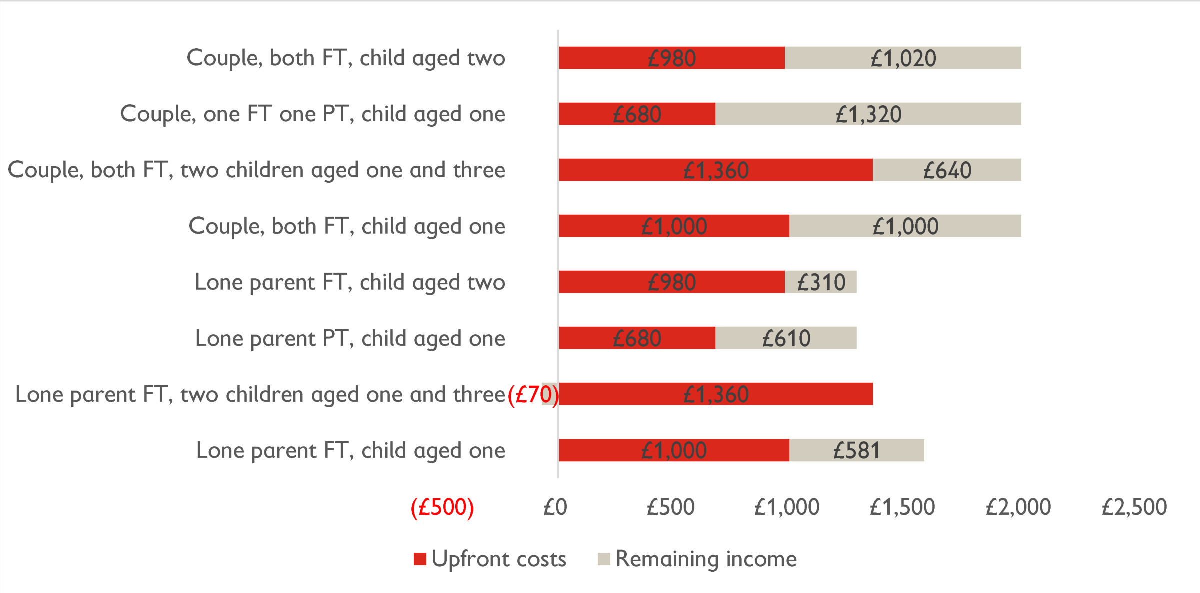
Table 1: Average monthly upfront childcare costs for families in England

Age of child	**Part-time place (25 hours per week)**	**Full-time place (40 hours per week)**
One	£680	£1,000
Two (including entitlement to 15 free hours)	£360	£880
Two (excluding 15 free hours)	£670	£980
Three or four (including 30 free hours)	£0	£360
Three or four (including 15 free hours)	£360	£660

The costs for three and four-year-olds are shown including the 15 and 30 hours entitlements. But as these are generally only available during term-time, costs during the holidays could be even higher – on average £660 for a part-time place, and £970 for a full-time place. If a parent starts work during a holiday period when no free hours are available, or cannot get a free hours place in time for starting work, they could similarly be facing extremely high costs.

In order to better understand the affordability of upfront childcare costs, we have estimated how these costs compare to the incomes of different types of low-income families. The chart below shows average upfront childcare costs for different families as a proportion of their monthly net income in the first month of work. Our analysis assumes that working parents earn the National Living Wage and net incomes take account of income from benefits. Further details are in the appendix.

Figure 1: Upfront costs as a proportion of family income

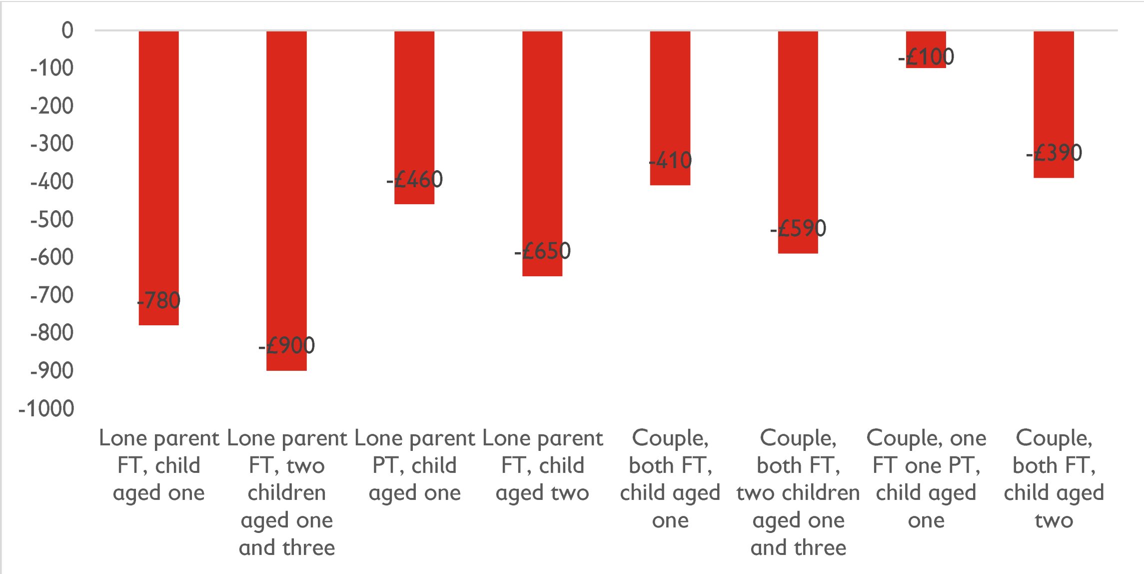


This chart shows that parents are faced with spending a significant proportion of their income on upfront childcare costs. Parents with more than one child and lone parents are particularly affected:

- A parent in a couple looking to start a full-time job, with a one-year-old and a three-year-old, would be faced with paying over half of their existing income in upfront childcare costs, despite being eligible for 30 hours.
- A lone parent in the same situation would end up facing upfront costs which are more than their monthly income – leaving them with a deficit of £70 before paying for rent or essentials.

To further understand the impact this would have on family incomes, we have estimated the levels of overspend families would be faced with after paying for essentials and upfront childcare costs. We have estimated how much an average family of each size would spend on basic items, including rent, food, clothes, health, and other essential items, using the most recent data from the Living Costs and Food Survey (ONS 2018b). We estimate how much a family would overspend in the first month of moving into work, after paying for essentials and upfront childcare costs. Further details of the calculations are in the appendix.

Figure 2: Estimated overspend in the first month of starting work after paying for essentials



While these figures are only estimates based on average family types, and do not necessarily reflect real household expenses for many families, this nevertheless shows the extent to which having to pay for childcare costs upfront can plunge families into debt and force them to restrict spending on basic items.

Even a family with one working partner and one partner moving into full-time work, who are receiving the 30 hour entitlement, would face an overspend of almost £600 in the first month of using childcare for their two children, before the second earner's wage and Universal Credit childcare entitlement is paid. A lone parent working full-time would similarly face a significant deficit of £650 – despite receiving the 15 hour entitlement for a two-year-old.

As families on the lowest incomes will have little or no savings to draw on, having to meet these costs means that they will be either forced into debt and financial hardship, or prevented from working altogether due to their inability to pay these charges. We know that:

- Families on the lowest incomes have on average £300 in savings and financial assets (ONS 2018)
- Half of low-income families have no savings at all (DWP 2018).

The childcare element of Universal Credit has the potential to support low-income families with the cost of childcare. However, the system's design means that, currently, many parents will be faced with paying upfront childcare costs that far outweigh their savings. This could leave them with a monthly shortfall which risks pushing them into debt.

It also means that, even if these initial costs are covered, parents will have to pay costs in advance on a monthly basis, meaning they will be constantly behind on payments. This pushes parents into a cycle of debt and repayments and means that they will have to find the money for childcare in advance every month.

There is a growing body of evidence that upfront costs are a barrier to work and can cause problems for parents:

- Citizens Advice has found that upfront childcare costs can lead to "significant financial hardship" for low-income parents and may cause them to be blocked from the labour market (Citizens Advice 2014).
- The single parents' charity Gingerbread has found that upfront costs can cause parents significant additional stress, as few have the savings needed to pay for them. This particularly affects single parents, as they are more likely to be in insecure and low-paid work (Gingerbread 2016).
- Recent evidence from the Family and Childcare Trust has echoed these concerns, finding that upfront costs can be a significant barrier to work and push parents into debt. Workless households, second earners and mothers returning from maternity leave are particularly likely to be affected (Family and Childcare Trust 2018b).
- The Treasury Select Committee's recent report on its inquiry into the childcare system highlighted the need to pay for costs upfront as a "fundamental design flaw" of the policy which undermines the objective of supporting parents into work (House of Commons Treasury Committee 2018).
- The Resolution Foundation has said that this aspect of Universal Credit "has all the markings of a design flaw" and has called for the childcare element of Universal Credit to be brought more in line with that of Tax-Free Childcare (Resolution Foundation 2017).

Existing policies do not fill the gap

There are some existing policies that could potentially be used to help parents with upfront costs, most notably the Flexible Support Fund (FSF) and Universal Credit budgeting advances. However, these do not do enough to solve the problem:

- Emerging evidence suggests that there is limited awareness of this support among parents, and that the funds are largely not being spent on childcare costs.
- Even where these funds are used to cover upfront costs on moving into work, parents will still need to pay costs in advance on a monthly basis, leaving them in a cycle of debt and repayments.

The Flexible Support Fund (FSF)

The Flexible Support Fund is administered by jobcentres. It supports claimants to move into work. The fund is available to pay for costs associated with jobseeking or starting a new job, such as travelling to interviews, training costs, and childcare costs. Jobcentre advisers have discretion in determining eligibility and deciding how the fund should be spent (McGuinness et al 2016).

The budget for the fund varies considerably each year and has been decreasing in recent years – the total budget for 2016/17 was £51.7m, down from £178.8m in 2014/15. The budget for each year is dependent on a number of factors, including claimant volumes, policy changes and affordability.

In theory, this fund should play a key role in supporting jobseeking parents with upfront childcare costs to move into work. However, in practice, there is evidence to suggest that its use for helping with significant upfront childcare costs is limited:

- The design and budget of the FSF means the support it can provide is highly discretionary and offers no guaranteed entitlements of support with upfront childcare costs for parents trying to get back into work.
- Only around 2% of the fund was spent on childcare costs in 2016/17 (PQ 131067, 5th March 2018).

- Some evidence suggests that the FSF is seen primarily as a fund for small, one-off expenses related to interview or short-course training costs. Although there is no stated limit for the amount of money available to individuals under the FSF, research has found that advisers generally only felt able to use it to cover expenses such as travel and clothing, and typically discussed having a budget of around £100 – which would fall far short of the funds needed to cover monthly upfront childcare costs (DWP 2012).
- There are concerns that the fund is not being promoted in some areas. London Councils raised this issue in written evidence to the Work and Pensions Committee in 2014, and a Channel 4 Dispatches programme in 2015 found that some jobcentre advisers were actively discouraged from informing claimants about the fund (McGuinness et al 2016). A DWP evaluation also found that only one in eight (13%) claimants said they had been offered financial help by their adviser for one-off expenses and even fewer claimants (9%) actually received this support (DWP 2012).
- The use of the FSF varies between local areas. Guidelines and restrictions on spend are set by local district managers, meaning that spend can vary between areas. The fund is also sometimes significantly underspent – for example, in 2015/16, there was an underspend of £18.4 million, causing the budget to be reduced in the following year (McGuinness et al 2016). This suggests that support is not always reaching those who need it.
- The FSF is only available to jobseekers, and there will be many parents who need support for upfront childcare costs who are not eligible. For example, parents returning from maternity leave, parents wanting to increase their working hours, or working parents looking to use formal childcare for the first time or change childcare providers would not be eligible for the fund.

Advance payments in Universal Credit

The other main form of support is through advance payments available under Universal Credit. There are two types of advance payments: Universal Credit advances and budgeting advances.

Universal Credit advances are for new claimants who would otherwise struggle to wait for five weeks before receiving their first payment. Advances can be for any amount up to the full entitlement and must be paid back within 12 months. Advances are only available to those who do not have enough income or savings to live on until their first payment.

Budgeting advances are loans available to claimants to help with intermittent expenses, such as repairs or buying household items, or to help support employment. Families with children can claim up to £812.

Budgeting advances are available to claimants who:

- Have received Universal Credit, or an existing relevant benefit, for at least six months (this can be waived if the loan is needed to support employment)
- Earned less than £2,600 (£3,600 jointly for couples) in the past six months
- Do not already hold a budgeting advance.

While advance payments can be useful tools for helping support parents with the upfront costs of childcare, there are still significant challenges associated with these loans. In particular:

- The maximum amount available for a budgeting advance does not cover average upfront costs for a full-time childcare place, meaning that parents will have to pay the remaining costs themselves. We estimate that upfront costs for a full-time place for a one-year-old are £1,000 on average and will be higher in some cases. So it won't be fully covered by the maximum available loan.

- 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 Universal Credit claimants received an advance payment (which could be for other costs as well as childcare), meaning that a high number of families would not be eligible (DWP 2017).
- 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.
- The earnings limit for eligibility means that support will not be available to many families, particularly to parents with a partner in work or wanting to increase their hours.
- As with the FSF, it is likely that parents are not being fully informed of the support available with advance costs. A recent evaluation by the DWP found that many parents had not been informed of advances to help with childcare (DWP 2017); and this has been backed up by research from Gingerbread and the Trussell Trust (Gingerbread 2018; Trussell Trust 2018).

Even if these limitations were resolved, however, the nature of repayable loans means that parents are left to get into debt in order to move into or stay in work. This can be difficult to pay off for many low-income families, and risks worsening their financial hardship. A 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 (Trussell Trust 2018).

Expecting low-income parents to get into debt to cover childcare costs means they will be facing problems before they have even started work. It could trap them on low incomes for many months or years to come.

What's it like to get help with childcare costs through Universal Credit?

Save the Children has spoken to parents receiving the childcare element of Universal Credit, to hear about their experiences and the challenges they face in paying upfront costs. Parents have told us that:

- Having to pay costs in advance has caused them intense stress and forced them to borrow money from family and friends to stay afloat
- Parents are either not aware of the support available to help with costs, are not eligible, or are unwilling to take out loans for fear of being pushed further into financial hardship to pay them off
- Posting receipts to the jobcentre is risky, as they tend to get lost, and having to go there in person to show receipts is time-consuming and leads to delays in payment
- The fact that parents are already in arrears for childcare payments means that any errors or delays in payments have an even more serious impact on their finances than they otherwise would - and parents are finding that errors and delays are relatively common in Universal Credit.

Louise's story

Save the Children spoke to Louise in Southport about her experiences of claiming Universal Credit.

Louise has a one-year-old daughter and a nine-year-old son, and her partner is in work. Louise recently returned to her job in admin after being on maternity leave. She had to save up for several months to be able to afford the upfront costs of childcare, which came to around £850. She has been told about the budgeting advances, but isn't eligible as she is in the process of challenging a decision due to errors in her Universal Credit payment.

Having to pay for childcare in advance every month has meant they are running out of money by the end of every month. Direct debits for their bills are bouncing and they are in arrears on their council tax. Once Louise's wages come in they can pay the bills again, but the same thing happens at the end of the month. They're always a month behind and have nothing left after paying for essentials.

Louise said:

"You end up paying out the most important things – rent and nursery. Then towards the end of the month there's nothing left for anything else…It's been a very stressful and unpleasant experience. If we don't get the right payment I'm going to have to borrow off my family. I've got £5 in the bank".

We need urgent reform to make childcare affordable for low-income parents

While there are measures to support parents with upfront costs, there are still clear gaps in support for parents facing upfront childcare costs because they want to return to work or move to a better job. As Universal Credit is rolled out to increasing numbers of families, the government urgently needs to act before even more parents are left to struggle with upfront childcare costs.

Roll-out is ramping up in 2018. Universal Credit is expected to be available to new claimants in all parts of the UK by the end of the year, and hundreds of thousands of families will transfer from legacy benefits from 2020 (OBR 2018). The coming months mark a critical window for the government to ensure this gap in support is closed so that the half a million families who will be claiming childcare support get the help they need to work, when they need it.

Rolling out Universal Credit is a major project for government. There are challenges with making immediate, significant changes to the design during this period. Yet low-income parents cannot wait years for the roll-out to be completed before they get more effective help with upfront childcare costs. It would also risk seriously undermining the government's ambition for Universal Credit.

Reforming how upfront childcare costs are dealt with in Universal Credit

Relying on the current mix of large loans, small and discretionary one-off payments, and inconsistent advice to help low-income parents juggle upfront childcare costs is inadequate. All low-income parents using Universal Credit to support their childcare costs need consistent and guaranteed help with upfront costs. This must be made available before Universal Credit begins its most rapid phase of roll-out to families with children, over the next 24 months.

As a priority, the government should examine whether they can urgently adopt the following arrangements:

- Parents agreeing upfront childcare costs (including any deposit or registration fee) with a registered provider for the month ahead
- Parents then receiving a written bill and submitting this immediately to DWP, which triggers the immediate processing of the claim for the childcare element.

Where providers are prepared to wait until the childcare element has been paid out, this would eliminate the problem of upfront costs for parents. Other providers may prefer immediate payment – this would still leave parents facing upfront costs but would reduce the time delay in receiving the money back.

Limiting overpayments

Childcare support through Universal Credit is partly designed to overcome some of the problems that the government and parents experienced with the Working Tax Credit. The biggest problem has been the large amount of error in childcare payments: the Office for Budget Responsibility highlights relatively high levels of error in the reporting of childcare costs under Working Tax Credits. It estimates that the arrangements in Universal Credit will save the government around £100 million a year in overpayments when the new benefit is fully rolled out (OBR 2018).

It is critical that we do not return to these high levels of error and overpayments when helping low-income parents with childcare costs. Overpayments are a source of huge uncertainty and worry for parents, and it is right that the government seeks to achieve better value for money in this area of benefit spending. However, we must not allow the ambition to reduce error and overpayments to come at the expense of reasonable moves to better support low-income parents with upfront childcare costs.

The design of Universal Credit already contains important safeguards that would greatly reduce the risk of overpayments for parents and the government:

- The more flexible approach to upfront costs, as outlined above, would only enable parents to claim planned childcare costs for the coming month, which is likely to be relatively accurate – whereas the Working Tax Credit model required parents to estimate costs for the full year.
- Under our proposals, payments for upfront childcare costs would be based on proof of costs provided by a registered childcare provider, rather than asking parents to estimate their future costs as in the old Working Tax Credit system.

In addition, the government could put in place further safeguards against overpayments:

- Support for upfront costs could initially focus on parents facing jobseeking conditions under Universal Credit (parents who are considered capable for work and who are not the main carer of

a child under three), to make a clear link between conditionality and support.
- Giving parents clarity on the approach to overpayments if their circumstances change over the period for which they have received help with upfront childcare costs, within the Universal Credit claimant contract.

Direct payments to providers

Introducing a system in which costs are paid directly to childcare providers would remove the risk of overpayments, while ensuring that parents are not left to struggle with upfront costs. 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.

There are some challenges with introducing direct payments within Universal Credit, given that the new benefit is designed as a single payment to be paid direct to claimants – with the intention of mirroring a monthly salary and encouraging recipients to take responsibility for budgeting. However, it is vital to focus on the core goals of Universal Credit: to reduce worklessness and help recipients progress in work. The government should be ready to consider pragmatic reforms that progress those core goals.

It is also deeply unfair that struggling low-income families eager to improve their earnings face bigger bureaucratic hurdles when accessing support for childcare costs than wealthier families. It is imperative that government seeks to address this looming inequality.

It is also worth noting that similar changes have already been made with regards to other elements of Universal Credit. The DWP has allowed direct payment of the housing element to be made to landlords in some circumstances; and given devolved governments the power to introduce greater flexibilities. Further pragmatic reform to improve the payment of childcare support would build on these initial steps to ensure Universal Credit delivers on its potential and ensure that no parent is locked out of work because they can't pay for childcare upfront.

Further steps to quickly mitigate risks

Where there is the prospect that the reforms set out above will take time to deliver, the government must also take immediate steps to mitigate the risks that low-income parents face around upfront childcare costs. These can be delivered quickly, without changes to the design or functioning of Universal Credit itself, but need genuine prioritisation from the government:

- The role of the FSF in supporting jobseeking parents with upfront childcare costs should be urgently reviewed and strengthened, including more generous allocations; an indicative budget for upfront childcare costs to guide spending decisions; and the better management of the fund within local areas and across the year.
- Guidance and training for work coaches in jobcentres should be significantly strengthened to ensure they are fully aware of the support and flexibilities they can already offer to parents who would otherwise struggle with upfront childcare costs.
- DWP should urgently implement an awareness raising campaign, aimed at parents moving on to Universal Credit, to empower them to ask their work coach for extra help with upfront childcare costs (including a poster campaign in jobcentres and tailored letters).
- DWP should consistently monitor parents' awareness and experiences of accessing existing support for upfront childcare costs through Universal Credit; and make a firm commitment to take further immediate action if awareness and experiences do not improve over the next six to 12 months.

- The government should explore the case for allowing claimants to hold more than one budgeting loan at a time in specific circumstances. This would increase the number of parents who could access this type of support and help them deal with the ongoing need to pay for childcare in advance.

In addition, we recommend some immediate improvements to the way the childcare element of Universal Credit works to make it simpler for parents to claim and receive their money:

- The DWP must urgently improve the system for reporting childcare costs by introducing a system that enables parents to upload childcare receipts directly to their online Universal Credit account. This would significantly reduce the complexity of claiming childcare support and reduce the likelihood of parents being left to wait for longer than a month to receive their money due to difficulties with submitting their receipts.

Fixing upfront childcare costs could help Universal Credit deliver on its potential for families with young children

Universal Credit has the potential to play a central role in supporting low-income families with their childcare costs and ensuring that all parents are able to move into, stay in, and progress in work. This could help families with young children to avoid poverty, significantly improving children's childhood experiences, early learning and later life chances. It could also help parents to access good quality childcare for their child, helping to boost their child's early learning.

But there is a risk that the current design of childcare support under Universal Credit will limit this potential. Too many low-income parents will be faced with unaffordable upfront childcare costs and long waits to be reimbursed – leaving them to choose between being trapped in a constant cycle of low income and debt or being locked out of the labour market altogether. The impact on their children could be significant – more stress at home, too little money to provide the opportunities that other families take for granted, and less access to good quality childcare that helps strengthen children's early learning.

Removing these barriers could help to lift families out of poverty and give children the early support they need. The government needs to act now to make sure Universal Credit gives low-income parents the chance to get on and do the best for their children, rather than being held back by the stress of unaffordable upfront childcare costs.

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Appendix

Figures on average upfront childcare costs are based on average nursery costs in England, taken from the Family and Childcare Trust's *Childcare Survey 2018*. Upfront costs are calculated as one month's fees plus £150 deposit (except where families are only using their free hours entitlement, in which case no deposit is payable).

Figures on estimated family incomes are estimated using Save the Children's modelling of take-home pay and Universal Credit entitlements. All working adults are assumed to earn the National Living Wage of £7.83 per hour, and earnings are net of income tax and National Insurance contributions. Income figures include net earnings, Universal Credit entitlement and Child Benefit. Incomes shown here are for the first month in which the second earner or lone parent moves into work, i.e. before their wage and Universal Credit childcare element is paid.

Figures on average family spending in the UK are based on the Living Costs and Food Survey 2016/17 (ONS 2018b). Figures include average spending on:

- Rent (based on average local housing allowance figures for a two-bedroom property in England)
- Food and non-alcoholic drinks
- Clothing and footwear
- Health (including medicines, prescriptions and glasses)
- Communication (including telephone and internet charges)
- Miscellaneous (including toiletries, hairdressing, insurance and bank charges)

Monthly expenditure figures are in the table below.

	Single parent, one child	Single parent, two children	Couple, one child	Couple, two children
Food and non-alcoholic drinks	£168.13	£223.17	£306.80	£348.40
Clothing and footwear	£100.97	£104.43	£134.33	£153.40
Health	£16.90	£14.30	£29.03	£30.33
Communication	£62.40	£61.97	£91.87	£93.60
Miscellaneous goods and services	£114.83	£120.90	£246.13	£289.90
Rent	£605.26	£605.26	£605.26	£605.26
Total	**£1,068.49**	**£1,130.03**	**£1,413.43**	**£1,520.89**