"IT'S JUST CONSTANT DEBT"

Save the Children

Why parents need better support for childcare under Universal Credit

Every child has the right to a future.
Save the Children works around the world
to give children a healthy start in life,
and the chance to learn and to be safe.
We do whatever it takes to get children the
things they need – every day and in times of crisis.

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(Photo: Magda Rakita / Save the Children)

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Executive summary

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.

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 doesn't have to be this way.

Although it's just one piece of the puzzle, childcare plays a crucial role in supporting parents to work and in helping children to learn and develop. But the cost of childcare has increased dramatically over the last decade, leaving many families struggling to get by.

The government has expanded the support available with 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.

But 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.

As the transfer of people from the legacy system has been slowed down, the government have an opportunity to get childcare right under UC now, before hundreds of thousands of parents are faced with upfront childcare costs. By providing childcare support *before* parents need to pay fees (instead of requiring parents to find the cash upfront), the government could transform the lives of families in poverty.

THE FIRST MONTH OF UPFRONT COSTS IS A PARTICULAR STRUGGLE FOR PARENTS

Upfront costs are particularly difficult when parents first start to claim for childcare costs under UC. When parents move into or return to work, or start using formal childcare for the first time, they are faced with high costs to pay upfront, of up to £1,000 for a full-time place. This is money that families on low incomes don't have to spare – and leaves parents facing debt or being blocked from work altogether.

The government has taken some steps to address the issue. In January 2019, the Secretary of State for Work and Pensions announced some improvements to help parents with the first month's cost of childcare, to ensure this isn't a barrier to work. While this is a welcome step which will help many parents, this move doesn't go far enough. The steps taken will only support a certain group of parents who are looking for work, leaving other parents with no support.

Addressing the first month of costs does not solve the problem inherent to the system. Parents still need to pay their childcare costs every month before they are able to claim the money back. They will be expected to use the previous month's childcare element to pay for the next month's costs. When childcare costs fluctuate from month to month, this means that parents are left with a shortfall – which they need to fund out of their own pocket.

MANAGING UPFRONT PAYMENTS ON AN ONGOING BASIS ALSO CAUSES DIFFICULTIES – PARTICULARLY WHEN COSTS INCREASE.

Childcare costs, unlike rent or other bills, are highly volatile and change from month to month. When this happens, parents find themselves with sudden increases in costs which they need to find the money for, before being reimbursed up to a month later.

This report finds that there are a number of situations for parents of pre-school-aged children in England where childcare costs increase:

- During the school holidays, when free hours of childcare are not available, parents need to pay the additional costs themselves. These extra costs can be high: a parent of a two-year-old can face an increase of £150 during the Easter or Christmas holidays, and a parent with a three- or four-year-old will have to pay on average £630 more during the summer holidays.
- When parents increase their working hours: it is common for parents' working patterns to fluctuate in the first few years of their children's lives, particularly moving from part-time to full-time work. This results in a corresponding increase in childcare costs, as parents use more childcare to cover the hours they work, which can again be steep. The additional cost of moving from a part-time to a full-time place ranges from £200 for a three- or four-year-old to £300 for a one-year-old for one month.
- Other situations include fluctuating working and childcare hours; months having different lengths; shifting patterns of formal and informal childcare; and providers requiring payment on a termly rather than monthly or weekly basis.

The report presents new analysis of the ways in which childcare costs in England vary over time, across the first four years of a child's life. It shows that costs vary a lot, with particular spikes around moving into work and the summer holidays, but also showing lower-level month-to-month fluctuations across the year.

This means that parents regularly face having to cover increases in costs themselves, without being able to rely on the UC childcare element. These increases can form high proportions of their income: for example, a parent working full time with a four-year-old faces an increase of 31% of their monthly income over the summer holidays, and a parent working part time has to pay an increase of 16% of their income over the Easter holidays.

PAYING UPFRONT COSTS PUSHES PARENTS INTO DEBT AND HARDSHIP

This has a significant impact on families' lives. Families, especially those on low incomes, do not have the levels of savings needed to cover these kinds of costs, or in many cases any savings at all. Over three-quarters (78%) of families with young children on the lowest incomes have no savings or capital – meaning they will struggle to cover any increase in costs themselves, however small.

This means parents are left to get into debt, struggle to pay for basics such as food and rent, and negotiate with their childcare providers to delay payments. This causes a huge amount of stress and worry and leads parents to consider taking their child out of formal childcare or stopping work altogether – the very opposite of what UC is designed to do.

TWO OPTIONS FOR REFORMING CHILDCARE

Before hundreds of thousands of families move on to this system, the government urgently needs to reform it to ensure it's doing the best it can to support families. This report sets out two ways in which the system could be redesigned to ensure parents don't have to pay these costs upfront:

- 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 on having to pay providers upfront.
- Alternatively, the DWP could introduce a system of direct payments to providers, similar to the existing system for rent payments. This would have the advantage of removing any risk of overpayments or fraud, and ensure that parents would not have to wait to be reimbursed before paying the provider.

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.

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.

1 Introduction

Universal Credit (UC) is the government's flagship welfare reform programme, which is being rolled out to thousands of families across the country. It replaces six working-age benefits with a single monthly payment, aiming to improve the system to support people to move into work and increase their earnings.

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 aged up to 16 can claim up to 85% 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% of their costs within the same limits. It also comes alongside other forms of childcare support, such as Tax-Free Childcare and free hours.

UC is therefore more generous than the previous system, which is a welcome shift and will play an important role in helping parents with the cost of childcare.

However, a central aspect of childcare support through UC is that parents must pay their 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.

This means that parents are expected to find the money for a month or more's childcare costs themselves, with limited government support. This is understandably likely to cause significant problems for families on low incomes: they do not have the income or savings available to be able to pay these costs easily. Struggling to pay childcare costs upfront can cause parents to get into debt, experience financial hardship, or be blocked from work altogether – the opposite of what UC sets out to achieve.

This report examines the childcare element of UC in depth, drawing on new research with families of their experience of the system, commissioned by Save the Children from the National Centre for Social Research and published in a separate report (Averill et al 2019). It also draws on the experiences of parents Save the Children have spoken to. It provides new analysis of the variability of costs on a month-to-month basis, to demonstrate how paying costs upfront every month can push parents into debt and hardship, and looks at the impact this has on families' lives.

This is a crucial time for the government to act. As increasing numbers of families are moved on to UC from this year, the issue is taking on increased urgency. Once rollout is complete, half a million families will be claiming childcare through UC. Action must be taken to ensure that families are not left to struggle.

This report first sets out the problems parents face with the initial month of childcare costs, highlighting parents' experiences and setting out why further action needs to be taken. It then looks at the issue of increases and decreases and costs on a monthly basis, assessing why this can happen; how much parents may have to pay; and key points across the year where parents are faced with particularly steep increases. Finally, it lays out the impact this has on families' lives, and sets out proposals for change.

CHILDCARE SUPPORT ACROSS THE UK

Support for childcare costs is different in each nation of the UK, resulting in a complex mix of reserved and devolved policies. This report focuses on evidence and recommendations on the needs of families in England, but necessarily makes proposals for UK-wide policies, which would also impact on families in Scotland, Wales and Northern Ireland. We believe that these proposals would provide welcome additional support for families in every country of the UK, but would interact with existing devolved childcare and early education policies in different ways in each country.

Families in Scotland, Wales and Northern Ireland will have other needs around childcare costs which interact with existing devolved policies. For example, the offer of free hours, which is discussed in detail for England in chapter 3, varies substantially across the four nations. The analysis in this report does not draw these out and further research would be required to look at the needs of families in the other countries of the UK, and to develop tailored reform packages that meet specific needs in each country.

2 The first month of upfront costs is a particular struggle for parents

The first month of paying childcare costs upfront, and waiting to be paid back, is a particularly challenging time for parents. Parents report falling into debt and hardship to manage this period. The government has taken some steps to address this – but they don't go far enough.

Childcare costs are high and have been increasing rapidly for the last few years, and parents consistently cite high childcare costs as a barrier to work (Department for Education 2018a). Save the Children has found that the average upfront costs for a month's full-time place in England can be as high as £1,000 for a one-year-old (Save the Children 2018): many families, but particularly those on low incomes, will struggle to find that money without support.

A number of organisations have highlighted the risks of having to cover the first month of costs upfront and the barriers this can pose to moving into work (see for example Gingerbread 2016; Coram Family and Childcare 2018a; Joseph Rowntree Foundation 2019; Save the Children 2018). Most recently, the Work and Pensions Select Committee found that upfront payments represent an 'insurmountable' barrier to employment, and raise a significant risk of households falling into debt or rent arrears to pay for these costs upfront (Work and Pensions Committee 2018).

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:

> *"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?'"*
> (Averill et al 2019)

The research found that 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 (Averill et al 2019); these strategies will be discussed in further detail in Chapter 4. What is clear from the research is that paying these upfront costs causes significant problems for parents, pushing them into financial hardship and debt.

Following the initial payment of childcare costs, parents then have to wait to be reimbursed. For parents claiming UC for the first time, this period is intended to be no longer than five weeks; however, the research found that some parents were having to wait up to nine weeks to be reimbursed for their childcare costs.

This was naturally extremely challenging for parents, resulting in financial hardship and stress, with parents ending up in arrears with rent and other bills due to the wait to be paid:

> *"I was having to take from other bills as well to pay the childcare and it was like, I'm paying - I'm robbing from Peter to pay Paul, when it was working fine as it was."*
> (Averill et al 2019)

This issue is strongly linked to the wider problem of claimants having to wait up to five weeks for their first payment of UC. Numerous other organisations have raised this as a key factor in parents falling into debt and financial hardship and called for the waiting time to be reduced. For example, Citizens Advice has found that almost half of people are going without essentials, falling behind on bills and getting into rent arrears while waiting for their first payment (Citizens Advice 2019), and the Trussell Trust has highlighted this as a significant factor in increased use of foodbanks (Trussell Trust 2018).

Having to pay upfront childcare costs during the initial claim of UC can make this problem worse. Childcare represents a large expense and means parents will have fewer funds to draw on during the initial waiting period, especially if they have used savings or loans to cover their childcare costs. Parents interviewed said having to pay childcare costs in the initial month had made it harder to cope with the waiting period, and had had longer-term implications for their financial situation:

> *"It was tough yeah and it took me three months to get back on track again because I'd made that big initial payment. Obviously when you're bringing up kids and you're working part-time, and you've got all this going on, you're on a budget anyway. So it did make it a little bit tough."*
> (Averill et al 2019)

This issue is not limited to those claiming UC for the first time. Parents who are already claiming UC but making the first claim for their childcare costs will also face the same issue: for example, parents moving into work, returning from maternity leave, or starting to use formal childcare for the first time will all struggle to cope with paying the initial cost of childcare without support.

THE ROLE OF ADVANCE PAYMENTS AND OTHER FORMS OF GOVERNMENT SUPPORT

There are certain means of 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 and budgeting advances are loans available through the UC system. 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.

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 jobseeking or starting a new job, such as travelling to interviews, training costs, and childcare costs.

Save the Children research has previously highlighted the problems associated with these forms of support (Save the Children 2018). In particular:

- Restrictions on eligibility 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.

- The maximum amount available for a budgeting advance is £812 for families with children. However, upfront costs for a full-time place in England can be as high as £1,000 (Save the Children 2018), meaning that parents will have to pay the remaining amount themselves.

These concerns were backed up in the qualitative research with parents. The research found that there was mixed awareness and use of these forms of support among parents: some had not been informed that these were available, others had used them and found them helpful, and some had been informed but had chosen not to take them up due to worries about needing to repay the loan through future UC payments:

> *"They said that there was a first month advance or something like that, which we thought we'd rather not do because we thought we can get forward, pay the first month ourselves…rather than having a little bit taken out each month then we're having to top it up."* (Averill et al 2019)

Some of the parents who had taken it up had found that the payment they received was not enough to cover their childcare costs, and had therefore had to cover a substantial amount of the costs themselves:

> *"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."*
> (Averill et al 2019).

Similarly, Emma, a parent who Save the Children spoke to, got an advance of £500 to cover her first month but wasn't told she would have to wait until the end of her assessment period to receive the money for the childcare element. This meant she had to pay childcare costs of £400 which she struggled to find the money for and got an emergency advance payment of £100:

> *It all came out and I had no money. I was at the bus stop crying thinking my childcare payment's come out. I had to change all my direct debits but with some of them it was too late to change them. I defaulted on a few payments, which meant I was charged by my bank which didn't help my situation at all.*

This shows that, while advance payments can be helpful and can mitigate the problems of paying upfront costs and managing the initial waiting period, they do not do enough to resolve the issue. 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. This is clear in evidence from other organisations:

- A DWP evaluation found that repaying advances taken out during the initial wait caused problems for claimants and made it harder to cover bills and the cost of essentials on a monthly basis (DWP 2017).
- Organisations including the Trussell Trust, Gingerbread and Citizens Advice have similarly found that repaying advance payments is a key cause of financial hardship among UC claimants (Trussell Trust 2018; Gingerbread 2018; Citizens Advice 2019).
- Citizens Advice has also found that those who take out advances are more likely to need to borrow money in other forms later, such as getting into rent arrears or borrowing from friends and family. For example, they found that 70% of people who took out an advance payment got into rent arrears, compared with 53% of those who did not (Citizens Advice 2019).
- The Work and Pensions Committee has called for budgeting advances not to be used as a solution to upfront childcare costs, highlighting that “*claimants who are already struggling with ongoing costs should not be expected or encouraged to take on extra loans and debt in order to deal with them*” (Work and Pensions Committee 2018).

Repayable loans cannot be used as a solution to the problem of the initial month of upfront childcare costs. Further-reaching reform, which does not cause parents to fall into debt and financial hardship, is needed.

The Flexible Support Fund, the other means of support used to pay for upfront costs, is a non-repayable grant rather than a loan, so does not come with these risks. The government recently announced some improvements to the use of the FSF to pay for childcare costs, pledging to increase awareness of the fund and instruct work coaches to use the fund to pay for childcare costs where they are a barrier to work (DWP 2019).

This is a welcome move and will go some way towards improving the way in which the fund is used. However, this alone does not solve the problem of upfront costs:

- Firstly, it is unclear whether parents will be able to claim support with their childcare costs through UC for the same month as they have received support with the FSF. If, as is likely to be the case, they are not able to, 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.
- Secondly, the FSF is currently only available to jobseekers and designed to support people to move into work. This means that it will not be available for other groups of parents who are already in work but faced with 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.

And, 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. This will be explored in detail in the next chapter.

3 Managing upfront payments on an ongoing basis also causes difficulties – particularly when costs increase

While the first month of upfront costs has received a lot of attention, there has been less of a 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.

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.

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

FREE HOURS OF CHILDCARE

Alongside UC and Working Tax Credits, parents in England can also claim some free hours of childcare, which vary depending on parents' income, working status and the age of the child:

- 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.
- 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.
- 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.

Provision of free hours varies substantially in other UK nations and interacts with the Universal Credit system in different ways:

- Eligibility criteria for places, levels of provision, and flexibility across the entire year in Scotland are different to England.
- In Wales, parents can access funding for nine of the 13 non-term-time weeks, although take-up is lower than during term-time.
- Provision and flexibility are also different in Northern Ireland, where pre-school children are entitled to a minimum of 12.5 hours per week of funded pre-school education in term-time.

The analysis in this chapter focuses on families in England; further research would be required to look at the needs of families in the other countries of the UK, and to develop tailored reform packages that meet specific needs in each country.

in general and could work well in cases where payments are made on time and costs do not change from month to month.

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.

This section looks at these fluctuations in depth, assessing the situations in which childcare costs change, how much they change by and what this means for families' incomes. It provides new analysis of changes in childcare costs over the first four years of a child's life, to assess key points at which childcare costs increase and what proportion of families' incomes these increases represent.

COSTS DURING THE SCHOOL HOLIDAYS

One key way in which childcare costs fluctuate over the year is because of the differences in costs in the school holidays. 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. These are outlined on the previous page.[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 2018b).

The qualitative research with parents found that paying additional costs in the school holidays were a key cause of worry and stress, and affected parents' ability to pay their childcare provider (Averill et al 2019). Parents described having to use strategies such as working overtime or borrowing money to cover the costs during this period, or switched to informal childcare where this was not possible. The summer holidays were the most stressful period for parents, as the costs were highest during this period.

This is backed up by parents Save the Children have spoken to. Lucy, whose story is outlined in the box below, talked about holidays, particularly the summer holidays, as being a major cause of stress and concern as she had to find a month or more's additional costs upfront.

While it is possible for childcare providers to offer the free entitlement "stretched" over the full year, not all providers offer this, which is shown in Vikki's story on the next page. The available evidence suggests that the majority of children do not access the entitlement in this way, particularly those accessing the 15 hours entitlement:

LUCY'S STORY

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.

She has tried to access support through budgeting advances but has been told they can't 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 has to borrow from her parents to be able to pay for childcare, which results in her being in a constant cycle of debt and repayments.

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. 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.

1 This report focuses on parents of children aged under five, as this is the time when childcare costs are highest and likely to pose the biggest barrier for parents in returning to and staying in work. However, we recognise that childcare support through UC is available for children aged up to 16, and parents of school-aged children will also face similar problems – particularly around school holidays.

VIKKI'S STORY

Vikki is a single mother of two from Newcastle, who is receiving childcare support through Universal Credit.

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.

Following the first month, she faced high increases in the holidays, as her nursery didn't 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's now found a nursery which offers the free hours stretched over the year, which makes things easier.

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. 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.

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.

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.

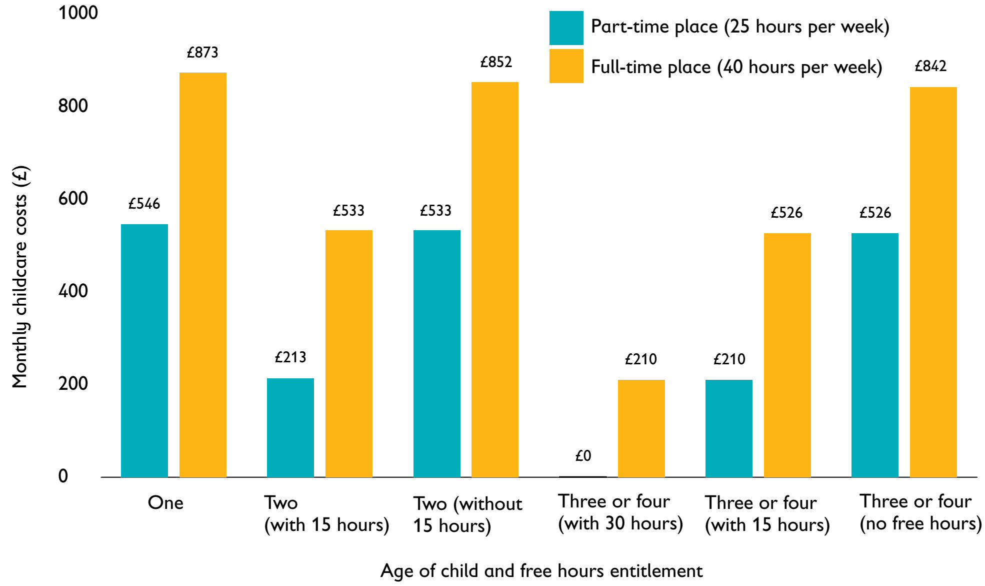
- Department for Education census data shows that, last year, 87% of two-year-olds and 86% of three-year-olds using the 15 hours entitlement used 12-15 hours per week. This suggests it is unlikely that they used the offer year round (as this would mean they would use less than 12 hours per week) (Department for Education 2018b).
- 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).
- 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.

While some providers do accommodate parents who need to use year-round care, the majority of parents, particularly lower-income parents, can't or don't use the entitlement in this way, and are faced with increased costs in the holidays when they are in work.

And these increases can be steep. The charts on the next page 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.

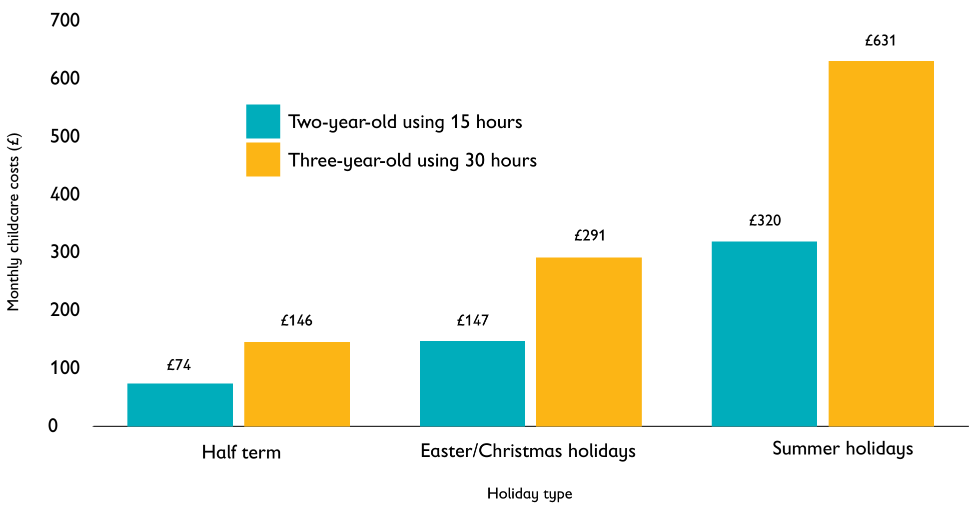
They show that increases in costs are high, particularly during the summer holidays, when parents may need to find the costs for a month's additional childcare upfront, but also during other holiday periods.

FIGURE 1: 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[2]

FIGURE 2: AVERAGE MONTHLY COST INCREASES IN THE HOLIDAYS IN ENGLAND



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

2 These costs are lower than the upfront costs outlined in Save the Children (2018) as they do not include a deposit.

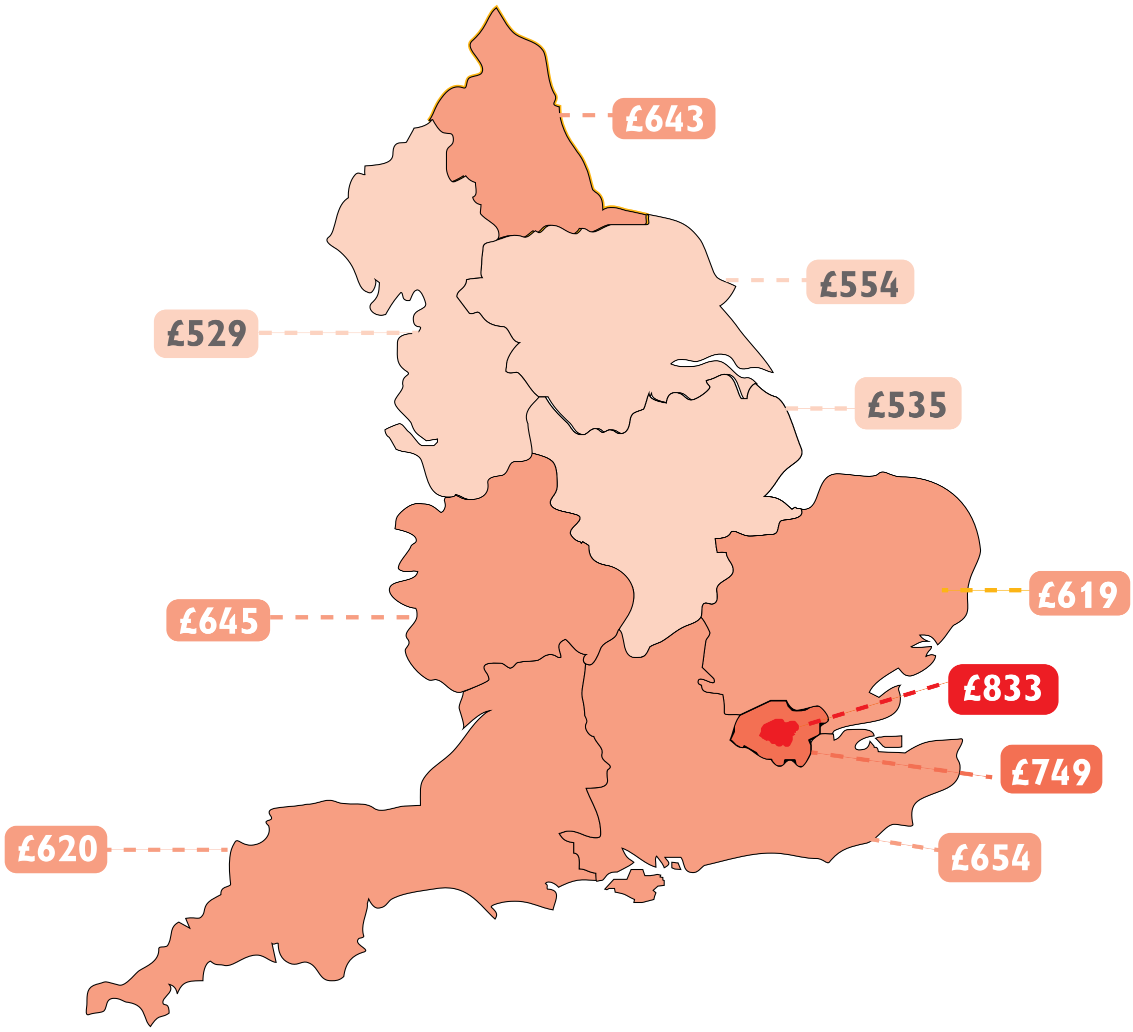
For example, a parent of a two-year-old using the 15 hours entitlement in England will be faced with an increase of almost £150 per month during a two-week holiday at Easter or Christmas, and a parent of a three- or four-year-old could be faced with an increase of over £630 during the summer holidays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

These differences also vary widely by region. The map below shows the extra costs families with a three- or four-year-old 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.

Of course, many families will not pay for childcare to cover the entire holiday period – families often combine paid-for childcare with informal childcare, shift parenting and annual leave to help with the costs (Coram Family and Childcare 2018b).

However, this is not always an option, and many families will be faced with paying significantly higher costs in the school holidays, which they need to pay upfront under the current system.

AVERAGE MONTHLY INCREASES FOR THREE- AND FOUR-YEAR-OLDS IN THE SUMMER HOLIDAYS IN ENGLAND BY REGION



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

COSTS WHEN INCREASING WORKING HOURS

Moving from part-time to full-time work, or increasing working hours, is another point at which childcare costs increase. 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.

The charts below and on the next page show the working patterns of families with children under five in England and how these change as the age of their youngest child increases.

They show a clear trend of moving into work, and increasing working hours, as children get older, both among lone parents and couples:

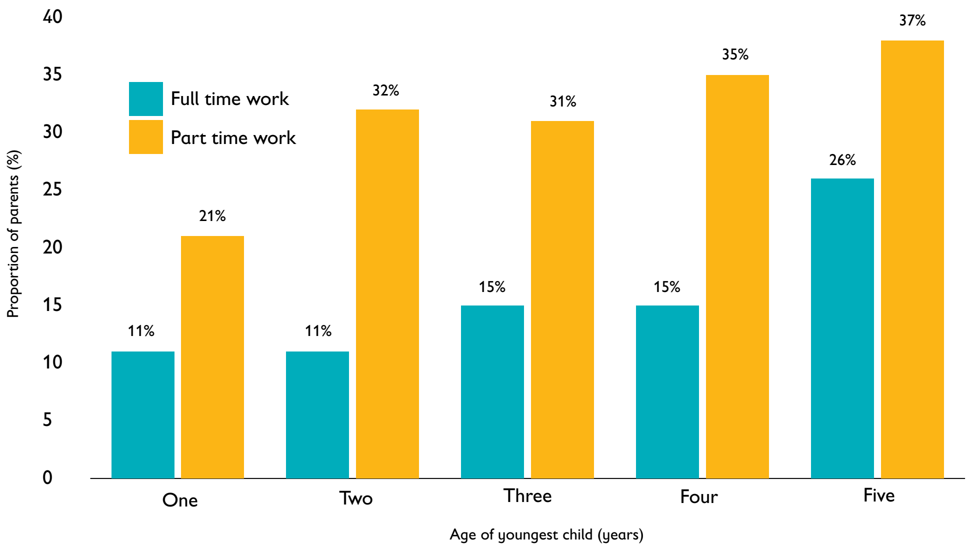
- The proportions of families where one adult is not working drop significantly between ages one and five, with a particular drop in the second year for lone parents and the fourth year for couples.
- Proportions moving into full-time work increase particularly sharply between the ages of four and five, suggesting parents starting work or increasing their hours when their children start school.
- Part-time work follows a less clear pattern, increasing among lone parents and fluctuating among couple parents, but still following a broad trend of increasing.

This is backed up by studies examining the working patterns of mothers at particular points in their children's lives:

- Multiple studies have found that rates of return to work, both part-time and full-time, increase sharply in the year following the birth of their first child and increase steadily in subsequent years, with a particular jump at the point when their child starts school (Brewer & Paull 2006; Stewart 2008).
- However, changing working hours during the first few years is also relatively common. A significant minority of parents move in and out of part-time and full-time work during the first few years of their children's lives (Stewart 2008), and mothers tend to move from part-time to full-time work when children become eligible for free hours of childcare (Brewer et al 2016).

This could cause problems for parents if they need to use additional childcare to cover their working hours. Even where they are increasing their working hours due to becoming eligible for free childcare, their costs will increase, unless the point at which they increase their work coincides exactly with the point at which their free hours start.[3]

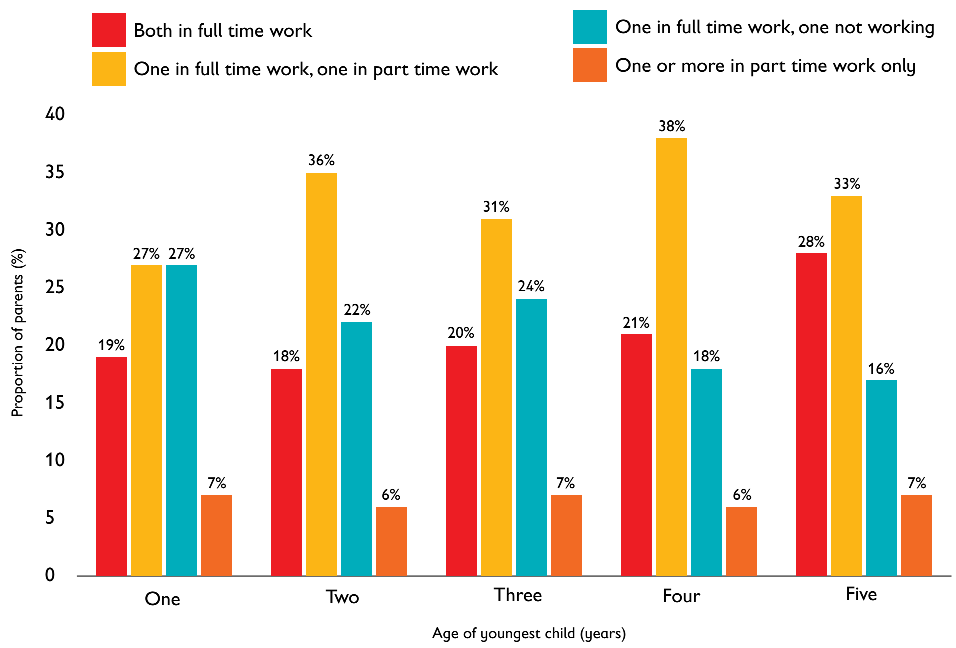
FIGURE 3: WORKING PATTERNS OF LONE PARENTS IN ENGLAND BY AGE OF YOUNGEST CHILD



Source: Save the Children analysis of the Family Resources Survey 2016/17

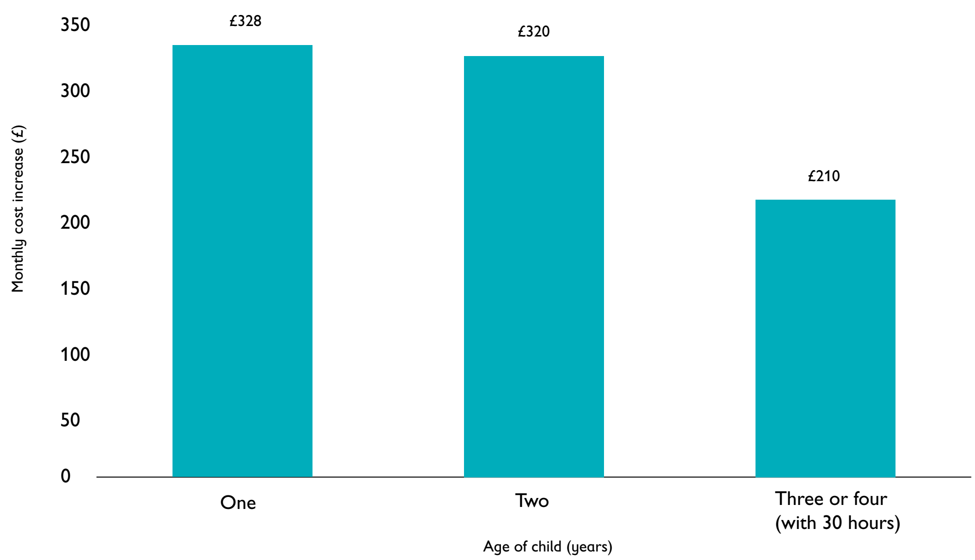
3 This is unlikely: evidence suggests that parents tend to move into work or increase their hours in the months after they become eligible for free childcare, rather than at the point of becoming eligible, as it takes time to find new jobs or arrange changes to working hours (Brewer et al 2016).

FIGURE 4: WORKING PATTERNS OF COUPLE FAMILIES IN ENGLAND BY AGE OF YOUNGEST CHILD



Source: Save the Children analysis of the Family Resources Survey 2016/17

FIGURE 5: INCREASES IN COSTS ON MOVING FROM A PART-TIME (25 HOUR) PLACE TO A FULL-TIME (40 HOUR) PLACE BY AGE OF CHILD



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

This means that, when parents increase their hours of work and their childcare costs increase, parents will be faced with having to pay these additional costs upfront. They will have no access to the support available to help with the initial upfront costs of childcare.

As with holiday costs, these increases can be high: the chart on the previous page shows how much a parent moving from part-time to full-time work in England might have to pay in additional childcare costs.

It shows that parents would have to pay significantly higher costs on moving from a part-time to a full-time place, ranging from over £300 for a one-year-old to over £200 for a three- or four-year-old – even when they are already claiming the 30 hours entitlement.

OTHER FLUCTUATIONS IN CHILDCARE COSTS

There are a number of other examples where childcare costs may fluctuate from month to month. These include:

- When parents' working hours change from month to month
- When the number of days on which parents use childcare changes due to different numbers of days in each month
- Where childcare providers require different amounts in different months, for example, when requiring a term's costs to be paid upfront
- If informal childcare arrangements change from month to month, meaning the need for paid-for childcare changes.

NICHOLA'S STORY

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.

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 isn't 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.

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.

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?

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.

Many parents' working hours, and therefore the hours of childcare they use, are likely to fluctuate from month to month. Flexible contracts have become increasingly more common over the past decade: the UK has seen increases in agency work, zero hours contracts and self-employment (Hudson-Sharp & Runge 2017), with an estimated 4.5 million people now in a form of insecure work with variability in hours or earnings (Citizens Advice 2018). Self-employment has also increased, with 4.8 million people now self-employed (ONS 2018).

While UC is designed to help with this, changing payments to respond flexibly to claimants' earnings on a monthly basis, the way in which childcare payments are designed could make this more difficult for parents. Being reimbursed for childcare costs at the end of the month means that parents will be expected to use the childcare element from the previous month to pay for the following month's costs – which, when costs fluctuate on a monthly basis, makes payments significantly more complicated.

Another common reason for childcare costs fluctuating is when the different lengths of each month mean that the number of days of childcare parents use changes from month to month. This can lead to large fluctuations in costs: Gemma, whose story is outlined in the box below, regularly finds herself with increases of over £200 due to different lengths of months.

In addition, childcare providers don't always ask for payments on a weekly or monthly basis. In particular, some providers ask for half a term or a full term's costs upfront, meaning that parents face sudden increases in costs when these charges need to be paid. Nichola's story in the box on the previous page highlights the problems this causes.

Finally, childcare costs can fluctuate when use of formal and informal childcare varies from month to month. Lucy from Manchester uses a mixture of formal and informal childcare, with her parents looking after her children every week. When her parents are away or unable to look after the children, her childcare costs increase:

> *I rely on my parents so if they're away and I need to use childcare, that increases it a bit.*

Being faced with regular shortfalls makes getting support with childcare more complicated and may disincentivise 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.

GEMMA'S STORY

Gemma is a single mother with a one-year-old daughter. She went back to work in January after having to leave her previous job in the police as she couldn't work flexible hours.

Gemma struggles with her childcare changing every month due to different numbers of days in each month. This means her childcare costs can increase by £200 or more from month to month, which she has to find the money for herself and wait to be paid back through UC. She manages this by using a flexi-loan, along with credit cards and cutting back on buying things for herself.

Gemma says:
I went back to work in January and my first childcare claim was for £675. I had to front up that money and I only had a little bit of savings. I was paid £573 for that month, which is 85%, but I was still out of pocket as I had to use that to pay for February. I had to pay £200 on top.

Because some months are shorter than others, I sometimes have to pay extra. In April I had to pay an extra £208. I appreciate the help but it's still a lot to pay.

I have a flexi-loan and I keep thinking I'll put some money back in but I keep needing to take it out. I don't buy things for myself, I've had to cut back so much. Even though I work I don't have much money for luxuries like clothes.

I never expected to be a single parent. I didn't know it would be this hard. It's not fair that children miss out when single parents work hard to provide for their children.

Gemma also worries that if she changed jobs to a higher-paying role she would lose support with her childcare costs and be worse off. *You struggle if you work and get paid a low wage and you struggle if you work and get paid a higher wage, because then you'd have to pay more childcare. It takes away your individuality to do the job you want to do. How are single parents ever supposed to make a better life for their children?*

HOW CHILDCARE COSTS CHANGE OVER TIME

This section looks at how childcare costs fluctuate over the first four years of a child’s life. It provides analysis of at what points costs are likely to increase and decrease, how costs change over time, and what particular points in time parents are most likely to struggle with costs.

The analysis looks at three example families with different working patterns in England, to assess how different situations could lead to particular increases or decreases in childcare costs:

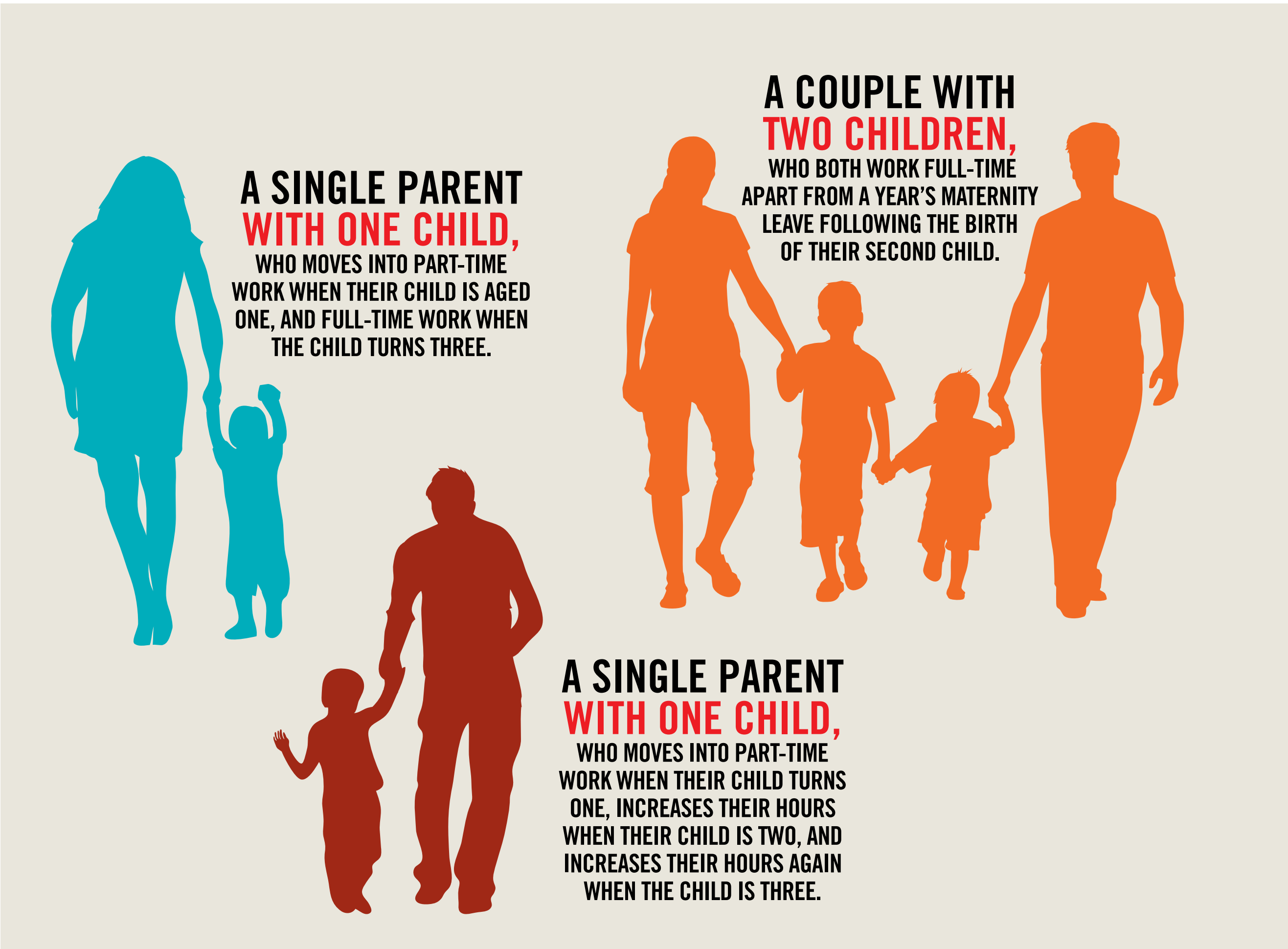
1. A single parent with one child, who moves into part-time work when their child is aged one, and full-time work when the child turns three.
2. A couple with two children, who both work full-time apart from a year’s maternity leave following the birth of their second child.
3. A single parent with one child, who moves into part-time work when their child turns one, increases their hours when their child is two, and increases their hours again when the child is three.

The analysis is based on childcare costs data from Coram Family and Childcare (2019) and assumes that a child being born in January takes up free hours in the April after their birthday. It assumes that all parents are earning the National Living Wage of £8.21 per hour and use childcare to cover the hours they work, plus an hour’s travel time per day. Full details of the calculations are in the appendix.

The charts on the next page show the ways in which childcare costs fluctuate during the first four years of children’s lives. They show significant fluctuation in costs from month to month, with particular spikes around the first month of being in work and the summer holidays.

As can be seen from the charts, there are certain points where childcare costs spike dramatically:

- The initial month of childcare costs on moving into work is a major point, with the largest increase in costs.
- Similarly, on returning from maternity leave, parents are again faced with a spike in costs, of over £1,000 for two children.

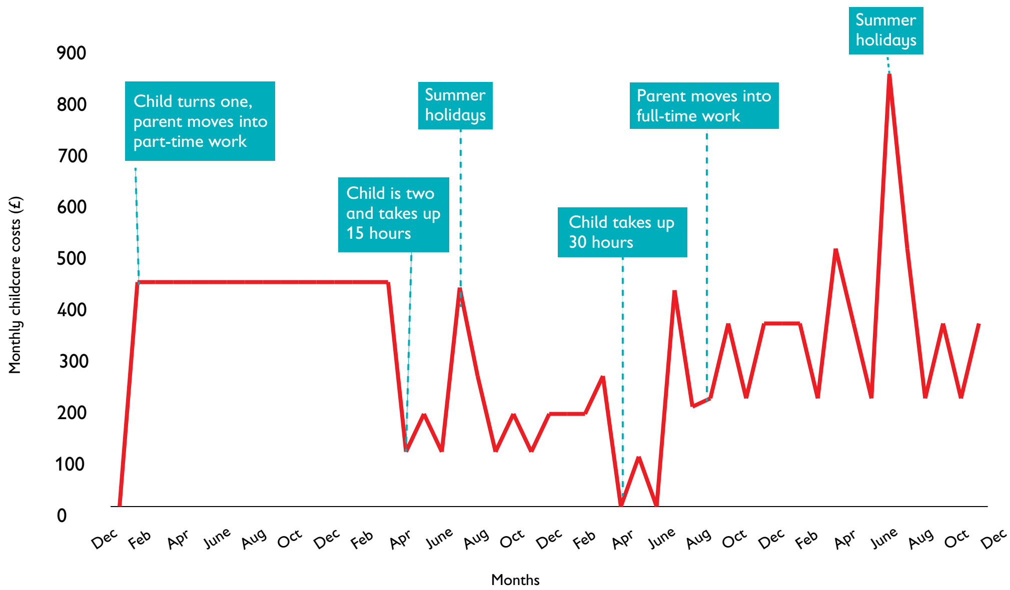


- However, the initial month of childcare costs is by no means the only point at which there is a steep increase in costs. The summer holidays in particular lead to clear spikes, with increases of over £630 for a three- or four-year-old not using the 30 hours entitlement during the holidays.

Similarly, the Easter and Christmas holidays and half term also cause smaller spikes in costs, as do changes to working hours.

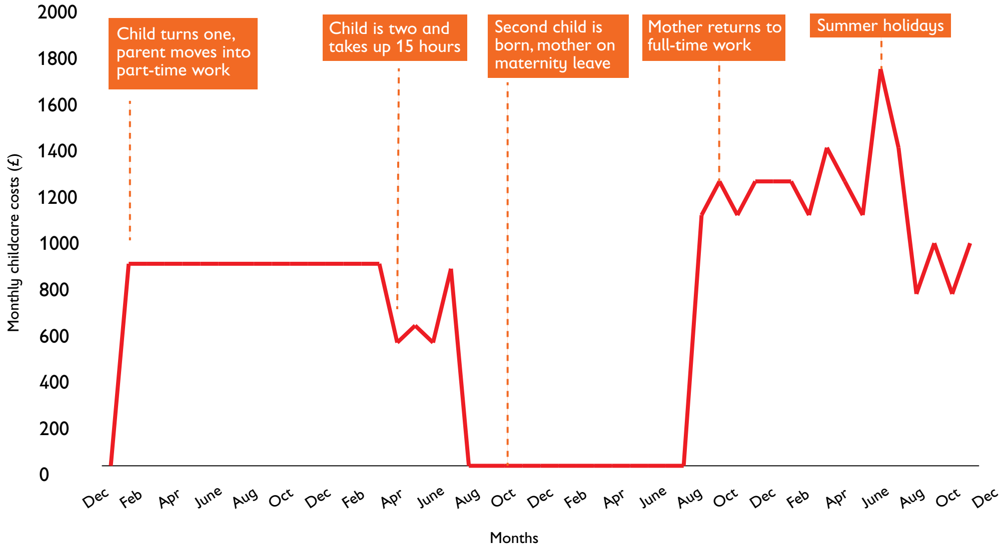
What is most clear from this analysis is how much childcare costs fluctuate from month to month. Due to the frequency of school holidays, along with changes to working hours, there is rarely a month in which childcare costs are the same as they were in the previous month. This means that parents will constantly be on the back foot, using the previous month's entitlement to pay for the next month's costs, and often finding themselves faced with a shortfall.

FIGURE 6: CHILDCARE COSTS OVER TIME, SINGLE PARENT MOVING FROM PART-TIME TO FULL-TIME WORK



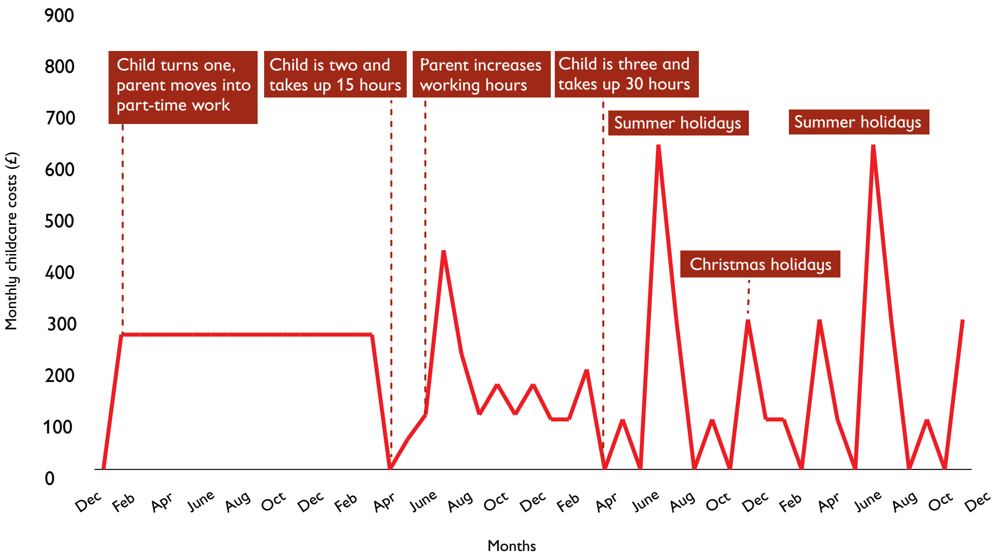
Source: Save the Children analysis of childcare costs data from Coram Family and Childcare 2019

FIGURE 7: CHILDCARE COSTS OVER TIME, COUPLE WITH TWO CHILDREN IN FULL-TIME WORK



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

FIGURE 8: CHILDCARE COSTS OVER TIME, SINGLE PARENT IN PART-TIME WORK INCREASING HOURS



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

And these shortfalls, as shown on the charts, are high, and represent large proportions of a family's income. When looked at in comparison to incomes, increases in childcare costs make up a large proportion, particularly around the summer holidays and returning to work.

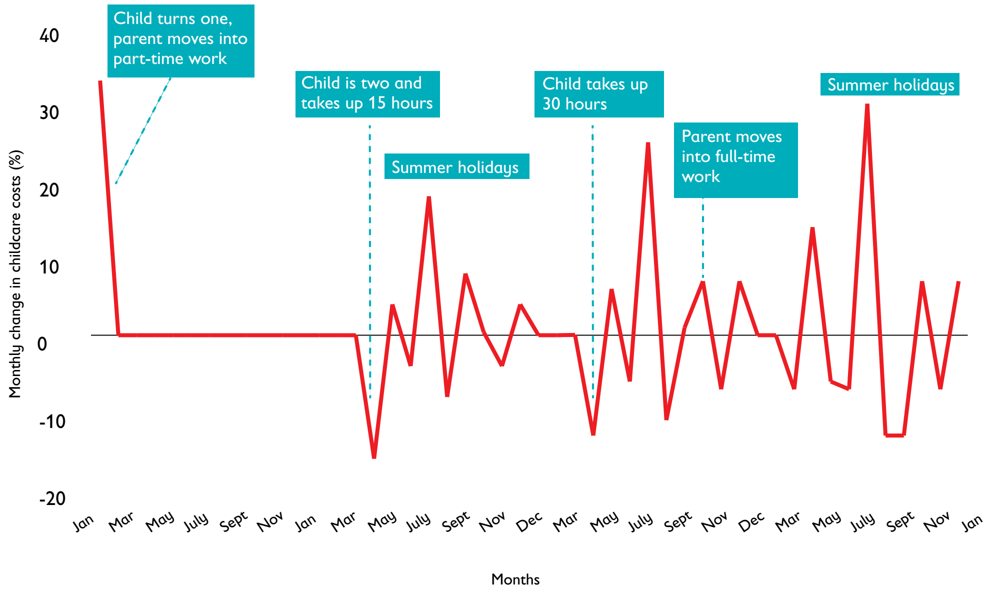
The charts on the next page show the changes in childcare costs from month to month as a percentage of family income, using the same three example families as above, to demonstrate the impact paying these costs could have on families' lives. Incomes are given as the previous month's income including take-home pay, child benefit and UC entitlement including the childcare element based on the previous month's childcare costs. Full details of the calculations are in the appendix.

As with the previous analysis, these charts show that, while the initial month of costs does represent a high proportion of incomes, increases around the holidays can form as much or more of a family's net income. For example:

- A single parent working full-time with a four-year-old faces an increase in costs of £630 during the summer holidays, which is almost a third (31%) of their monthly income.
- A couple with two children have to pay upfront costs of over £1,000 when the mother returns from maternity leave – almost half (46%) of their monthly income.

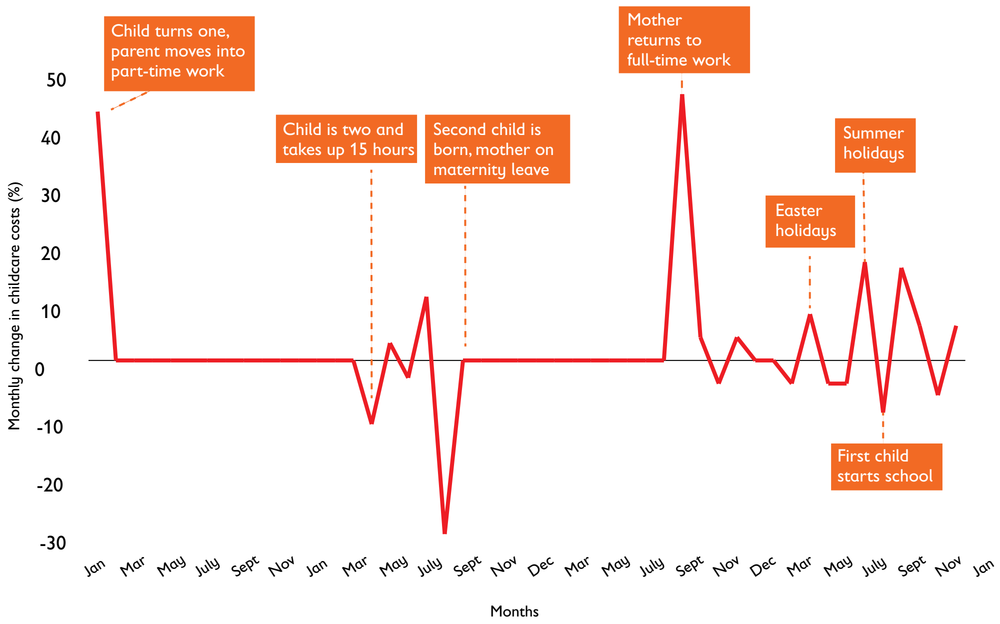
Increases around other holidays also take up high proportions of family incomes: a single parent working part-time pays almost £300 extra during the Easter holidays, which represents 16% of their monthly income.

FIGURE 9: CHANGES IN CHILDCARE COSTS AS A PERCENTAGE OF INCOME, SINGLE PARENT MOVING FROM PART-TIME TO FULL-TIME WORK



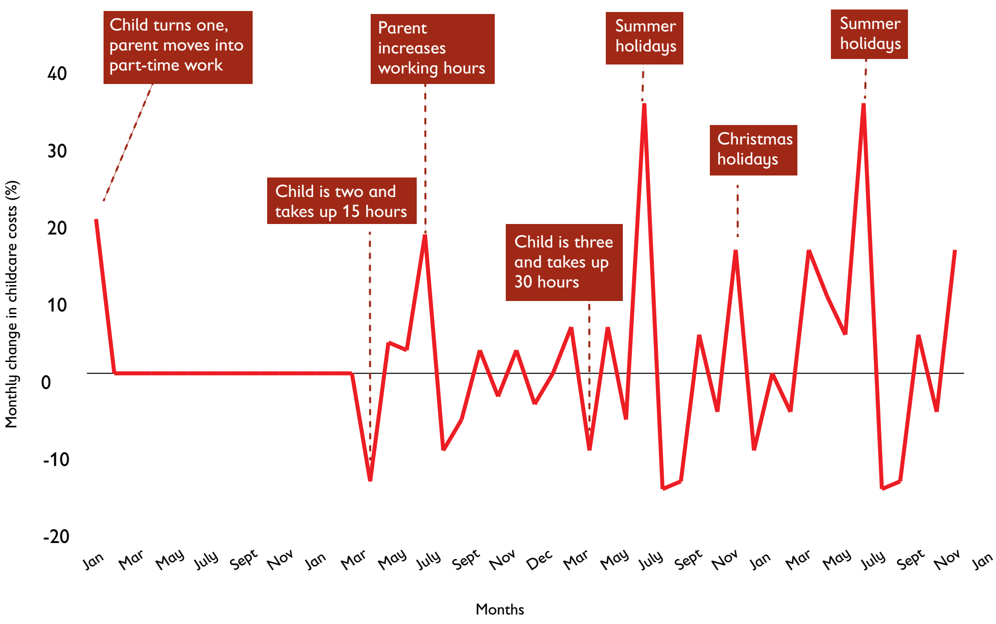
Source: Save the Children analysis of childcare costs data from Coram Family and Childcare 2019

FIGURE 10: CHANGES IN CHILDCARE COSTS AS A PERCENTAGE OF INCOME, COUPLE WITH TWO CHILDREN IN FULL-TIME WORK



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

FIGURE 11: CHANGES IN CHILDCARE COSTS AS A PERCENTAGE OF INCOME, SINGLE PARENT IN PART-TIME WORK INCREASING HOURS



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

Of course, there are also points at which childcare costs decrease, particularly at the end of the school holidays, and when free hours entitlements kick in. When this happens, parents will have extra money from their previous month's entitlement which they don't need to cover the next month's costs. This will of course be helpful to parents and may enable them to save money to pay for the next spike in costs. However, it is not realistic to expect this to be a solution to the problem:

- As will be discussed in the following section, families often get into debt to pay for their childcare costs upfront. This means that the childcare element may need to be used to pay off the debts and can't be saved for a subsequent month.
- As the analysis shows, spikes happen frequently and can be steep and unpredictable. Families are unlikely to know exactly how much they will need to pay for childcare each month over the year, and so can't be expected to budget for every potential increase in costs by saving the childcare element from previous months.
- Families on low incomes won't always be able to save this money for the specific purpose of future increases in childcare costs, as they are likely to have other priorities which they need the money for more urgently.

Using the previous month's childcare element to cover the following month's costs is not a viable option in many of these cases. If a parent is regularly faced with having to cover increases in childcare costs out of their own pocket and wait to be paid back, they are constantly at risk of falling into hardship and debt – which can have a serious impact on their lives.

4 Paying upfront costs pushes parents into debt and hardship

Struggling to cover upfront costs has a big impact on families' lives. Parents report getting into debt, struggling to pay other bills and negotiating with childcare providers to make ends meet. This pushes families into hardship, causes a great deal of stress and worry and affects parents' attitudes to work and childcare.

The analysis has shown that having to pay childcare costs upfront, both in the first month and on an ongoing basis, leaves parents facing regular shortfalls which they have to cover out of their own pocket and represent high proportions of their income. This causes parents significant problems when they have to cover these costs. They are left to use savings or go into debt, which has an impact on their lives.

This section looks at how these costs affect families' lives, using evidence from parents to show some of the strategies they use to pay for these costs and the effect this has on them and their children.

STRATEGIES TO COPE WITH MANAGING COSTS

Having to pay costs in advance before waiting to be paid back can have big impacts on families' financial situations, both when covering the first month of costs and in subsequent months. The qualitative research with parents found that parents used a range of strategies to cope with paying these costs, including using savings, borrowing from family and friends, and negotiating with childcare providers to manage payment dates (Averill et al 2019).

Some parents talked about using savings and personal funds where possible to manage upfront payments of childcare costs, particularly to cover the first month's costs. Those who were able to use personal funds tended to be on a slightly higher income and were able to draw on their partner's wages, or savings that had been earmarked for their children or other purposes.

However, many parents do not have the levels of savings required to fund these costs, meaning they have to find other ways of managing payments. Lucy from Manchester had to borrow from family as well as take out personal loans to pay for her upfront costs as she did not have enough savings:

> *"In order to access childcare and go back to work, I've had to find a substantial amount of money upfront to put my children into childcare. Being on Universal Credit and needing the support, I don't have the savings to pay several hundred pounds of nursery fees upfront. I've had to borrow money from my parents and take out loans in order to make ends meet and pay those upfront costs."*

Analysis of the levels of savings among families with children reinforces this. The chart on the next page shows levels of savings among families with children under 5 in England, broken down by income quintile.

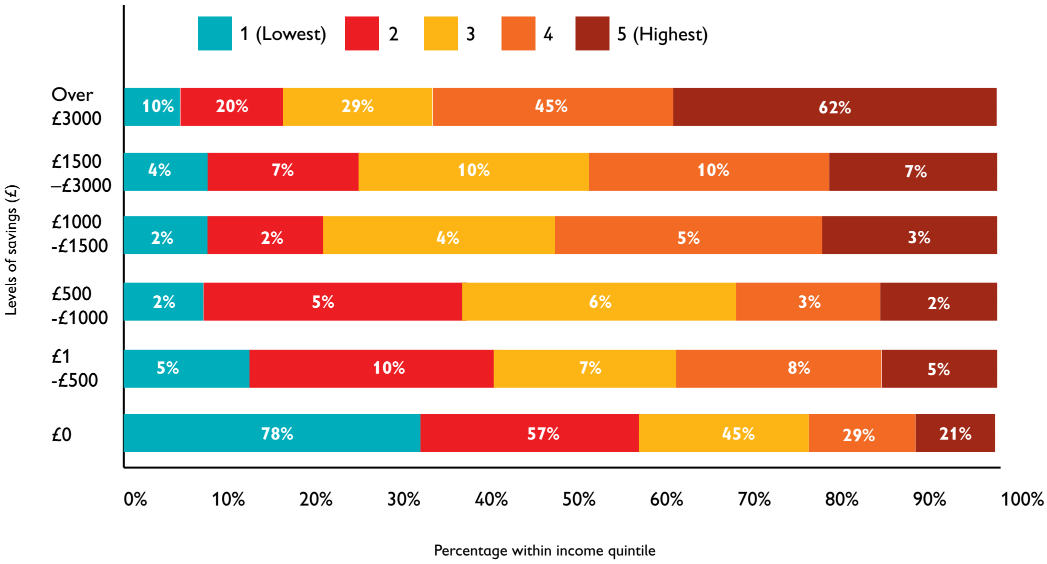
It shows that, among families in the bottom quintile, over three-quarters (78%) do not have any savings at all. Even among families in the second lowest quintile, who are also likely to be on Universal Credit once it is fully rolled out, over half (57%) have no savings.

Parents interviewed in the qualitative research borrowed from parents or other family members, both in the initial period of waiting to be repaid, but also to manage costs on an ongoing basis. School holidays were perceived to be a particularly challenging time, and parents discussed having to borrow money to cover this period.

> *"We're certainly not a family that's got a lot of extra money, so I had to speak to my dad about lending us some money first before we could get it back."*
> (Averill et al 2019).

Similarly, other parents Save the Children have spoken to talk about relying on loans from family as a key way of managing childcare payments from month to month. While this is helpful, this means they end up with large

FIGURE 12: LEVELS OF SAVINGS AMONG FAMILIES WITH CHILDREN UNDER 5 IN ENGLAND BY INCOME QUINTILE



Source: Save the Children analysis of the Family Resources Survey 2016/17

amounts of debts to their family members, which causes worry and stress. Gaynor, a single mother of three from Manchester, regularly relies on loans from her parents and friends when she has difficulty paying costs upfront:

> *"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."*

Similarly, Vikki, a single mother of two from Newcastle, regularly finds herself struggling to pay childcare costs on a monthly basis, and needing to borrow money, despite receiving the childcare element of UC:

> *"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."*

Negotiating with childcare providers was also a key way in which parents coped with payments, in particular to manage payments on a monthly basis. Where parents had a positive relationship with their childcare provider, they were able to negotiate payment dates to pay costs as and when they could afford it rather than on a fixed date.

> *"The rent, I can't speak to no one, let me just pay them their money but with her, she can understand. So maybe that's why I tend to not pay the full money there and then, but I always give her the full money later."*
> (Averill et al 2019).

THE IMPACT OF UPFRONT COSTS ON FAMILIES' LIVES

Struggling to manage childcare payments, both in the initial waiting period and on a monthly basis, has a significant impact on parents' and children's lives.

Concerns about budgeting and getting into debt cause significant worry and stress for parents, adding extra worries to parents who are under pressure:

"I ignore stuff a lot. So when I don't think about it, it doesn't bother me, but obviously now having this conversation it does just get you anxious I suppose…Yes, it's a bit messy. It makes your mind a bit messy I think." (Averill et al 2019)

In particular, when parents struggled to afford basics such as food and rent payments due to difficulties caused by claiming the childcare element, this caused significant stress. One parent interviewed said that managing childcare payments upfront every month had caused them to fall into arrears with rent payments and they now feared being taken to court, while another struggled to provide food for their children:

"It doesn't make me feel happy, no… because it's not only affecting me; it's affecting my kids as well… sometimes if I'm really broke I have to give them £10 to go to school… They need lunch so if I'm really, really struggling I just have to give them £10 and that £10 you cannot have breakfast in school. Even for the whole [week], £10 is not enough." (Averill et al 2019)

Even where childcare providers were understanding and willing to accommodate different payments, parents were aware that this had an impact on the provider's business and own finances (Averill et al 2019). Parents also worried that difficulties paying might have an impact on the way their children were treated by the provider:

"When I am going to work I feel like my child is not safe. Not that my child is not safe to me but I'm thinking oh, because I haven't paid this month where the manager has asked me for the money, maybe do I treat my child like this?" (Averill et al 2019)

Having to borrow from family and friends around particularly difficult points such as the school holidays was a source of embarrassment to parents, who disliked having to ask for money and tried to avoid it where possible. Parents felt that, if the childcare element had been easier to claim, they would not have had to ask for help:

"Well it's a bit degrading isn't it that you can't pay for your own children?" (Averill et al 2019)

Finally, problems caused by the childcare element of UC had led to some parents considering switching to informal childcare, or in some cases to stop working altogether.

Parents did not always feel they were better off working due to having to cover childcare costs, and one parent was considering moving to agency work to be able to manage shifts around when family or friends would be available to look after the children:

"I want to stop working like and join agencies, so when I'm working for an agency if I'm free I have a friend who will help me….I'm applying to some agencies, you know like agencies like when you are free you have someone to help you with the kids then you can work. That one is like you won't be claiming childcare. This is where I'm coming from." (Averill et al 2019)

Even where parents did not want to give up work as they enjoyed their jobs, having to pay upfront bills led them to the point at which they were considering leaving or changing jobs to manage the regular holiday costs. Nichola from West Sussex talked about concerns that she wouldn't be able to stay in her job much longer due to constant difficulties with childcare bills:

I've been in a position where I've gone home from work on a Friday and I don't know if I'll be able to go to work on a Monday, because I somehow have to find £800 for childcare. I'd be surprised if I'm still in this job come the six-week holiday – I can't cope because of the stress and I can't find the money. I do love my job but I can't see how I can do it.

Parents felt that the constant stress about childcare affected their decisions about work and meant they couldn't always make the choices that they wanted to. Lucy from Manchester talked about childcare being a constant worry and factoring in to her decisions about work:

It's a deciding thing, if you've got that over your head you may not make the best decisions because you've got to factor that in. It could be a deciding factor.

Families on low incomes do not have the savings available to cover either the first month of childcare costs or to cope with the regular fluctuations in costs which they have to face. Instead, they are being left to go into debt, get into arrears with other bills, or place the burden on the childcare provider by negotiating payments – all of which cause significant stress, worry and hardship.

5 Two options for reforming childcare

The childcare element of UC is designed to support parents to work, to enable them to increase their incomes and move themselves and their children out of poverty.

But the way in which it's designed makes it harder for parents to move into and stay in work. Designing a system which expects families to use the previous month's support to pay for the next month's costs does not work with costs such as childcare, which rise and fall from month to month – often by hundreds of pounds. This leaves parents vulnerable to debt and hardship, and may result in parents not using formal childcare or moving out of work altogether – the opposite of what UC sets out to achieve.

There are a number of ways in which the system could be reformed to ensure that parents do not have to struggle. Parents interviewed had a range of suggestions for improvements to the system, particularly around upfront costs. Some parents suggested reducing the waiting period to reimburse the costs, so that the money was provided straight away, as was the case under the previous working tax credits system:

> *"Like how they used to do before. They just give you the money. Once you've provided all the information they want and they've done their checks, then they used to put the money straight in your account."* (Averill et al 2019)

Others suggested introducing direct payments to childcare providers, in order to reduce the burden on parents to prove they had paid the costs:

> *You think well you've got the nursery's registered number … you know how long they're there for and how long they're going for, but then at the same time I understand you've got to prove you've paid it. That's why I think they should pay them direct."* (Averill et al 2019)

Nichola from West Sussex also suggested introducing direct payments to providers, highlighting the disparity between the way in which the free hours and Tax-Free Childcare was paid compared with UC:

> *There are other systems of childcare support available which could be extended - direct payments to providers like with the under-five entitlement. [With Tax-Free Childcare], people who are better off and are able to find this money aren't put under this pressure.*

A third suggestion was to pay the childcare element of UC more regularly than on a monthly basis, to make budgeting easier and ensure that the childcare element did not end up going towards paying other household costs:

> *"When you've lumped everything in, not everyone is as careful with money as they should be. So they'll see this lump sum, go on a wild spending spree and then forgetting that, oh damn! I've got this or that to pay. Even though it, thankfully, didn't happen to me but that's what kind of can happen."* (Averill et al 2019)

Based on this, and in consultation with other organisations, Save the Children recommends two options for reforming the way the childcare element is paid under UC. These are outlined in the table below.

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.

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.

TABLE 1: TWO OPTIONS FOR REFORMING THE SYSTEM

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.

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.

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Appendix

Figures on average childcare costs are based on average nursery costs in England, taken from Coram Family and Childcare's Childcare Survey 2019. Costs are calculated as 40 hours per week for a full-time place and 25 hours per week for a part-time place.

Modelling of changes in childcare costs over time are based on three example families in England:

1. A single parent with one child, who moves into part-time work (16 hours per week) when their child is aged one, and full-time work (30 hours per week) when the child turns three.

2. A couple with two children, who both work full-time (35 hours per week) apart from a year's maternity leave following the birth of their second child.

3. A single parent with one child, who moves into part-time work (10 hours per week) when their child turns one, increases their hours to 16 hours per week when their child is two, and increases their hours again to 25 hours per week when the child is three.

All children are assumed to be born in January, apart from the second family's younger child, who is born in August. Children are assumed to take up their free hours entitlements at the point at which they become eligible, i.e. the start of the term after their birthday, and start school the September after they turn four. Parents are assumed to use the hours of childcare to cover their working hours, plus one hour per day of travel time.

Childcare costs in the holidays are calculated as follows:

- Half term holidays in February, May and October are calculated as an extra week's childcare costs
- Christmas holidays are also calculated as one extra week's childcare costs, in recognition of the fact that most families will have time off or not be able to use formal childcare for the whole of the Christmas period
- Easter holidays are calculated as two weeks' extra costs
- The summer holidays are calculated as one month with two weeks' extra costs, and one month with a month's extra costs, to make a total of six weeks' extra costs.

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 £8.21 per hour, and earnings are net of income tax and National Insurance contributions. Income figures include net earnings, Universal Credit entitlement and Child Benefit.

Figures on working patterns and savings are calculated using the Family Resources Survey 2016/17, based on families in England whose youngest child is aged under five. Figures on savings include all savings and investments products, including bank/building society accounts and stocks and shares. They do not include non-liquid assets such as property, physical wealth and pensions.

"IT'S JUST CONSTANT DEBT"

Why parents need better support for childcare under Universal Credit

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.

Nichola, mother of one from West Sussex

Childcare plays a crucial role in supporting parents to work and in helping children to learn and develop.

The childcare element of Universal Credit is a vital source of support for parents, but it has one key design flaw: parents have to pay their childcare costs upfront, before being reimbursed up to a month later.

This report highlights the impact of these upfront costs on families' lives, showing that parents are getting into debt, having difficulty paying bills, and struggling to stay in work. It also presents new evidence on the volatility of childcare costs over the year – showing that upfront costs are an ongoing problem for parents.

Small changes to the way support is paid could have a transformative impact on families' lives, and would not cost the public purse. Half a million families will eventually be using this system: the government urgently needs to act to ensure that parents can give their children the best opportunities they can.

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