



MAKE CHILDCARE WORK

Three steps to improving childcare support in Universal Credit

At just three years old, a child growing up in poverty can be nearly a year and a half behind their better off classmates in their early language development. Once this attainment gap appears, it can be hard to close. Improving access to affordable, high-quality childcare can significantly improve a child's early development. It can also be the lifeline that helps parents, especially mothers, to work and boost their family's income. This in turn has a positive impact on children's outcomes.

Investing in the childcare support offered through Universal Credit is a critical way to remove the barriers holding parents and children back. It has real potential to increase parental employment by targeting support for those most likely to be out of work or working low hours. **Yet its current design significantly limits this potential for parents.**

Step 1: Make childcare free for the poorest families

Childcare costs across the UK are high. The most recent data on childcare costs shows that they have risen above inflation and wages, and now stand at £125 per week for a part-time nursery place in England. Support under Universal Credit is designed to help, by providing support for up to 85% of childcare costs for parents on the lowest incomes.

However, whilst support for childcare costs has increased under Universal Credit, the impact of transitioning to Universal Credit will leave some parents worse off:

- Around 100,000 families previously received support for up to 96% of their childcare costs, through a combination of tax credits, housing benefit and council tax benefit, and are now set to lose out under Universal Credit.
- Even where 85% of costs are covered, a family paying for full-time childcare can still be left facing costs of £100 or more per month – a significant amount for families on low incomes. Shouldering childcare costs greatly reduces incentives to work or to increase hours.

Recommendation: The Government raise the childcare element of Universal Credit, from a maximum of 85% to a maximum of 100% of eligible costs.

This would send a powerful message to low-income parents trying to return to work – the government will cover 100% of the costs of the childcare they need to get into work. It would have a substantial impact on take-home pay for families on low incomes: it would help to mitigate the high costs they face when returning to work or increasing their working hours, and reduce

the complexity of the system with a clear offer of completely free childcare for those on the lowest incomes moving into employment.

This need not cost the government any more money. Right now, through tax-free childcare (TFC) and 30-hour childcare entitlements, couples earning up to £200,000 receive support with their childcare costs. Reducing the upper earnings thresholds for TFC and 30 hours could help pay for a more generous childcare offer for low income parents under Universal Credit.

Step 2: Move to a system where costs are covered upfront

Under Universal Credit, parents are required to cover childcare costs themselves, before submitting proof of payment and receiving the money at a later date as part of their Universal Credit entitlement.

For parents on low incomes, this can be a significant barrier to returning to work and leave them facing a choice between taking on debt to pay for childcare or staying out of work altogether. Parents paying a month's childcare costs in advance, plus a deposit to their provider, will be faced with having to shoulder very significant costs – up to £1,000 for a full-time place for a one-year-old, or £680 for a part-time place.

Having to pay advance costs monthly means that parents will constantly be behind on payments. This could leave them with a monthly shortfall which can be difficult to pay off for a family on a low income and can put them on the back foot before they have even started work.

While there are forms of support in place to help with these upfront costs - for example, the Flexible Support Fund, Universal Credit advances, and budgeting advances - these were designed to support emergency costs, rather than monthly expenses. They also have several limitations. The nature of these repayable loans means that parents are encouraged to get into debt in order to return to work. Encouraging families to take on multiple loans is not an acceptable solution.

Recommendation: The Government urgently adopts a system in which parents receive money for childcare costs upfront. This could be done by:

- Implementing a system in which parents agree costs with their provider for the month ahead and submit a bill to the DWP without paying the costs themselves. They would receive the childcare element of their payment immediately.
- Alternatively, the Government could implement a system of direct payments to providers, to mirror the Tax-Free Childcare system for higher-earning parents.

Step 3: Reduce the complexity of childcare support

The system of childcare support is marked by complexity. Currently there are seven main ways that families can claim support with their childcare costs in England, depending on income, working status, and the age of their child. This complexity risks undermining uptake of childcare support – particularly for families on low incomes.

We want to make sure that nobody who would have chosen to use childcare misses out due to avoidable complexity. Work coaches are critical to the success of Universal Credit and are relied upon as a trustworthy source of information by families on low incomes. Yet our research shows that many families are not aware of the childcare entitlements offered under Universal Credit and the wider system of support offered.

Recommendation: The Government takes steps to:

- Ensure work coaches are highly trained on the childcare element of Universal Credit as well as other forms of childcare support
- Provide parents with targeted information about the types of childcare support available by sending letters or emails to parents at key points in their child's life.

This is a crucial time for the Government to act. Once fully rolled out, half a million families will be getting childcare support under Universal Credit. Now is an important window of opportunity for the Government to address these issues before they start to affect many more families.