

# A BRIGHT START

Improving childcare for disadvantaged families through Universal Credit

November 2018



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Improving childcare for disadvantaged families through Universal Credit  
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Published by the Centre for Social Justice,  
The Centre for Social Justice,  
10 Greycoat Place  
London SW1P 1SB  
[www.centreforsocialjustice.org.uk](http://www.centreforsocialjustice.org.uk)  
@CSJthinktank

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# About the Centre for Social Justice

Established in 2004, the Centre for Social Justice is an independent think-tank that studies the root causes of Britain's social problems and addresses them by recommending practical, workable policy interventions. The CSJ's vision is to give people in the UK who are experiencing the worst multiple disadvantages and injustice every possible opportunity to reach their full potential.

The majority of the CSJ's work is organised around five 'pathways to poverty', first identified in our groundbreaking 2007 report *Breakthrough Britain*. These are: family breakdown; educational failure; economic dependency and worklessness; addiction to drugs and alcohol; and severe personal debt.

Since its inception, the CSJ has changed the landscape of our political discourse by putting social justice at the heart of British politics. This has led to a transformation in government thinking and policy. For instance, in March 2013, the CSJ report *It Happens Here* shone a light on the horrific reality of human trafficking and modern slavery in the UK. As a direct result of this report, the Government passed the Modern Slavery Act 2015, one of the first pieces of legislation in the world to address slavery and trafficking in the 21st century.

Our research is informed by expert working groups comprising prominent academics, practitioners and policy-makers. We also draw upon our CSJ Alliance, a unique group of charities, social enterprises and other grass-roots organisations that have a proven track – record of reversing social breakdown across the UK.

The social challenges facing Britain remain serious. In 2018 and beyond, we will continue to advance the cause of social justice so that more people can continue to fulfil their potential.

# About Save the Children

Save the Children has worked in the UK for over 90 years, supporting children through our programmes and campaign work. In the last five years alone, we have reached over 100,000 children directly and led national campaigns across a range of issues to improve children's life chances.

We focus on tackling poverty and providing opportunity during the critical first years of life, from birth right through to the start of primary school. Our work is driven both by the evidence and the experiences and voices of children and families from across the UK. We believe that addressing early attainment gaps means ensuring that all children have access to high quality services and home learning environments, and that we address the root causes of low income.

Our programmes do this by helping parents to support their children's early learning and by ensuring that all children have access to the resources and experiences that make up positive learning environments. Our national campaigns focus on ensuring that all children have access to high-quality, affordable childcare, which can help support the benefits of home learning.

We know how crucial the first few years of a child's life are. By focusing on early learning, we help make sure children across the UK get the best start in life.

# Project remit

Support for childcare costs is different in each nation of the UK, resulting in a complex mix of reserved and devolved policies – evidence and data sources on children’s early learning, childcare needs, provision and usage also vary in each nation. This report focuses on evidence and recommendations on the needs of families in England, but necessarily makes proposals for reserved 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. 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.

# Executive summary

Opportunity is forged early in life.

At just 3 years old, disadvantaged children are almost 1.5 years behind their more affluent peers in their early language development. And by the time they start primary school, almost half of disadvantaged children are behind, struggling even with the basic skills they need to make steady progress.

Once attainment gaps arise, they are hard to close. In fact, the weight of early disadvantage tends to grow heavier by the year. According to the Education Policy Institute, disadvantaged pupils are, on average, 19 months behind at key stage 4. And 40 per cent of the attainment gap between disadvantaged 16-year-olds and their peers has already emerged by the age of five.

This is because the early years of a child's life set the foundations for their later learning. A child who starts school with a good level of language development is more likely to be able to flourish in the classroom. They are six times more likely to reach the expected level in literacy and eleven times more likely to reach the expected level in maths at the end of primary school.

If we want to equip individuals to make the most of their lives, this must start in the early years.

A vital building block is parental support; in separate literature, the CSJ outlines what government can do to promote parental engagement, and many of Save the Children's programmes in the UK help parents to support their children's early learning. However, the purpose of this report is to look specifically at access to preschool childcare and early education – itself another important determinant of the environment in which children might find themselves.

And what a difference this can make. An established body of evidence shows that preschool childcare and early education can have a profoundly positive influence on children's early development, particularly when the quality is high. According to one major study, children who attend high-quality settings for 2–3 years are almost 8 months ahead of children who attend none.

But the benefits of childcare extend far beyond child development. Childcare can also give parents the freedom and choice to work, presenting them with the opportunity to boost household incomes and enjoy the attendant benefits that flow from this.

Of course, not all parents want to work when their child is young. But many parents, particularly mothers, who do want to work cannot access the kind of affordable, quality childcare that would help them to make the transition. According to a recent DfE survey, for example, 50 per cent of non-working mothers would prefer to work if they could arrange suitable childcare.

In this report, we explore two key factors that are impeding take-up of preschool childcare and early education: affordability and complexity.

## Affordability

Our report highlights clear problems with affordability, particularly for low-income families.

Just over half of parents in lower socio-economic groups say they remain put off from working, or working more hours, because of the cost of childcare. And a glance at the effective marginal tax rate faced by some parents provides further insight into the reasons why working may not be viewed as a viable option. This rate can be eye-wateringly high for some parents, particularly when childcare is factored in, which weakens financial returns to work. For example, under the current system:

- A second earner with one child aged one who moves into part-time work at the minimum wage keeps just under a third of their hourly wages, or £2.60 per hour.
- If the same parent moves into full time work, they keep just over a quarter of their hourly wages, or £2.19 per hour.
- And if they have a second child using childcare, and move from part-time to full-time work, this drops to less than a fifth of their hourly wages - this means they keep only £1.54 for every extra hour worked.

## Complexity

The current system of childcare support is a patchwork of complexity. There is complexity in the diversity of offers, but also in the way each operates. Some offers are channelled directly to providers and others are paid to parents, and each subsidy is designed to be claimed according to different rules and administrative processes.

The existing literature suggests that this complexity contributes to low take-up. Many parents, particularly from lower-income families, seem to be unaware about the support they are able to claim, how the system of support works, and how to successfully navigate their options.

However, despite an apparent link between low uptake, complexity and disadvantage, the existing literature does not provide enough evidence about the mechanisms through which this link plays out.

To plug this gap, we commissioned new research into low- and middle-income parents' experiences of navigating the system of childcare support. The results are striking. They confirm that complexity undermines uptake – but, crucially, they also help us understand how and why it does this, with clear implications for public policy. In particular:

- the flow of existing information and advice is fragmented, and parents would benefit from a more coherent, joined-up approach; and
- parents' circumstances differ and more targeted information would likely equip them to make choices that work best for them.

It is time to change all this. Our report offers a range of practical solutions aimed at giving far more disadvantaged families the choice to enjoy the clear gains – both in terms of child development and employment – associated with preschool childcare and early education.



# Summary of recommendations

## Improving affordability for low-income parents

### Recommendation 1

Universal Credit (UC) includes a specific childcare element – a subsidy that is designed to provide financial support for low-income families to meet childcare costs. Every penny invested in UC is spent on those who are ‘just about managing’, or indeed struggling to manage at all. Given the problems low-income families have arranging affordable childcare, there is a strong case for boosting childcare support in UC to make transitions into work, or progression in work, as seamless as possible.

The Government should raise the childcare element of UC, from 85 per cent to 100 per cent of eligible costs, to support low-income families.

Our modelling suggests this would have a substantial impact on take-home pay for low-income families, and therefore help to mitigate the high marginal costs they face by returning to work or increasing hours. And the offer of 100 per cent free childcare is also an accessible message that can be easily communicated, which is likely to improve uptake.

### Recommendation 2

We can help pay for this enhanced childcare offer in UC by recalibrating subsidies that exist for more affluent parents. Families can benefit from substantial state childcare support even when they earn up to £200,000. We do not believe that public money should be distributed to the highest earners while other parents struggle to get on in life. The current funding spread for childcare now tilts towards better-off families and funds should be placed where they are most transformative.

The Government should revise the eligibility criteria to claim Tax-Free Childcare (TFC) and 30 hours’ free childcare for three and four-year-olds. The money saved by doing this would help to pay for the more generous childcare element outlined in Recommendation 1.

We estimate that the cost of funding the proposal we outline in Recommendation 1 would be in the region of £300 million.<sup>1</sup> We outline below the savings that could be generated by lowering the upper earnings thresholds for 30 hours’ free childcare and TFC at a range of thresholds.<sup>2</sup>

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<sup>1</sup> This estimate is somewhat uncertain, since we are still in the early days of the roll-out of UC to families with eligible childcare costs

<sup>2</sup> These estimates should be treated with caution as there is a lack of reliable data about childcare use and spending across the income distribution. Both policies are also relatively new and we do not know how take-up will evolve over time

Upper earnings threshold (per person)	TFC		30 hours		Total savings
	Savings	% of eligible parents who would lose entitlement	Savings	% of eligible parents who would lose entitlement	
£70,000	£60m	5.9%	£44m	6.2%	£104m
£60,000	£97m	9.7%	£61m	8.6%	£158m
£50,000	£147m	14.7%	£89m	12.4%	£236m
£40,000	£239m	23.8%	£157m	22.0%	£395m
£30,000	£414m	41.4%	£276m	38.6%	£690m

## Fine-tuning the administration that underpins UC to maximise uptake

### Recommendation 3

UC is designed to address issues with its predecessor by removing the yearly calculation at the start of a claim and instead requires families to pay for childcare upfront, report their costs on a monthly basis, and subsequently claim back support in arrears. This change corresponds with the wider monthly tempo of UC, which is designed to mirror working life and reflect most workers' pay patterns. It also allows officials to adjust support each month in a far more sophisticated and efficient way through the real time PAYE information employers report to HMRC.

However, there are concerns that upfront childcare costs, and lack of symmetry between assessment cycles and payments, could make it harder for parents to arrange childcare without going into debt. If these issues endure, a number of practical measures could be taken to refine the process.

- Strengthen guidance and training for work coaches on the support and flexibilities they can already offer to parents who would otherwise struggle with upfront childcare costs (working alongside devolved administrations in N. Ireland, Scotland, and Wales).
- Consider improvements to the Flexible Support Fund within local areas and across the year.
- Improve awareness about support available under UC, so that more parents raise this in conversations with their work coaches.

Depending on the effect of these measures, and the extent to which challenges remain, the Government may also want to consider further reaching reform.

- Allow parents to agree childcare costs with a registered provider for the month ahead.
- Parents then receive a written bill and submit this immediately to DWP, which triggers the immediate processing of the claim for the childcare element.
- Some providers may wait for payment until DWP has paid out the childcare element, but others will demand payment immediately. This will still leave parents facing upfront childcare costs, although the time delay in paying/receiving money from DWP will be much reduced.

- This facility could initially be restricted to parents with work-search conditionality to ensure upfront payments strictly link to helping people into work.

To minimise the risk of overpayments, the Government could consider the following options.

- Only allow parents to claim for the coming month of childcare costs (rather than a full year).
- Base the payment on proof of costs agreed with the provider (rather than estimates).
- Limit upfront payments to parents facing specific work search conditions under UC.
- Introduce an explicit clause in the UC claimant commitment to make it clear that childcare costs must be repaid if circumstances change.

#### Recommendation 4

Families receiving UC cannot claim TFC at the same time. Instead, TFC supports families with their childcare costs as they increase their incomes and move off UC entirely. But for this transition to be most effective, it must be seamless. This is not always the case and many parents find themselves claiming a subsidy that is less generous than the other.

For people stepping out of benefits, there must be a strong footing of seamless support into work. It is just as important to make sure people do not slip into poverty as it is to help them out of it. Whatever the direction of travel, individuals should be supported through a more scientific evaluation of best-fit.

The DWP should consider how it can best use the rich information it will hold on families in receipt of UC. Communications could be targeted at families with eligible childcare costs in UC and relatively small total UC awards, that fall below a certain threshold. They could be periodically generated to alert those families to the fact that they may be better off claiming TFC and providing information on how to check their entitlements.

## Reducing complexity for parents in the system of childcare support

#### Recommendation 5

The flow of existing information and advice is fragmented, and parents would benefit from a more coherent, joined-up approach. To address this, the Government should consider the following options.

##### Government websites

- The information on the Childcare Choices website largely duplicates what is available on the "Help paying for childcare" page, but it is set out in more detail and in a more engaging format. It may be useful to provide a link to the Childcare Choices website on the gov.uk pages and remove the detailed information on the latter website.
- Alternatively, officials could merge the information on the Childcare Choices website with the gov.uk page so that all the information is in one place.

##### Local authorities

- Impact assessments of the two-year-old childcare offer show that information is more successfully channelled when local authorities work with other local agents, including health visitors, childcare providers and jobcentre staff, and this could serve as a template for action.

- The DfE, DWP and HM Treasury should encourage and support local authorities to work with other agents to provide more joined-up advice, and to provide a broader suite of advice that also covers TFC and the childcare element of UC. Touch points could include banners, leaflets, information provided by health visitors, and targeted outreach (more on the latter below).

### Recommendation 6

Parents' circumstances differ and more targeted information would likely equip them to make choices that work best for them. To address this, the Government should consider the following options.

#### Work coaches

- Work coaches are well placed to address any confusion about the UC childcare offer, and to inform individuals about all their options.
- To maximise the impact of this valuable touch-point, DWP should ensure they are highly trained on the childcare element of UC, and work with DfE to train work coaches on all other aspects of childcare support. It should also assess the scope for work coaches to inform claimants about all their childcare options even if conditionality does not apply to them.

#### Written communications

The DWP should use the rich data it will hold about family circumstances through UC to provide parents in England with tailored information about the types of childcare support available to them. This should cover counterfactuals as well as current circumstances, so that parents can see the potential effect of changing their working hours. Letters and emails should be sent to parents:

- when their child turns one or two, making them aware of the support available under UC and the 15-hour offer of free childcare for some disadvantaged two-year-olds;
- with three- or four-year-old children who do not meet the work requirements for the full 30-hour offer of free childcare; and
- who receive UC but are potentially better off switching to TFC.

#### Making full use of the 30-hour offer

- The DfE and DWP should work together to raise awareness of the 30-hour offer among non-working parents in England, so that the latter can make informed decisions about working.
- This should include introducing an information drive through jobcentres; training work coaches to inform parents who do not currently qualify for the 30-hour offer about the offer; and ensuring the DfE funded 'parent champions' scheme includes the full range of childcare options available to parents, and not just free-hour offers.

#### Childcare providers and children's centres

- DfE should encourage and support these providers to engage more disadvantaged parents and advise them about the full suite of childcare options.
- This could include supplying staff with accurate information and materials on all forms of childcare support to give to parents; encouraging staff to advise parents about TFC and the childcare element of UC when providing information about costs to parents; and piloting support schemes in the DfE's 12 Opportunity Areas.

## chapter one

# Why we must act

Opportunity is forged early in life. At just 3 years old, children growing up in poverty are already nearly 1.5 years behind their more affluent peers when it comes to early language development.<sup>3</sup> By the time they start primary school, many struggle with the basic skills they need to make steady progress. This greatly increases the risk that they will struggle in school and even in their later life. If we want to equip individuals to make the most of their lives, this must start in the early years.

### 1.1 The early years are critical to a child's development

The first five years of life play a formative role in determining prospects. During this time, a child's cognitive abilities undergo rapid change. By age one, a child's brain is already 72 per cent the size of an adult's brain and by age two it has grown to 83 per cent in comparison.<sup>4</sup> At age two, the cerebral connections that are being formed to transmit information are happening about twice as fast as they are for adults.<sup>5</sup> And by age five, a child's brain is using almost twice as much energy as an adult's brain to support learning and development.<sup>6</sup>

These changes transform cognitive function, allowing a child, if well supported, to form crucial foundational skills and abilities that serve as a platform for further development and learning throughout life. For example, on average, a child's vocabulary expands from 55 words at 16 months to 225 words at 23 months, and then to 573 words at 30 months – an overall increase of over 900% in just 14 months.<sup>7</sup> Genes are an important determinant of the cognitive changes that drive a child's development during these years, but the experiences and environments that children have access to also have a powerful effect. A child's development thrives in supportive and learning-rich environments and experiences. But where children do not have access to the kinds of environments and experiences that support their development, this can have profound consequences not just for their early learning, but for their later outcomes as well.<sup>8</sup>

3 Literacy Trust (2014). Read On. Get On. How reading can help children escape poverty [<https://literacytrust.org.uk/policy-and-campaigns/read-on-get-on/>]

4 Knickmeyer, C., R., Gouttard, S., Kang, C., Evans, D., Wilber, K., Smith, K., J., Hamer, M., R., Lin, W., Gerig, G. & Gilmore, H., J. (2008). A structural MRI study of human brain development from birth to 2 years. *The Journal of Neuroscience*, 28 (47) 12176–12182

5 Stiles, J. & Jernigan, L., T. (2010). The basics of brain development. *Neuropsychology Review* (2010) 20:327–348.

6 Kuzawa, W., C., Chugani, T., H., Grossman, I., L., Lipovich, L., Muzik, O., Hof, R., P., Wildman, E., D., Sherwood, C., C., Leonard, R., W. & Lange, N. (2013). Metabolic costs and evolutionary implications of human brain development. *PNAS* vol. 111, no. 36

7 Goswami, U. (2015). *Children's cognitive development and learning*. Cambridge Primary Review Trust: Cambridge.

8 National Scientific Council on the Developing Child (2007) *The Science of Early Childhood Development: Closing the Gap Between What We Know and What We Do*

## 1.2 Attainment gaps between disadvantaged children and their better-off peers open early

Given the vital cerebral changes that take place in the early years, it is deeply concerning that thousands of children, particularly the most disadvantaged, struggle to develop as well as they should. Gaps in cognitive, social and emotional development between these children and their better-off peers are clear to see in England. Figure 1, for instance, presents figures from the Early Years Foundation Stage Profile (EYFSP), a national assessment of children's early development carried out at the end of the reception year.

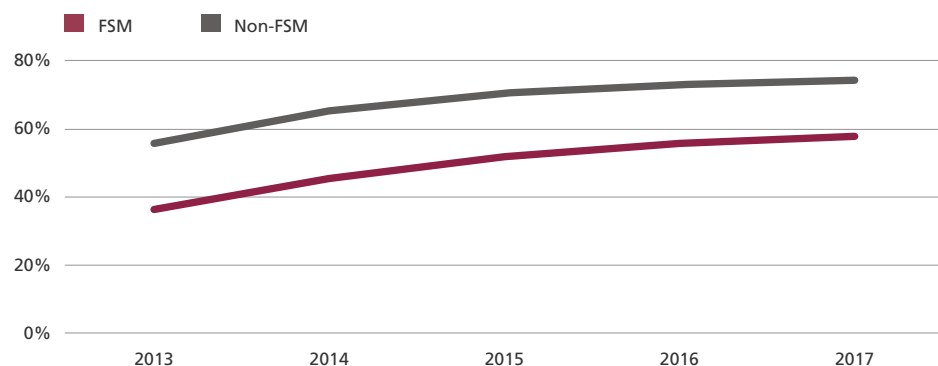
According to EYFSP data, just 71 per cent of children attained a good level of development in 2017 by the time they reached the end of reception year. This figure has been rising since 2013, when the government introduced the new EYFSP curriculum, but it is alarmingly that almost one in three children still start school without reaching a good level of development.

A 'good level of development' is defined in the EYFSP as achieving the expected level across each of the early learning goals in the EYFSP – communication and language; physical development; personal, social and emotional development; literacy; and mathematics. In practice, this means a child should be able to listen to, understand and follow instructions; use tenses correctly; express themselves, read and understand simple sentences; engage in conversations with other children and adults; and count and carry out simple addition and subtraction.

### Almost half of disadvantaged children are already behind when they start primary school.

The current statistics mask an even more disturbing truth. Disadvantaged children are much more likely to start primary school without the expected skills of a child that age. Just 56 per cent of children eligible for free school meals attain a good level of development at this point, compared with 73 per cent of children who are not eligible for free school meals. This attainment gap has also remained stubborn over time; since 2013, it has only shrunk by 2 percentage points.<sup>9</sup>

Figure 1: Proportion of children/good level of development in reception, by FSM status (2013–2017)

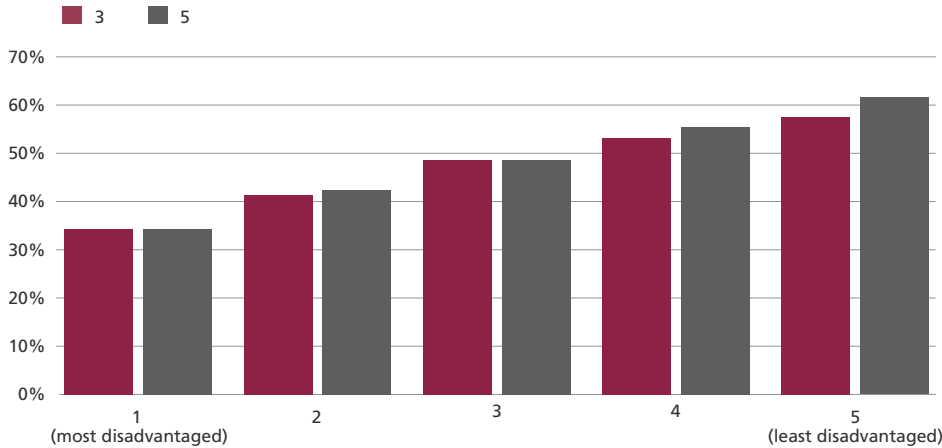


Source: CSJ/Save the Children analysis of the Early Years Foundation Stage Profile results 2013–17

<sup>9</sup> Department for Education (2017). Early years foundation stage profile results: 2016 to 2017. London: Department for Education, 2017

The Millennium Cohort Study (MCS), a longitudinal study following the lives of children born in 2000, reinforces this point. As Figure 2 shows, the most disadvantaged children, understood as children from low income households and where parents hold low educational qualifications, are already behind all of their peers at age three and this development gap persists at age five. In addition, attainment rises in step with advantage all the way, both at age three and five. And disadvantaged children are also less likely than their peers to catch up between ages three and five.<sup>10</sup>

Figure 2: Children’s cognitive outcomes at ages three and five



Source: Dearden, L., Sibieta, L. & Sylva, K. (2010). The socio-economic gradient in early child outcomes: evidence from the Millennium Cohort Study. *Longitudinal and life course studies*, Vol. 2, Issue 1., pp. 19–40

### 1.3 A number of factors help to explain attainment gaps between disadvantaged children and their peers by the time they start school

The factors that shape development in the early years are complex and multifaceted. We know that exposure to toxic stress, and a lack of access to supportive environments and experiences, can profoundly undermine a child’s development in the short and long term.<sup>11</sup> Exposure to frequent stress of this kind affects the developing brain by damaging neurons in areas involved in learning.<sup>12</sup> And poor-quality environments shape neurochemistry in ways that impair cognitive development.<sup>13</sup>

Disadvantaged children are much more likely to be exposed to stressful experiences and environments that can negatively influence their development. According to a major study commissioned by the JRF, for example, disadvantaged children are at greater risk

10 Dearden, L., Sibieta, L. & Sylva, K. (2011). The socio-economic gradient in early child outcomes: evidence from the Millennium Cohort Study. *Longitudinal and Life Course Studies*, Vol. 2, Issue 1, pp. 19–40

11 National Scientific Council on the Developing Child (2007). *The Science of Early Childhood Development: Closing the Gap Between What We Know and What We Do*

12 Ibid

13 Ibid

of growing up in “less advantageous early childhood caring environments” than their better-off peers in the early years.<sup>14</sup>

Researchers pointed to differences in “health and wellbeing (e.g. birth weight, breastfeeding and maternal depression); family interactions (e.g. mother–child closeness); the home learning environment (e.g. reading regularly with the child); and parenting styles and rules (e.g. regular bedtimes and mealtimes)” in many cases as being highly formative factors.<sup>15</sup> They also highlighted differences in family background (including, for example, mother’s age, parental education and family size) as strong determinants.<sup>16</sup>

## 1.4 Early development gaps tend to persist

Once attainment gaps appear, they are hard to close. In fact, the weight of early disadvantage tends to grow heavier by the year. Disadvantaged pupils are behind their peers at every key point in their educational passage; according to one prominent study, they are, on average, four months behind at the end of reception year, 11 months behind at the end of primary school and 19 months behind at key stage 4.<sup>17</sup> The same study also calculates that 40 per cent of the attainment gap between disadvantaged 16-year-olds and their peers has already emerged by the age of five.<sup>18</sup>

### **40 per cent of the attainment gap between disadvantaged 16-year-olds and their peers has already emerged by five**

Attainment gaps persist, in part, because children build on what they know. One major study demonstrated this point by analysing data from the Millennium Cohort Study, showing that over half of the gap in development at age five is made up of prior ability. It also shows that this pattern persists right through school, and that 59 per cent of the gap at age 16 can be linked to prior attainment.<sup>19</sup>

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14 Goodman, A. and Gregg, P. (eds) (2010). *Poorer children’s educational attainment: how important are attitudes and behaviour?* York: Joseph Rowntree Foundation [www.jrf.org.uk/sites/default/files/jrf/migrated/files/poorer-children-education-full.pdf]

15 Ibid

16 Ibid

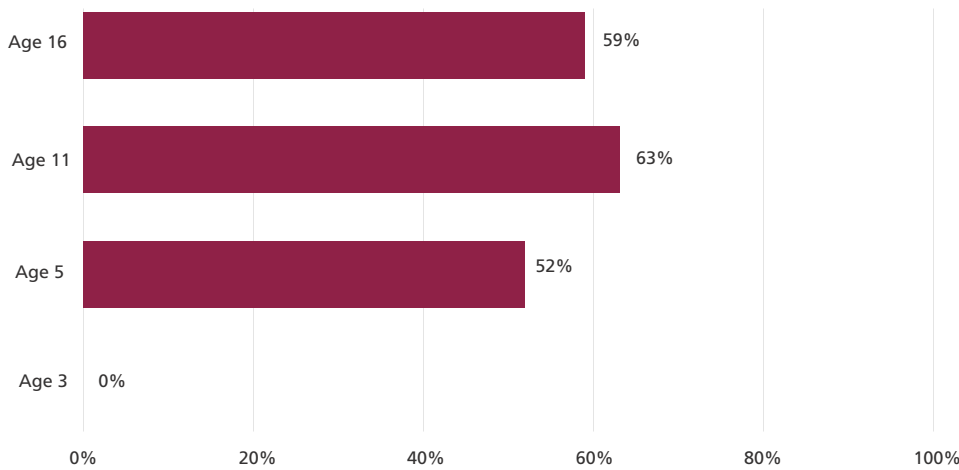
17 Education Policy Institute (2016). *Divergent Pathways: the disadvantage gap, accountability and the pupil premium* [https://epi.org.uk/report/divergent-pathways-disadvantage-gap-accountability-pupil-premium/]

18 Ibid

19 Goodman, A. and Gregg, P. (eds) (2010). *Poorer children’s educational attainment: how important are attitudes and behaviour?* York: Joseph Rowntree Foundation



Figure 3: % of gap in development between disadvantaged children that can be explained by prior ability



Qualifications are a strong predictor of future success, and basic skills lay the foundation for success in the labour market. Literacy and numeracy, in particular, are the bedrock of academic and vocational success, and they are closely linked to early development. Research using the Millennium Cohort Study has shown that a child who struggles at age five is six times more likely not to reach expected levels of literacy and eleven times more likely not to reach expected levels of maths at the end of primary school.<sup>20</sup> The evidence suggests that struggling in the early years also significantly increases the risk of low wages, low qualifications and unemployment in later life.<sup>21</sup>

20 Save the Children (2016). Early language development and children’s primary school attainment in English and Maths: New research findings. Save the Children: London

21 Parsons, S. & Schoon, I. (2011). Long-term Outcomes for Children with Early Language Problems: Beating the Odds. *Children & Society* Vol. 25, pp. 202–214



## chapter two

# Access to good quality childcare can help transform lives

We know that a child's development is driven not just by genes, but also by experiences and environments. This means that a supportive environment can have a profoundly positive impact on a child's future, even for children growing up in poverty. The parental support a child receives is a vital, powerful determinant of a child's environment and in chapter one we provided a very brief exposition of some of the ways in which family environments can shape attainment. In separate literature, the CSJ further expands these arguments and outlines what the Government can do to support more parents who might benefit from effective engagement. And many of Save the Children's programmes in England directly help parents to better support their children's early learning during these crucial years. However, the purpose of this report is to look specifically at affordability, complexity and families' ability to access quality childcare, which is itself another important determinant of the environment in which children might find themselves. It is this to which we now turn our attention.

In this report, we use the term "childcare" to mean any type of formal preschool childcare and early education, where the provider is registered with Ofsted and delivers the early years foundation stage curriculum. This includes both maintained (state-run) childcare settings (such as nursery schools or nursery classes in schools) and settings in the private, voluntary and independent sector (including day nurseries, childminders, playgroups and independent schools).

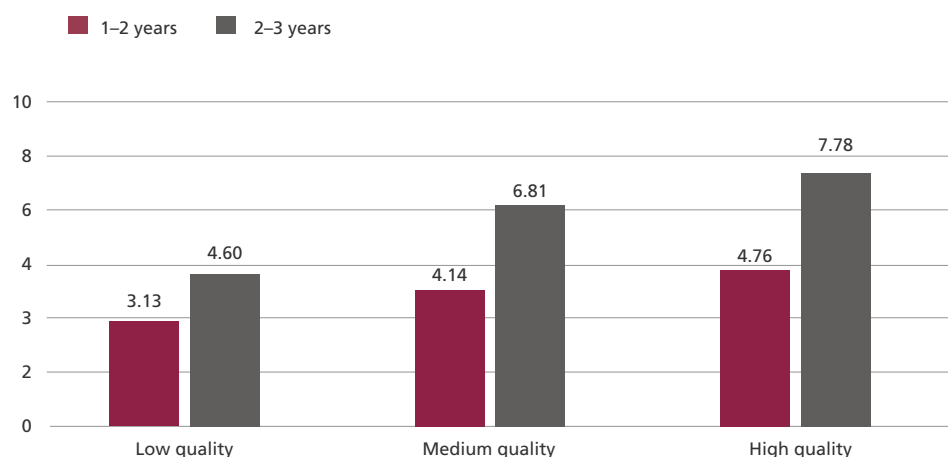
### 2.1 Good quality childcare can have a powerful influence on children's early development

An established body of evidence shows that childcare can have a positive influence on children's early development, particularly when the quality is high. For example, in England the Effective Provision of Pre-School Education project (EPPE) demonstrates that attending high quality provision can have positive benefits for children's development, particularly the most disadvantaged. The EPPE study was carried out between 1997 and 2013 and followed a cohort of children from age 3 through primary and secondary school.

As outlined in Figure 4, children who attend high-quality settings for one to two years start school 1.6 months ahead of their peers who attend low-quality settings, and 4.8 months

ahead of children who attend no provision. Children who attend high-quality settings for two to three years start school 3.2 months ahead of their peers who attend low-quality settings, and 7.8 months ahead of children who attend no provision.

Figure 4: Developmental advantage (in months) for duration and quality of pre-school on literacy at school entry (home as comparison)



Taggart, B., Sylva, K., Melhuish, E., Sammons, P., Iram Siraj, I. (2015). Effective pre-school, primary, and secondary education project (EPPSE 3–16+). How pre-school influences children and young people/s attainment and developmental overcomes over time. Department for Education: London

The EPPE project also suggests that attending childcare can have a lasting positive impact. It shows, for instance, that attending any type of childcare increases the probability of obtaining five or more good GCSE passes by 8.4 per cent, and that the effect is disproportionately higher for disadvantaged children. Where provision is rated as high quality, there are even greater benefits; attending a high-quality setting increases the likelihood of achieving five or more good GCSE passes by just under 20 per cent relative to a low-quality setting.<sup>22</sup>

**Children who attend high-quality settings for 2–3 years are almost 8 months ahead of children who attend none.**

The Study of Early Education and Development (SEED) also demonstrates positive effects. Commissioned by the DfE and launched in 2013, this major longitudinal study tracks the progress of 8,000 two-year-olds from across England to the end of Key Stage 1 and provides rich evidence on the impact of childcare. A recent report, published as part of the study, found that childcare between the ages of two and three positively shaped cognitive and socio-emotional outcomes. It associated formal childcare, whether group-based (for example, nurseries and playgroups) or delivered by individuals (i.e. childminders), with better socio-emotional outcomes, and other types of informal childcare with higher cognitive verbal ability. The same SEED report also found that these benefits were independent of wider demographic and home environmental factors.<sup>23</sup>

22 Cattan, S., Crawford, C., Dearden, L. (2015). The economic effects of pre-school education and quality. IFS: London, 2015

23 Melhuish, E. & Gardiner, J. (2018). Study of Early Education and Development (SEED): Study of Quality of Early Years Provision in England (revised). [[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/723736/Study\\_of\\_quality\\_of\\_early\\_years\\_provision\\_in\\_England.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723736/Study_of_quality_of_early_years_provision_in_England.pdf)]

## 2.2 Childcare gives parents the choice to work

As well as improving development, childcare can give parents the freedom and choice to work, presenting them with the opportunity to boost household incomes and enjoy the attendant benefits that flow from this. Of course, not all parents will want to work when their child is young but many parents, particularly mothers, do want to work and find that they cannot access the kind of affordable, quality childcare that would help them to make the transition into work.<sup>24</sup>

### 2.2.1 Help with childcare can support disadvantaged families into work and transform their lives

Paid work remains one of the best routes out of poverty for families with children. Whether its effect is to turn a workless household into a working household, or to boost income in a working household, work can be a powerful agent of life change.<sup>25</sup> It is particularly important to help families with young children to avoid poverty because of the impact that poverty can have on children's early development. Where parents want to work when their children are young, supporting them to do so could help to boost children's early learning by raising household incomes.

According to the Department for Work and Pensions (DWP), almost three quarters of workless families (74 per cent) who gain full-time employment move out of relative poverty.<sup>26</sup> In some cases, it is not possible for one working parent alone to raise enough income for his or her household (according to the IFS, one-third of children living in relative poverty were children of one-earner couples) and a second earner can make all the difference.<sup>27</sup> Increasing existing working hours can also have a substantial impact; 75 per cent of families who increase their earnings by moving from part-time to full-time employment exit relative poverty.<sup>28</sup>

#### **Almost three quarters of workless families who gain full-time employment move out of relative poverty.**

Increasing maternal employment, specifically, could lead to significant gains in household incomes, which would help to reduce child poverty – including among families struggling with in-work poverty. Figure 5, which shows a correlation between the proportion of mothers in work and household income, helps to illustrate this point. And according to one recent study, families in which mothers move from being unemployed to employed, or move from part-time to full-time work, realise income gains of 20 per cent or more, and the lowest earning families realise the biggest impact.<sup>29</sup>

24 Save the Children (2018). Lost incomes, lost opportunities. London: Save the Children

25 Also see: HM Government, Child Poverty Strategy 2014–17, Jun 14 [www.gov.uk/government/uploads/system/uploads/attachment\_data/file/324103/Child\_poverty\_strategy.pdf]

26 Department of Work and Pensions (2015). Child poverty transitions: Exploring the routes into and out of child poverty, 2009–2012 [www.gov.uk/government/uploads/system/uploads/attachment\_data/file/436482/rr900-child-poverty-transitions.pdf]

27 IFS (2017). In-work poverty among families with children [www.ifs.org.uk/uploads/publications/comms/r129\_ch5.pdf]

28 With 'full employment' defined as lone parents working 30 or more hours per week, or couples where both parents are working and at least one of them is working 30 or more hours per week; and 'part employment' defined as lone parents working fewer than 30 hours per week, couples both working fewer than 30 hours per week, or couples with one parent working the other workless.

29 Thompson & Ben Galim (2014). Childmind the gap. Reforming childcare to support mothers into work [www.ippr.org/files/images/media/files/publication/2014/02/childmind-the-gap\_Feb2014\_11899.pdf]

Figure 5: Proportion of children in households with a mother in employment by total gross household income, 2017



CSJ/Save The Children analysis of Department for Education Childcare and Early Years Survey of Parents 2017

The benefits of working also extend far beyond income. Children in workless families, for example, are almost twice as likely as those in working households to fall behind at every stage in their education.<sup>30</sup> They are also more likely to experience worklessness themselves as adults, thereby fuelling intergenerational disadvantage.<sup>31</sup> And the potential for suitable work to improve physical and mental wellbeing is well established.<sup>32</sup> Yet despite all of the benefits that work can bring to a family, and although numbers have fallen sharply in recent years, 1.1 million children in England still live in workless households.<sup>33</sup>

### 2.2.2 The overall rate of maternal employment in England is modest, and the employment rate in certain cohorts is relatively low, which means there is scope to support further employment

Overall employment in England is high. However, there are cohorts who experience low relative employment. There is, for instance, a sizeable gap in the employment rates of mothers with young children, on the one hand, and those with older children, on the other; 71 per cent of partnered mothers whose youngest child is 3–4 are employed, while the figure for mothers whose youngest child is aged 11–15 is much higher at 82 per cent. While the employment rates for mothers of 0–2-year-olds and 3–4-year-olds are around the same, a higher proportion of mothers of 3–4-year-olds are registered as unemployed, suggesting that mothers are more likely to look for work when their children turn three.

### 1.1 million children in England live in workless households.

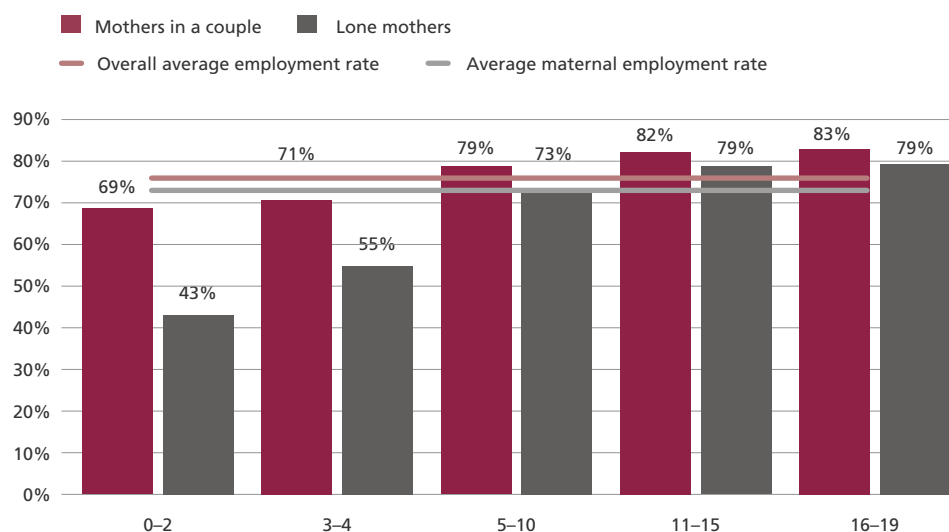
30 Department for Work and Pensions (2017). Improving Lives: Helping Workless Families [www.gov.uk/government/uploads/system/uploads/attachment\_data/file/621364/improving-lives-helping-workless-families-web-version.pdf]

31 Ibid

32 One of the most influential studies on this was the independent review published by DWP in 2006: Waddell G, Burton AK. Is Work Good for your Health and Well-being?, London: TSO, 2006 [www.gov.uk/government/uploads/system/uploads/attachment\_data/file/214326/hwwwb-is-work-good-for-you.pdf]

33 Save the Children/CSJ analysis of the Labour Force Survey, October to December 2017

Figure 6: Employment rate of mothers living with dependent children, by family type and age of the youngest child, January to March 2018, England



CSJ/Save the Children analysis of the Labour Force Survey, 2018 Q1

Among lone mothers, the difference is particularly pronounced. 43 per cent of lone mothers whose youngest child is aged 0–2 are employed (and 55 per cent for those whose youngest child is 3–4), while the figure for mothers whose youngest child is aged 11–15 is 79 per cent. Levels of economic inactivity are also high for lone mothers of young children; 50 per cent of lone mothers with children aged 0–2 are classified as inactive, compared to 30 per cent of partnered mothers.

### 2.3 Many mothers want to work but see problems with childcare as a major barrier

In helping parents to overcome poverty, through work, the key is to ensure that mothers and fathers have choices about how to balance work and family life. Not all parents will want to work when their child is young and it is vital that all parents, whether working or not, feel they can spend lots of quality time with their child, especially in the early years. This is important for children’s early learning and development, and for promoting strong family relationships. However, there is an important role for public policy to enable parents – including lone parents and both parents in couple families – to work if they want to, and in a way that enables both mothers and fathers to play an active part in their child’s early life.

A key public policy challenge identified in this report is that many mothers *want* to work when their child is young but feel prevented from doing so because of the lack of appropriate support for childcare. When responding to the Department for Education’s (DfE) most recent Childcare and Early Years Survey, the number one reason non-working mothers gave for not working was childcare issues.<sup>34</sup> A much smaller proportion of non-working mothers cited other reasons, like preferring to look after their children

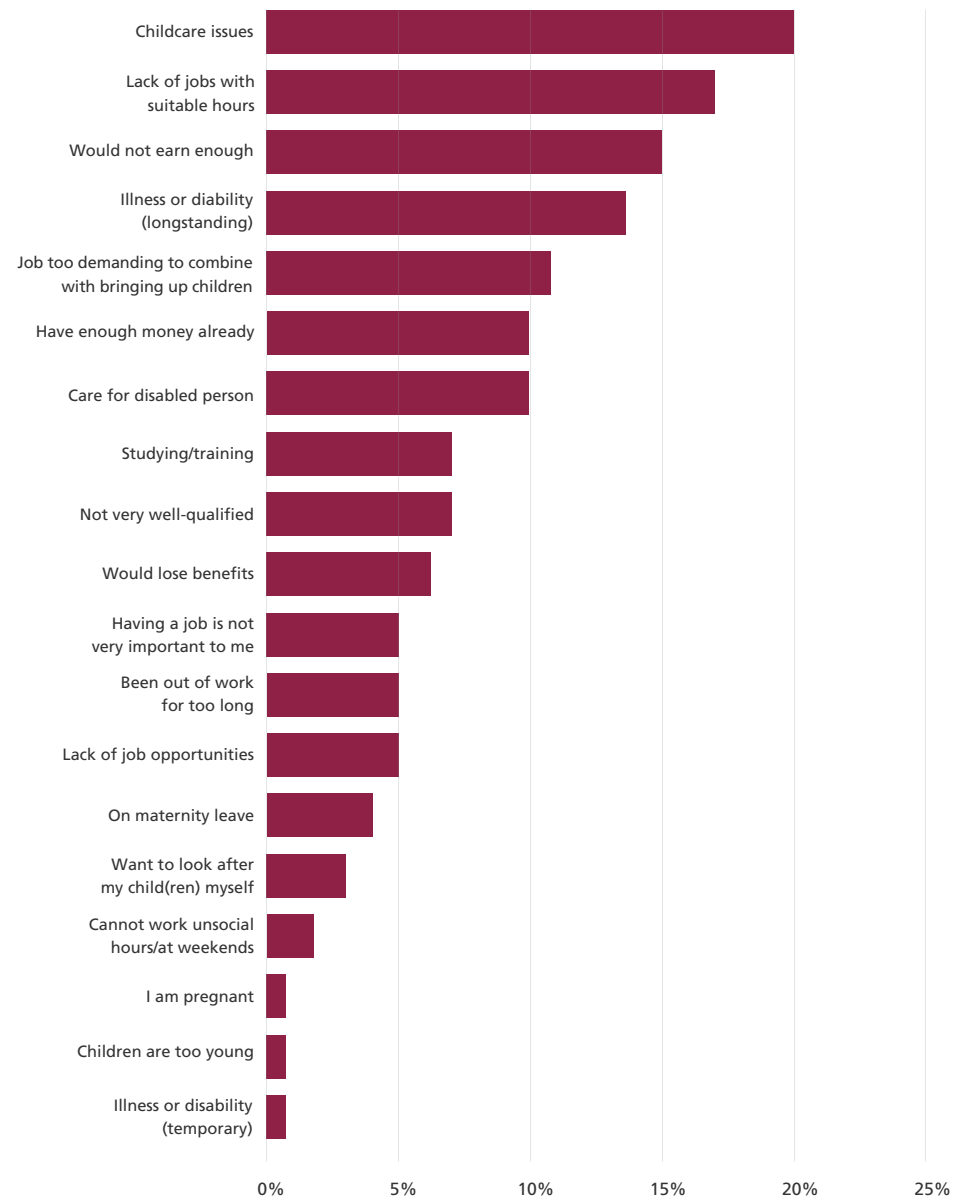
<sup>34</sup> Department for Education (2017). Childcare and early years survey of parents: 2017 [www.gov.uk/government/statistics/childcare-and-early-years-survey-of-parents-2017]

themselves, lack of job opportunities, or having been out of work for too long, as reasons for not working. Figure 7 sets out the results of the survey in full.

**50 per cent of non-working mothers would prefer to work if they could arrange suitable childcare.**

This suggests that, while not working is certainly a proactive choice for some, in many cases the more powerful behavioural drivers at play are structural factors that constrain their choices, such as not being able to find suitable childcare, not finding jobs with suitable hours, or financial opportunity cost. This notion is supported by further data from the same DfE survey, according to which 50 per cent of non-working mothers said that, if they could arrange good quality childcare which was convenient, reliable and affordable, they would prefer to work.

Figure 7: Reasons for not working among non-working mothers, 2017



DfE Childcare and Early Years Survey of Parents 2017



We recognise that good-quality, affordable childcare is only one element of the support that parents with young children need in order to return to work. Parents will also need access to decent jobs that pay a good wage and working hours that fit with family life. For many parents, this will mean good-quality part-time work or other flexibilities that enable them to combine paid work with care for a young child. Parents typically face many challenges in finding these kinds of jobs. Nevertheless, the evidence above is clear that access to appropriate childcare is one of the biggest barriers facing parents who want to work.

#### 2.4 The rest of this report

Our analysis has clear implications for public policy. We know that childcare supports healthy development. We know that work can lift families out of poverty, and that there is scope to support employment among certain groups because employment rates in those cohorts are relatively low. And it is clear that while many mothers want to work, they are prevented from doing so because they perceive problems arranging childcare. There is, therefore, a clear need to explore how the government can dismantle these barriers.

We recognise, however, that childcare policies do not operate in a vacuum. Other important forces, such as broader labour market trends, employment support policies and cultural values, can also shape maternal employment rates and take-up of childcare support. And the recommendations outlined in this report are made with this in mind. Strengthening support for families to access appropriate childcare is not the single solution for the challenges of inequalities in early child development or child poverty highlighted in this chapter. Rather, it is one element of a wider package of support that families need. Both the CSJ and Save the Children have wider programmes of work in place to address some of these further challenges.

In the rest of this paper, we explore two particular facets of childcare policy: complexity and affordability. There are, of course, other powerful factors that determine the suitability of state-funded childcare support, but our focus in this report is on these two elements. We show that much can be done in both areas to extend the gains associated with childcare to many more families experiencing poverty and disadvantage.



## chapter three

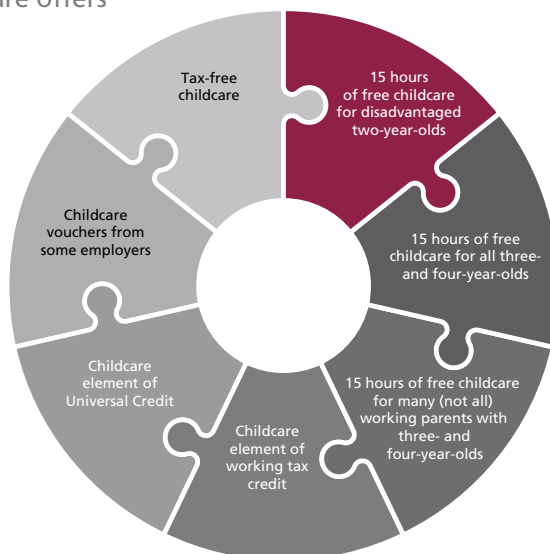
# Reducing complexity for parents in the system of childcare support

There are many reasons why parents might choose not to take up childcare support, but we want to make sure that nobody who would have chosen to use it misses out due to avoidable complexity. And we are concerned that this appears to happen, as evidence in this chapter will demonstrate. The system of childcare support is complex and there are pockets of relatively low take-up, particularly among more disadvantaged families. In this chapter, we explore the extent to which the low take-up and the complexity of support on offer are connected, drawing both on existing literature and our own new research, before making recommendations to government. We argue that low take-up is partly driven by the complexity of support and government could improve take-up and the support it offers to parents by tackling complexity.

### 3.1 The system of childcare support is a patchwork of complexity

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.

Figure 8: Childcare offers



To add further complexity, the childcare element of Working Tax Credit (WTC) is being replaced incrementally by the childcare element of Universal Credit (UC), and Tax-Free Childcare (TFC) is being gradually rolled out to replace the employer voucher scheme, the latter of which no longer accepted new entrants from October 2018.

As well as the complexity that exists in the diversity of offers, there is also complexity in the way each operates. Some offers are channelled directly to providers and others are paid to parents, and each subsidy is designed to be claimed according to different rules and administrative processes. A number of critics have highlighted the system's lack of coherence.<sup>35</sup>

## 3.2 Take-up of childcare support varies and we lack robust data to build a clear picture, but low take-up often appears to be linked to disadvantage

It is hard to know precisely how high take-up (the proportion of eligible families that actually use different forms of support) is across all types of support. This is particularly true of subsidies that fall outside the suite of free-hour offers, in relation to which there is a paucity of data. However, there are distinguishable pockets of relatively low take-up and disadvantage appears to be linked in these cases.

### 3.2.1 Free-hour offers

The Government's free hours offer is split into three tranches:

- two-year-old children are eligible for 15 hours per week, over a 38-week period, if their parents are on low incomes or receive certain benefits (eligibility is equivalent to the bottom 40 per cent of household incomes);<sup>36</sup>
- all three and four-year-old children are entitled to 15 hours of free childcare per week, across 38 weeks of the year, no matter what their parents' circumstances;<sup>37</sup> and
- three and four-year-old children are entitled to 30 hours of free childcare per week, across 38 weeks of the year, if both parents are in work and earning at least £125.28 per week (the equivalent of 16 hours per week at the national living wage), but neither parent is earning more than £100,000 a year.<sup>38</sup>

Figure 9 outlines national uptake of the first offer for eligible families from 2015 (when it was introduced) and the second universal, 15-hour offer between 2011 and 2017, the latter of which is split into take up at the three- and four-year-old points. Statistics are not included for the 30-hour offer, as the government only introduced this offer in September 2017.

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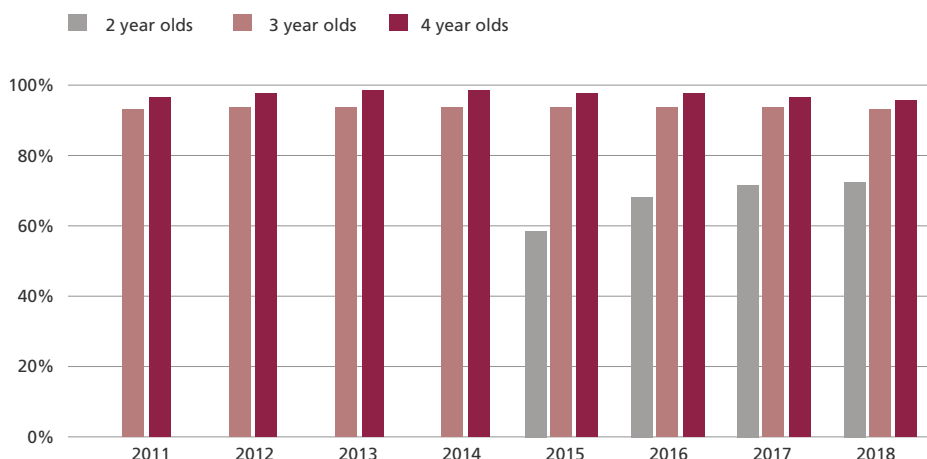
35 See, for example, Bourne, R. and Shackleton, J. R. (2017). Getting the State out of Pre-School & Childcare: Ending the nannying of UK parents, London: Institute of Economic Affairs [<https://iea.org.uk/wp-content/uploads/2017/02/Getting-the-State-out-of-pre-school-childcare.pdf>]

36 Full eligibility criteria can be found at GOV.UK, Help paying for childcare [[www.gov.uk/help-with-childcare-costs/free-childcare-2-year-olds](http://www.gov.uk/help-with-childcare-costs/free-childcare-2-year-olds)]

37 Ibid

38 Ibid

Figure 9: % uptake of the two-year-old offer and the universal 3/4-year old offer (2011–2017)

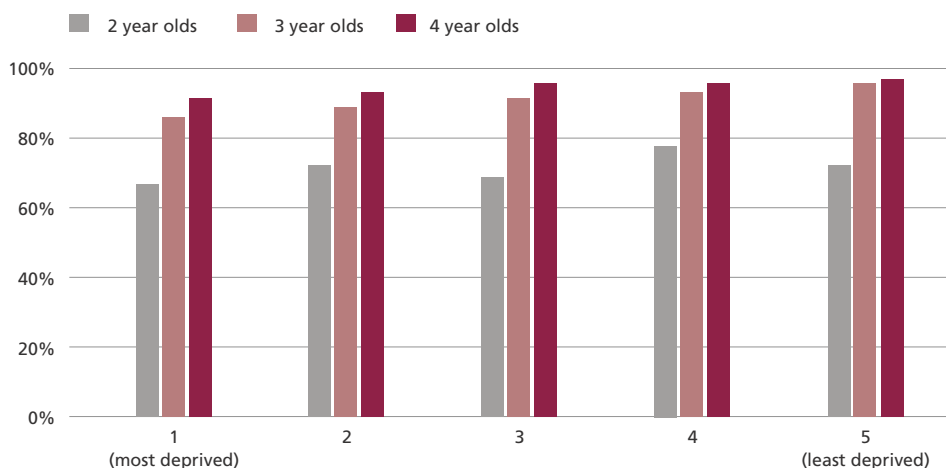


Department for Education (2018). Provision for children under five years of age in England, January 2018, London: DfE, June 2018

Nationally, take-up of the universal 15-hour offer for three and four-year-olds is high and has remained consistently above 90 per cent since 2011 – in relation to both age categories. However, take-up of the 15-hour two-year-old offer was only 72 per cent in the most recent statistical release and we know that as many as 67,000 families are not making use of this offer.<sup>39</sup>

As Figure 10 illustrates, the national picture also masks clear drops in uptake in areas of deprivation – in relation to both of these subsidies. When it comes to take-up of the two-year-old offer, there is a 5-percentage point gap between the most and least disadvantaged areas. In relation to the universal 15-hour offer, at the three-year-old point the gap is nine percentage points, and five percentage points at age four.

Figure 10: % uptake of the two-year-old offer and the universal 3/4-year old offer by area deprivation (2018)



Department for Education (2018). Provision for children under five years of age in England, January 2018, London: DfE, June 2018

39 Department for Education (2018). Provision for children under five years of age in England, January 2018 [www.gov.uk/government/statistics/education-provision-children-under-5-years-of-age-january-2018]

Some local authority areas, too, experience particularly low levels of take-up for some of the free childcare entitlements. An investigation by the National Audit Office, for example, highlighted a number of local authorities in which take-up was particularly low in 2015; in thirty local authorities uptake of the two-year-old offer was lower than the then national level of 58 per cent, and in Tower Hamlets this rate was just 26 per cent.<sup>40</sup> And although the national average take-up of the two-year-old offer has increased to 72 per cent, some local authority areas still lag behind; for instance, in five local authorities in 2018, less than half of eligible families took up this offer.<sup>41</sup>

Other studies also link low take-up of childcare to disadvantage. A recent study looking at take-up of the free entitlement in England found that children from families with persistently low incomes, as well as children from some ethnic minority groups and who speak English as an additional language, were significantly less likely to access the free entitlement.<sup>42</sup> Similarly, a study from Germany found that children from disadvantaged backgrounds were less likely to access childcare, despite seeing the greatest benefits from attending. This is linked to a number of factors, including that their parents are less likely to work, more likely to have negative perceptions of formal childcare, and have a lower understanding of the benefits to the child.<sup>43</sup>

As the Government only introduced the 30-hour offer in 2017, there is very little data on the number of eligible families that take it up. It is, therefore, hard to know the extent to which lower-income families have made use of this offer. The most recent data available shows that 297,000 children accessed the offer in January 2018 – 23% of all three- and four-year-olds.<sup>44</sup> However, as we do not have figures on the number of children eligible for 30 hours, it is difficult to assess the level of take-up among eligible families. Nevertheless, as 30 hours is aimed at families with two full-time working parents, the majority of families accessing it will be higher-income.

### 3.2.2 Childcare support in Working Tax Credit (WTC) and Universal Credit (UC)

WTC is a means-tested benefit that supports families who are working but on low incomes. It is being phased out incrementally and replaced by Universal Credit (UC) which subsumes it, along with five other means-tested existing benefits, to simplify and modernise a fragmented patchwork of existing benefits. Both WTC and UC contain a childcare element, which provides additional financial support for families who have children and meet particular work requirements. Respectively, they require a minimum 30 per cent or 15 per cent contribution from parents to the cost of care and the Government pays for the rest, dependent on family income and up to a monthly cap. (We outline further details about the mechanics of these benefits in section 4 of this report.)

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40 National Audit Office (2016). Entitlement to free early education and childcare, London: NAO, Mar 16 [www.nao.org.uk/wp-content/uploads/2016/03/Entitlement-to-free-early-education-and-childcare.pdf]

41 Department for Education (2017). Provision for children under five years of age in England, January 2017, London: DfE, Jun 17 [www.gov.uk/government/uploads/system/uploads/attachment\_data/file/622632/SFR29\_2017\_Text.pdf]

42 Campbell, T., Gambaro, L., & Stewart, K. (2018). Universal Early Education: Who Benefits? Patterns in take-up of the entitlement to free early education among three-year-olds in England. *British Educational Research Journal*

43 Cornelissen, T., Dustmann, C., Raute, A. & Schönberg, U. (2018). Who benefits from universal child care? Estimating marginal returns to early child care attendance. London: Centre for Research and Analysis of Migration

44 Department for Education (2018). Provision for children under five years of age in England, January 2018, London: DfE, Jun 18 [www.gov.uk/government/statistics/education-provision-children-under-5-years-of-age-january-2018]

It is very difficult to determine the extent to which parents make use of childcare support in either case. While the Government publishes data on parents who receive the childcare element of WTC, we do not have information on those who are eligible but do not use it; the last time the Government collected this data was in 2008–2009 and on that occasion, 81 per cent of eligible families took up the childcare element of WTC, which meant that as many as 107,000 families were not claiming it.<sup>45</sup>

Take-up of the childcare element in UC is also very hard to gauge with any degree of confidence, this time because it is so nascent. The latest available data suggests that around one per cent (6,800 out of 660,000 households) use the childcare support available through UC,<sup>46</sup> but this is not at all representative. In the early stages of UC's rollout, the Government limited eligibility to claimants in less complicated circumstances – primarily single jobseekers without dependent children. As the Government rolls out UC throughout 2018 and beyond, the take up rate of its childcare element is likely to rise considerably, particularly given the conditionality requirements and improved work incentives that apply. Officials estimate that half a million households will benefit from this offer by the time all claimants have migrated to the new system in 2022.<sup>47</sup> But we simply do not know at this stage.

In the meantime, the Government has a prime opportunity to draw lessons from disadvantaged parents' experiences of engaging with the WTC system, and to put in place measures that will maximise the impact of its UC replacement. In section 4.5 of this report, we outline some of the ways in which the Government might do this and in this chapter, we make broader recommendations around complexity in the system, including how information flows can be organised and targeted more efficiently to make sure all parents know their options and how to make use of them.

### 3.2.3 Tax Free Childcare (TFC)

Childcare vouchers are currently offered by an estimated 50,000 employers.<sup>48</sup> These offset tax contributions in parents' pay packets to support them with their childcare costs. The Government estimates that some 600,000 families are currently in receipt of the vouchers.<sup>49</sup> In February 2018, the Government introduced TFC to support medium- and higher-income families with 20 per cent of their childcare costs (up to a maximum subsidy of £2,000 per child, per year). TFC will replace employer vouchers, which have been criticised for excluding the self-employed and workers whose employers do not participate in the scheme.

We have no detailed statistics on take-up for either the employer voucher offer or the newly introduced TFC offer that is replacing it, and so we cannot present any data for these subsidies. Given the ineligibility of many low-income families for TFC, achieving mass take-up is less of a priority for us in this report and we focus instead on ensuring that support reaches the families most in need. However, limiting complexity and ensuring that

45 HM Revenue & Customs (2011). Working Tax Credit: Take-up of Childcare Element 2008–09, London: HMRC, 11 [<http://webarchive.nationalarchives.gov.uk/20140108151503/http://www.hmrc.gov.uk/statistics/fin-takeup-stats/takeup-childcare.pdf>]

46 Department for Work and Pensions (2018). Stat-Xplore – Mar 18 [<https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml>]

47 Department for Work and Pensions (2016). '£300 million childcare boost for hard-working families under Universal Credit', Press Release, Apr 16 [[www.gov.uk/government/news/300-million-childcare-boost-for-hard-working-families-under-universal-credit](http://www.gov.uk/government/news/300-million-childcare-boost-for-hard-working-families-under-universal-credit)]

48 Cromarty, H. (2018). Childcare Vouchers and Tax-Free Childcare – Frequently Asked Questions, HoC Briefing Paper 08055, London: House of Commons, Jan 18 [<http://researchbriefings.files.parliament.uk/documents/CBP-8055/CBP-8055.pdf>]

49 Ibid

parents have a clear understanding of the scheme is crucial in supporting families as they move off other benefits, and to prevent families from potentially slipping down the income scale because they are unclear about the support they can receive. We therefore include recommendations on TFC in this report insofar as they advance this.

### 3.3 Complexity seems to contribute to pockets of low take-up, particularly among more disadvantaged families, but there are gaps in our understanding

There are, of course, reasons why families might choose not to engage with the system of childcare support and use support to which they are entitled. Yet there is evidence that complexity could be a key driver. Many parents seem to be unaware about the support they are able to claim, how the system of support works, and how to successfully navigate their options.

For instance, the Department for Education recently found that only around half of all parents (48 per cent) felt that the information available to them about childcare was about right, while a third (31 per cent) felt there was too little information.<sup>50</sup> The Social Mobility Commission found that just under half of all parents (47 per cent) had no idea, or were confused about, the support that was available to them.<sup>51</sup> The childcare element of WTC, too, has been criticised for being too complex and the House of Lords Affordable Childcare Committee outlined how this can act as a barrier to uptake.<sup>52</sup>

Evidence also links lower-income families, specifically, with low awareness of existing childcare support. The same Social Mobility Commission study referred to in the paragraph above, for instance, found that the proportion of parents who had no idea, or were confused about, the support that was available to them was higher among low-income families (54 per cent) than it was for high-income families (36 per cent).<sup>53</sup> And according to a study by the Social Market Foundation, lower-income families had a much lower understanding of childcare support than higher-income peers, the latter of whom were significantly less likely to say they were confused about their options (ABC1: 28 per cent) compared to those in lower groups (D: 42 per cent; E: 39 per cent).<sup>54</sup>

Another recent study found that one in two parents in the most disadvantaged areas were not even aware of the existence of the free entitlement. In this latter study, lack of uptake was particularly evident among parents who had no views on the quality of local provision, availability of places, or affordability of childcare; the researchers felt this strongly indicated that a lack of knowledge or understanding of the system was much more likely to be

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50 Department for Education (2017). Childcare and early years survey of parents: 2017 [www.gov.uk/government/statistics/childcare-and-early-years-survey-of-parents-2017]

51 Gulc, B., Silversides, K. (2016). Parents' experience of services and information in the early years, London: Social Mobility and Child Poverty Commission, Mar 16 [www.gov.uk/government/uploads/system/uploads/attachment\_data/file/505562/SMCPC\_Parents\_Experiences\_Report.pdf]

52 House of Lords Select Committee on Affordable Childcare (2015). Affordable Childcare, London: The Stationery Office Limited, Feb 15 [https://publications.parliament.uk/pa/ld201415/ldselect/ldaffchild/117/117.pdf]

53 Gulc, B., Silversides, K. (2016). Parents' experience of services and information in the early years, London: Social Mobility and Child Poverty Commission, Mar 16 [www.gov.uk/government/uploads/system/uploads/attachment\_data/file/505562/SMCPC\_Parents\_Experiences\_Report.pdf]

54 Ibid



behind low uptake than concerns or issues with the local childcare market.<sup>55</sup> And studies into the two-year-old offer, too, have shown that the level of household disadvantage was the most powerful determinant of whether parents took up the entitlement.<sup>56</sup>

Despite an apparent link between low uptake, complexity and disadvantage, the existing data and literature does not provide enough evidence about the mechanisms through which this link plays out. Understanding this better would help us to identify which aspects of the support system are preventing families from taking up childcare, and it is this to which we now turn our attention.

### 3.4 New research confirms that complexity undermines uptake, and helps us understand how and why it does this, with clear implications for public policy

To better understand the points identified in the previous section of this report, we commissioned NatCen to undertake a qualitative study into low- and middle-income parents' experiences of navigating the system of childcare support, including how this informed their decision-making about work and childcare support. The research drew on focus groups and in-depth interviews with around 60 parents in three locations in England, with each location reflecting particular local childcare markets common in different parts of the country.<sup>57</sup>

The study identified a strong level of confusion about, and lack of awareness of, the different childcare offers that were available, particularly in relation to eligibility. We outline below a number of key findings that emerged from the research.

- Parents relied on multiple sources of information to find out about offers, including online and printed information, and conversations with trusted individuals (e.g. childcare practitioners).
- Parents were much more aware of the suite of free-hour offers than they were of other offers and many were confused about eligibility, even for the free-hour entitlements.
- Areas that caused most acute confusion include the range of information available online; the fact that there were many different eligibility criteria for different offers; application processes; and a lack of transparency about additional costs, such as paying for hours outside the free-hour offers, or deposits and top-up fees.
- While there is a significant amount of information and support available to help parents navigate the complex system of childcare support, this did not appear to be sufficient to enable the majority of parents in the study to inform themselves about the support that is available to them.

55 Speight et al (2010). Towards universal early years provision: analysis of take-up by disadvantaged families from recent annual childcare surveys [<http://dera.ioe.ac.uk/11574/1/DFE-RR066-WEB.pdf>]

56 Speight et al (2015) [ ]

57 The three locations were Ealing, Birmingham and Hartlepool. NatCen's full report, including a description of the research methods is available here: [www.researchgate.net/publication/327601927\\_Low\\_and\\_middle-income\\_parents%27\\_understanding\\_of\\_childcare\\_entitlements\\_A\\_qualitative\\_study](http://www.researchgate.net/publication/327601927_Low_and_middle-income_parents%27_understanding_of_childcare_entitlements_A_qualitative_study)

- In particular, a lack of joined-up information about the different offers means that parents are not fully informed about their entitlements in the round, and information about the free entitlement is often separated from information about other forms of support.
- Information flows also focus very strongly on informing parents about types of support they are currently entitled to, rather than what they could be entitled to if they entered work or increased their hours. This makes it difficult for parents to know all their options and limits the transformative impact of childcare policy.

### 3.5 The Government could take several practical steps to reduce the complexity of the system for parents

It is clear from our research, and the existing body of evidence, that the childcare system is complex to navigate and that some parents – particularly those on low incomes – find it difficult to access support or fully understand their entitlements. While, in part, this is attributable to the complexity of the system itself, it is also driven by information gaps. By plugging these gaps and reducing complexity at the point of use for parents, policy makers would equip parents to make more informed decisions about what works for them. In the rest of this chapter, we outline a suite of practical recommendations that, if implemented, would help achieve this.

#### 3.5.1 The flow of existing information and advice is fragmented, and parents would benefit from a more coherent, joined-up approach

Existing information and advice services are divided too rigidly. For instance, local authorities and childcare providers focus largely on the free hours entitlement, while information about UC and TFC is disseminated through separate channels. A less disjointed approach would improve parents' understanding of all their options at any given time, allowing them to choose what might work best for them. There is scope to achieve this in relation to existing online resources and in the way that local authorities operate.

#### Government websites

We know from the NatCen research we commissioned that perceptions of government websites vary according to parents' digital acumen. Parents with high digital literacy thought government websites were a useful and trusted resource, and those parents found them simple and accessible. However, parents who were less comfortable using online resources found the websites confusing and difficult to use, therefore tempering their full potential. In some cases, parents were confused due to the number of different websites and in other cases because they found specific sites hard to navigate. It would, therefore, be helpful for policy makers to consolidate and simplify online resources.

There are a number of government websites that provide help with childcare support:

- *Childcare Choices* – a standalone website run by DfE and Treasury, which allows parents to compare different options and find out which schemes they are eligible for;<sup>58</sup>
- *Help paying for childcare* – a page on gov.uk outlining the various schemes and their specificities;<sup>59</sup>

58 HM Government: Childcare Choices [www.childcarechoices.gov.uk/]

59 HM Government: Childcare you can get help paying for [www.gov.uk/help-with-childcare-costs]

- *Childcare Calculator* – a page on gov.uk that allows parents to assess their eligibility for different support schemes by submitting personal details;<sup>60</sup> and
- *Find free early education and childcare*, a page on gov.uk where parents can get information about childcare in their local area by providing their postcode.<sup>61</sup>

The qualitative research we commissioned from NatCen found that low- to middle-income parents most frequently used *Help paying for childcare*, while most were not aware of the Childcare Choices website. This builds on research published by the Coram Family and Childcare, which found that almost half of parents thought it was difficult to apply for financial support on this website.<sup>62</sup> The problems they had may be attributable to the fact that Childcare Choices was relatively new at the time of this research, but it is nonetheless questionable whether parents need both websites.

The Government should review the Childcare Choices website to assess its use relative to *Help paying for childcare*. The information on the Childcare Choices website largely duplicates what is available on the *Help paying for childcare* page, but it is set out in more detail and in a more accessible and engaging format. It may, therefore, be useful to provide a link to the Childcare Choices website on the gov.uk pages and remove the detailed information on the latter website. Alternatively, officials could merge the information on the Childcare Choices website with the gov.uk page so that all the information is in one place. Any of these changes should take account of, and provide information on, the difference supports that are available to parents in each of the nations of the UK.

### Local authorities

Local authorities can play a key role in advising parents on childcare support, particularly given the information they hold about childcare provision and their legal responsibilities in providing information to parents. However, their impact is not as strong as it could be. They are legally required to provide parents with information on free-hour offers and local childcare provision, but not on other forms of support.<sup>63</sup> Family Information Services (FIS) help them meet this duty; these services are maintained locally (either by local authorities or regionally), meaning that they do not share a centralised database or interface. The services are ‘joined up’ online only insofar as the Coram Family and Childcare’s third-party Childcare Finder website allows parents to find their local FIS from a single online search engine,<sup>64</sup> although we appreciate that local authorities have had to operate in a tighter budgetary environment, and that this may in some cases have aggravated the problem.

The evidence suggests that the quality of individual FIS websites varies significantly from area to area, and only a small proportion of parents use these services. The latest *Childcare and early years survey of parents*, for instance, found that only 8 per cent of parents had

60 HM Government: Check what help you could get with childcare costs [www.gov.uk/childcare-calculator]

61 HM Government: Find free early education and childcare [www.gov.uk/find-free-early-education]

62 Coram Family and Childcare (2018). Treasury Select Committee Childcare Inquiry Evidence from the Coram Family and Childcare, Treasury Committee Childcare enquiry, Feb 18 [http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/childcare/written/78146.pdf]

63 Department for Education (2017). Early education and childcare: Statutory guidance for local authorities [www.gov.uk/government/uploads/system/uploads/attachment\_data/file/596460/early\_education\_and\_childcare\_statutory\_guidance\_2017.pdf]

64 See Coram Family and Childcare: Find your Family Information Service [http://findyourfis.familyandchildcaretrust.org/kb5/findyourfis/home.page]

used FIS to find out about the entitlements available to them.<sup>65</sup> And according to another survey, over two thirds of parents were unaware that the service even existed.<sup>66</sup>

The NatCen research we commissioned adds further depth to these insights. We learned that, although government websites often directed parents to their local authorities for specific information on childcare offers, parents did not typically think that local authority sources were reliable sources. Parents also thought the quality of the information was variable. In some instances, local authorities did not provide information on relevant offers, and on other occasions they simply redirected parents to online sources. Government or local authority-sponsored adverts (including posters, banners, leaflets and local radio adverts), on the other hand, were far more effective.

In the context of these findings, more proactive and co-ordinated outreach may be more effective. We know from impact assessments of the two-year-old offer that information is more successfully channelled when local authorities work with other local agents, including health visitors, childcare providers and jobcentre staff,<sup>67</sup> and this could serve as a template for action. The DfE, DWP and HM Treasury should encourage and support local authorities to work with other agents to provide more joined-up advice, and to provide a broader suite of advice that also covers TFC and the childcare element of UC. Touch points could include banners, leaflets, information provided by health visitors, and targeted outreach (the latter of which we discuss in more detail below).

### 3.5.2 Parents' circumstances differ and more targeted information would likely equip them to make choices that work best for them

Many existing information services inform parents about the types of support they are currently entitled to, rather than the support they could get if they moved into work or worked more hours. For example, information on the 30-hour offer is largely aimed at parents who already work, while information about the childcare element of WTC tends to be directed at individuals who receive this benefit. By adopting rigid approaches to information flow, officials miss the opportunity to inform parents in more transformative ways. Policy-makers should opt for a more dynamic approach, allowing parents to see the broader picture when deciding whether to work. We identify several possible ways to do this below.

#### **Work coaches**

UC is transforming the way in which claimants are supported. The intention is that dedicated work coaches are able to develop productive dialogues with individuals over time and adapt to their needs as they change. There is, therefore, strong potential for work coaches to use the contact time they have with individuals to inform them about all their childcare options. However, to do this as effectively as possible, coaches must have a strong grasp over those options in the first place, and the capacity to explore them.

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65 Coram Family and Childcare (2016), The work of Family Information Services in England in 2015 [[www.familyandchildcaretrust.org/file/3564/download?token=Gla0zD5HJ](http://www.familyandchildcaretrust.org/file/3564/download?token=Gla0zD5HJ)]; Department for Education (2017), Childcare and early years survey of parents 2017 [[www.gov.uk/government/statistics/childcare-and-early-years-survey-of-parents-2017](http://www.gov.uk/government/statistics/childcare-and-early-years-survey-of-parents-2017)]

66 Department for Education (2016). Childcare and early years survey of parents 2014 to 2015 [[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/516924/SFR09-2016\\_Childcare\\_and\\_Early\\_Years\\_Parents\\_Survey\\_2014-15\\_report.pdf.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/516924/SFR09-2016_Childcare_and_Early_Years_Parents_Survey_2014-15_report.pdf.pdf)]

67 Hemsall Consultancies (2015). Achieving for all eligible two-year-olds: Learning from what works [[www.hemsallconsultancies.com/assets/attachments/pages/Learning%20from%20What%20Works%202015.pdf](http://www.hemsallconsultancies.com/assets/attachments/pages/Learning%20from%20What%20Works%202015.pdf)]

There is some evidence to suggest that claimants are not always informed by work coaches of childcare support under UC. For instance, a study for the DWP found that two thirds of claimants with children were aware that they could claim back childcare costs. In follow-up discussions with parents who had taken part in the survey, the research found that only some claimants had been made aware of the childcare element by their work coach. Some of the claimants interviewed had been given conflicting information through different sources, and many were confused about which forms of childcare support were part of UC.<sup>68</sup> A more recent survey for the DWP made similar findings about awareness of the support; just under two-thirds of claimants were aware that they could claim back childcare costs.<sup>69</sup>

The parents who participated in the NatCen research did not receive childcare support through UC but some parents had found out about childcare offers from jobcentres, and saw this as a useful and trustworthy source of information. It is crucial that we make full use of the enormous potential work coaches have to address any confusion around the UC childcare offer, and to inform individuals about all their childcare options. To maximise the impact of this valuable touch-point, DWP should:

- ensure work coaches are highly trained on the childcare element of UC, and work with DfE to train work coaches on all other aspects of childcare support; and
- assess the extent to which there might be further scope for work coaches to inform claimants about all their childcare options, even if conditionality does not apply to them, and offer relevant training where this might be helpful.

### Written communications

The NatCen research we commissioned found that parents valued targeted written communications such as annual tax credit statements and letters, particularly when they highlighted different offers and eligibility. Parents typically thought that communications from government sources were reliable and trustworthy.

Policy-makers could encourage the use of several written forms of communications to inform parents about their options. Officials have in the past successfully used annual tax credit statements and letters to alert parents about the childcare element of WTC, but there is no equivalent in UC. As UC uses an online, client-driven portal and captures detailed information about family circumstances and work patterns, it could be used as a key resource to reach families with well-tuned information.

The DWP should use rich information it will hold about family circumstances through UC to provide parents with highly tailored information about the types of childcare support that are available to them. This should cover counterfactuals as well as current circumstances, so that parents can see the effect of changing their working hours. Letters and emails should be sent to parents:

- when their child turns one or two, making them aware of the support available under UC and the 15-hour offer for two-year-olds;

68 Department for Work and Pensions (2018). Universal Credit test and learn evaluation: families [[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/643978/research-into-families-claiming-universal-credit.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/643978/research-into-families-claiming-universal-credit.pdf)]

69 Department for Work and Pensions (2018). Universal Credit Full Service Survey [[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/714842/universal-credit-full-service-claimant-survey.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/714842/universal-credit-full-service-claimant-survey.pdf)]

- with three- or four-year-old children who do not meet the work requirements for the full 30-hour offer; and
- who receive UC but are potentially better off switching to TFC (more on which we outline in section 4.6 of this report).

#### **Making full use of the 30-hour offer**

The NatCen research we commissioned found that, while parents had some awareness of the 30-hour offer, they were generally unclear about eligibility, particular when it came to qualifying ages and minimum work requirements. Parents were aware that the scheme had been widely advertised, but felt that adverts did not provide enough information on eligibility. This suggests that more targeted advertising could help raise awareness among non-working parents and increase the impact of the offer.

The DfE and DWP should work together to raise awareness of the 30-hour offer among non-working parents, so that the latter can make informed decisions about working. This should include:

- introducing an information drive through jobcentres to inform parents about the full suite of childcare entitlements available to them;
- training work coaches to inform parents who do not currently qualify for the 30-hour offer about the offer; and
- ensuring the DfE funded ‘parent champions’ scheme (in which local authorities, children’s centres and schools support nominated parents to engage hard-to-reach parents regarding childcare support) includes the full suite of childcare options available to parents, and not just free-hour offers.

#### **Childcare providers and children’s centres**

The NatCen research we commissioned showed that parents value childcare providers as sources of information and advice. They thought childcare professionals were reliable and trustworthy, and valued the opportunity to speak with someone face-to-face about their specific circumstances and receive tailored advice. Parents also relied on childcare providers to keep apprised of changes to entitlements, and appreciated the help they received to apply for, and access, new schemes.

However, childcare providers and children’s centres tend to disseminate information focused on free-hour offers and individuals who get their information in this way are likely to already use, or plan to use, childcare. There is scope for more transformational impact. DfE should encourage and support these providers to engage more disadvantaged parents and advise them about the full suite of childcare options. This could include:

- supplying staff with accurate information and materials on all forms of childcare support (for example, leaflets and posters) to give to parents;
- supporting and encouraging staff to advise parents about TFC and the childcare element of UC when providing information about costs to parents, including advice on eligibility and how to apply for support; and
- piloting support schemes in the DfE’s 12 Opportunity Areas to enable childcare providers to reach and actively support disadvantaged parents in areas that have low uptake to access childcare support to which they are entitled, if they choose to use it.

## chapter four

# Improving affordability for low-income parents

In chapters one and two, we highlighted the alarming impact of poverty on children's early learning. We showed how childcare can help tackle this, both by supporting child development and by giving parents the choice to work. But for families to realise these enormous benefits, they must be able to access childcare in the first place. One crucial determinant of access is affordability and it is this to which we now turn our attention.

### 4.1 Low-income parents struggle with affordability

Just over half (57 per cent) of parents in lower socio-economic groups (and 40 per cent in higher income groups) say they remain put off from working, or working more hours, because of the cost of childcare.<sup>70</sup>

A glance at the effective marginal tax rate faced by some parents provides further insight into the reasons why working may not be viewed as a viable option. This rate can be very high for many parents, particularly when childcare is factored in, which weakens financial returns to work. For example, the Resolution Foundation calculated that, after paying tax, National Insurance, the UC taper and childcare costs, a parent earning £8 an hour would keep just £1.30 from any additional hour worked, even once childcare support had been claimed; this is an effective marginal tax rate of 84 per cent.<sup>71</sup>

Meanwhile, a second earner working part-time on minimum wage, with two children aged one and four, faces an effective marginal tax rate of 74 per cent, even when that family takes up 15 free hours of childcare for its four-year-old child, and this rate rises to an eye-watering 93 per cent once both parents start to work full-time hours.<sup>72</sup> The Coram Family and Childcare calculated that lone parents or second earners on UC could face rates of pay as low as £1.96 per hour once childcare costs have been factored in – an effective marginal tax of 76 per cent.<sup>73</sup>

70 Gulc, B., Silversides, K. (2016). Parents' experiences of services and information in the early years, London: Social mobility and Child Poverty Commission, Mar 16 [www.gov.uk/government/uploads/system/uploads/attachment\_data/file/505562/SMCPC\_Parents\_Experiences\_Report.pdf]

71 Brewer, M., Finch, D., Tomlinson, D. (2017). Universal Remedy: Ensuring Universal Credit is fit for purpose, London: Resolution Foundation, Oct 17 [www.resolutionfoundation.org/app/uploads/2017/10/Universal-Credit.pdf]

72 Ibid

73 Coram Family and Childcare (2017). Childcare Survey 2017, Mar 17 [www.familyandchildcaretrust.org/file/3479/download?token=mnu16-9Y]

## 4.2 Universal Credit has the potential to transform how childcare support is channelled to those who need it most

The childcare element of UC replaces, and refines, the childcare element of Working Tax Credit (WTC), the latter of which was incorporated into UC along with five other social security benefits.<sup>74</sup> Under UC, eligible claimants can claim back up to 85 per cent of their childcare costs up to a monthly cap – a higher rate than could previously be claimed – which varies according to the number of children receiving support. Table 1 outlines the maximum amount that can be claimed each month for families with one, and two or more, children.

Table 1: UC childcare element monthly

Number of children	Cost of childcare per month	Maximum amount that can be claimed back per month
1	£760.42	£646.35
2 or more	£1303.57	£1108.04

Unlike the childcare element of WTC it replaces, eligibility for the childcare element of UC is also far more fluid. To claim back childcare costs in WTC, parents must work at least 16 hours a week. To claim under UC, by contrast, parents must simply have taken up paid work, even if for only an hour a week. The amount of childcare support a family will be awarded through the childcare element of UC simply flexes according to income. The benefit therefore is designed to work in a more sophisticated way than its predecessor, supporting parents nimbly as they step, sometimes for the first time, into the world of work.<sup>75</sup>

## 4.3 The childcare element of UC should be raised to 100 per cent of costs, subject to the current cap, to support low-income families as they move into work

UC presents policy makers with a ready-made mechanism for channelling support to low-income families. Given the problems low-income families have arranging affordable childcare, there is a strong case for boosting the level of childcare support in UC to make transitions into work, or progression in work, as seamless as possible. To do this, the government should raise the childcare element of UC, from 85 per cent to 100 per cent of eligible costs, subject to the existing cap. (This would apply to all eligible childcare, aged 0–16, and not just to preschool-age children to avoid further complexity by restricting the higher rate to preschool-age children; however, our focus in this paper is on preschool-age

74 Department for Work and Pensions (2011). Universal Credit Policy Briefing Note 10: Childcare, Oct 11 [<http://webarchive.nationalarchives.gov.uk/+http://www.dwp.gov.uk/docs/ucpbn-10-childcare.pdf>]

75 UC claimants sometimes remain eligible for childcare support for the duration of their current 'assessment period' when their circumstance change. Valid changes in circumstance are helpfully outlined here: Low Income Tax Reform Group, 'Who can claim the childcare element of universal credit?', Nov 17 [[www.litr.org.uk/tax-guides/help-towards-costs-childcare/universal-credit/who-can-claim-childcare-element-universal#toc-work-condition](http://www.litr.org.uk/tax-guides/help-towards-costs-childcare/universal-credit/who-can-claim-childcare-element-universal#toc-work-condition)]



children). This reform would reduce the pressure of childcare costs on low-income families, improving both their capacity to work and the financial returns of doing so.

**The Government should raise the childcare element of Universal Credit from 85 per cent to 100 per cent of eligible costs.**

To demonstrate the potential impact of our proposal, we modelled the effect it would have on the amount families would retain by moving into work. Appendix A outlines returns to work under the current UC system in a number of different scenarios and compares them with returns under the more generous version we propose. In each case, our model assumes that earners receive the National Living Wage at its future rate from April 2019 (£8.21 per hour), and that the first earner works 35 hours per week. We have included the planned increase to Universal Credit work allowances and the personal tax allowance, which will take effect from April 2019. We assume that each family uses childcare to cover the hours they work, and that non-working parents use no paid-for childcare. In the model, we look at a family with one child aged one, and a family with two children, aged one and three, and we include the value of the free entitlement when modelling incentives for the family with the three-year-old child. Part-time work is defined as working 16 hours per week, and full-time as 35 hours per week.

Figure 11: Impact of our proposals on work incentives for second earners

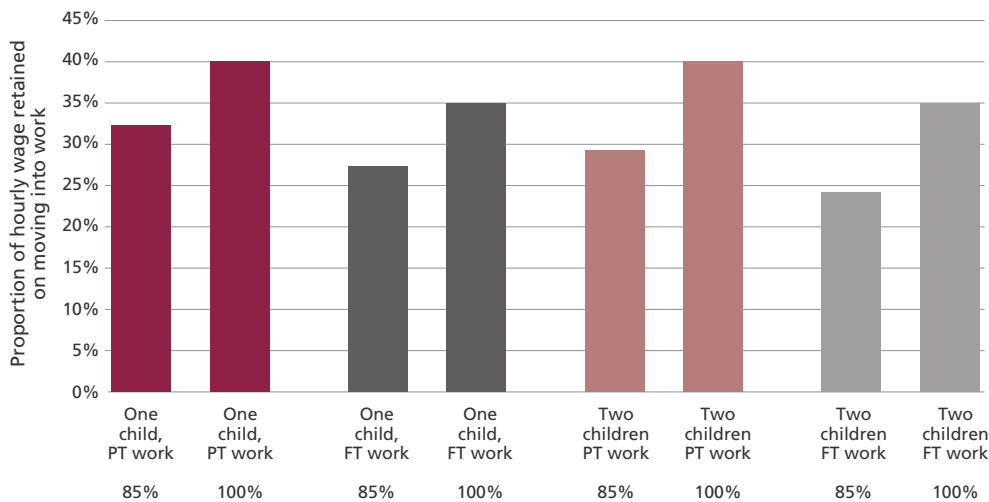
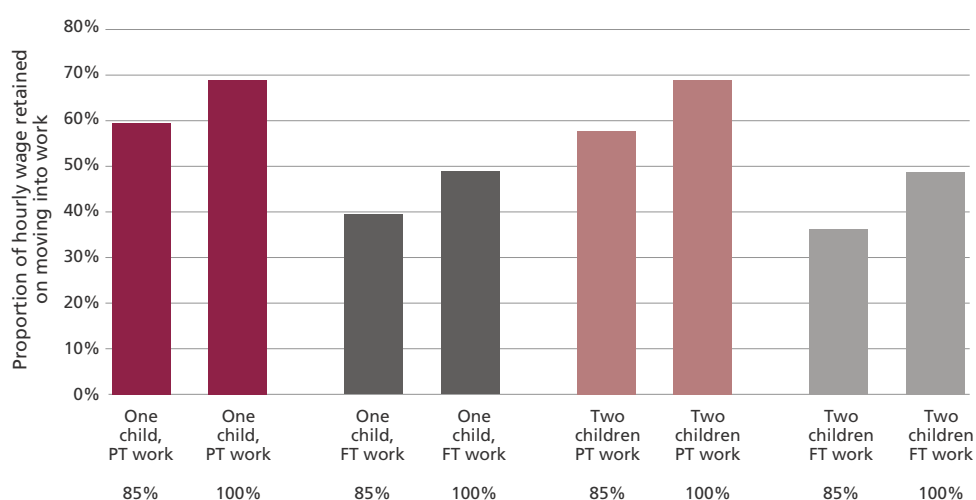


Figure 12: Impact of our proposals on work incentives for lone parents



Figures 11 and 12 unpick some of the data we modelled, outlining the proportion of earnings retained by a second earner and lone parent on moving into work. As is clear from this data, financial returns to work for second earners can be relatively low under UC, due to a relatively high taper rate and the absence of a second earner work allowance. For example, under the current system:

- A second earner with one child aged one who moves into part-time work at the minimum wage keeps just under a third of their hourly wages, or £2.60 per hour.
- If the same parent moves into full time work, they keep just over a quarter of their hourly wages, or £2.19 per hour.
- And if they have a second child using childcare, and move from part-time to full-time work, this drops to less than a fifth of their hourly wages - this means they keep only £1.54 for every extra hour worked.

The CSJ has long called for the Government to improve the taper rate and re-invest in work allowances in UC. In a separate recent paper, it argues that this is a more effective way of supporting low-income earners than the Government's recent policy of raising the income tax personal allowance, the latter of which disproportionately benefits people in the top half of earners in this country.<sup>76</sup> The CSJ continues to urge the government to adopt this position, and Save the Children supports wider priorities to improve the taper rate and work allowances. However, it is worth noting that, as the childcare element is rolled into the overall UC award, the overall taper rate affects the withdrawal of childcare support; a lower rate would also help support families with childcare costs, thereby adding further weight to the reforms we outline in this paper.

Our analysis above, and the information outlined in Appendix A, suggest that raising the childcare element of UC, so that claimants can claim back 100 per cent of their childcare costs, would have a substantial impact on take-home pay for low-income families, and therefore help to mitigate the high marginal costs they face by returning to work or

<sup>76</sup> Centre for Social Justice (2017). Universal Credit: Work and Pensions Select Committee submission [www.centreforsocialjustice.org.uk/core/wp-content/uploads/2017/10/Universal\_Credit\_Report.pdf]

increasing hours. Under our proposed system, they would retain a higher proportion of their wages and the highest marginal effective tax rates would be significantly reduced. For instance, second earners in part-time work with two children would keep two-fifths of their earnings, and lone parents in part-time work would keep over two-thirds of their earnings.

## 4.4 We can help pay for an enhanced childcare offer in UC by recalibrating subsidies that exist for affluent parents

The proposal we outline in section 4.3 need not cost the government any more money. Spending on childcare extends to many different families, some of whom can benefit from state support with childcare even when they earn up to £200,000. In this paper, we advocate a measured reduction of the upper thresholds that exist in these cases, so that limited funds can be spent where they are most transformative.

### 4.4.1 Improving the generosity of the childcare element of UC to 100 per cent could cost around £300 million

We estimate that the cost of funding the proposal we outline in section 4.3 would be in the region of £300 million. This is based on the Office for Budget Responsibility's estimates of the additional cost of paying up to 85 per cent of eligible childcare costs relative to 70 per cent under WTC, by full roll-out of UC in 2022–23.<sup>77</sup> Based on this estimate, we estimate that further increasing the maximum value of the childcare element to 100 per cent would cost an additional £300 million. This estimate is somewhat uncertain, since we are still in the early days of the roll-out of UC to families with eligible childcare costs.

We hope, however, that the behavioural impact of this change (particularly when paired with the additional measures outlined in chapter 4 of this paper) will encourage even more families to use childcare support in UC. If this happens, the cost of funding this policy will rise, but it is worth remembering that the Treasury would, in such a case, realise additional tax receipts through higher employment rates.

The exact behavioural impact of our policy recommendation is hard to predict. However, a previous change to childcare support in WTC offers some clues as to the potential impact that altering generosity can have. In that case, HMRC attributed a fall in the number of families claiming the childcare element from 493,000 to 368,000 in part to the fact that it had reduced compensation for childcare costs from 80 per cent to 70 per cent.<sup>78</sup>

### 4.4.2 Two new childcare policies direct significant extra spending towards middle and upper income households and it is not clear that this will have much transformational impact

The Government is in the process of rolling out two new childcare policies aimed primarily at middle and higher income families: tax-free childcare and 30 hours of free childcare for working families.

<sup>77</sup> Office for Budget Responsibility (2018). Welfare Trends 2018 [[http://obr.uk/docs/dlm\\_uploads/WelfareTrends2018cm9562.pdf](http://obr.uk/docs/dlm_uploads/WelfareTrends2018cm9562.pdf), p. 98]

<sup>78</sup> HMRC (2018). Personal Tax Credit Statistics: Provisional Statistics December 2017, Jan 18 [[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/677582/cwvc-main-Dec17.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/677582/cwvc-main-Dec17.pdf)]

To qualify for tax-free childcare, parents (both if a couple) must be in work and earning the equivalent of at least 16 hours per week at the national living wage. Parents earning over £100,000 a year are disqualified from the scheme, and neither parents' income must exceed this sum if claiming as a couple. This means that parents with a combined annual income of up to £200,000 can claim subsidised childcare.

For every £8 users of the scheme spend on childcare, the government provides an additional £2 subsidy. Parents can receive up to £2,000 support per child per year, and £4,000 per child if their child is disabled. Unlike many other means-tested benefits, there is no cap on support based on the number of children families have. Claimants of UC or WTC are not eligible to claim TFC.

Eligible working families can now also receive 30 hours of free childcare for a three- or four-year-old child. Eligibility for the 30 hours policy is the same as for tax-free childcare, in terms of the lower and upper earnings thresholds.

Both TFC and 30 hours may have limited transformational impact. First, this is because uptake is low. Just 30,000 of the 415,000 parents expected by the Government to register for the scheme by November 2017 had actually registered.<sup>79</sup> More recently, the Treasury confirmed that around 170,000 people had registered for an account by the end of January 2018.<sup>80</sup> The Government expects that as many as 1.5 to two million families will be eligible when the scheme is fully rolled out, but it is not clear how many will register.<sup>81</sup>

Second, it is unclear whether TFC and 30 hours will meet their aim (to incentivise middle and higher earning parents to move into work),<sup>82</sup> and there is a risk of significant dead-weight if they do not. This is because many parents who will be eligible will already be in work.<sup>83</sup> While some parents may increase their working hours as a result of the policies, it seems unlikely that this will have a transformational impact on wider employment patterns, particularly for higher-income earners.

#### 4.4.3 A question of priorities

It is probable that uptake of TFC will rise – and although far less certain, it is possible that some wealthier parents will go to work solely because of the new childcare subsidies they can claim. But even if these things do happen, we do not believe that public money should be distributed to the highest earners among eligible parents while other parents struggle to get on in life.

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79 OBR (2017). Economic and fiscal outlook, Nov 17 [[http://obr.uk/docs/dlm\\_uploads/Nov2017EFOwebversion-2.pdf](http://obr.uk/docs/dlm_uploads/Nov2017EFOwebversion-2.pdf)]

80 Answer to written question 124793 29.01.18 [[www.parliament.uk/business/publications/written-questions-answers-statements/written-questions-answers/?page=1&max=20&questiontype=AllQuestions&house=commons%2clords&uin=124793](http://www.parliament.uk/business/publications/written-questions-answers-statements/written-questions-answers/?page=1&max=20&questiontype=AllQuestions&house=commons%2clords&uin=124793)]

81 DfE, DWP, HM Treasury (2017). 'UK families will soon see bills cut as date announced for the launch of Tax-Free Childcare', Press Release, Mar 17 [[www.gov.uk/government/news/uk-families-will-soon-see-bills-cut-as-date-announced-for-the-launch-of-tax-free-childcare](http://www.gov.uk/government/news/uk-families-will-soon-see-bills-cut-as-date-announced-for-the-launch-of-tax-free-childcare)]

82 HMRC (2017). Childcare Payments Act 2014 Impact Assessment, Mar 17 [[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/652939/Tax-free\\_childcare\\_Impact\\_Assessment-March\\_2017.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/652939/Tax-free_childcare_Impact_Assessment-March_2017.pdf)]

83 Brewer, M., Cattan, S., Crawford, C. & Rabe, B. (2017). Free childcare and parents' labour supply: is more better? London: Institute for Fiscal Studies

Ultimately, the most important determinant of public spending is our sense of priority. We have constructed generous subsidies for better-off families while thousands of low-income families are not able to progress in life, in part because they cannot meet the childcare needs that accompany returning to work.

Even more alarmingly, we are starting to prioritise better-off families over their less affluent peers. This is clear to see in the spread of funding that currently exists. For instance, the introduction of TFC and 30 hours of free childcare to many 3 and 4-year-olds has tilted public childcare spending towards better-off families. This means that, while in 2016 a two-parent family on the national living wage with annual earnings of £19,000 received 6 per cent more in childcare support than a two-parent family earning £100,000 a year, the former now receives 20 per cent less in childcare support than the latter.<sup>84</sup> This emerging imbalance is also clear to see in the broader suite of public spending on childcare; just 2.7 per cent of the £9.1 billion of new expenditure Parliament has set aside for childcare policies during the current Parliament will directly benefit the most disadvantaged children.<sup>85</sup> And the proportion of spending allocated to families in the bottom five income deciles is expected to fall over the next four years from 4 per cent in 2017/18 to 2.4 per cent by 2021/22.<sup>86</sup>

### **The introduction of tax-free childcare and 30 hours of free childcare has tilted public childcare spending towards better off families.**

It is time to redress this imbalance and place funds where they are most effective and most likely to deliver social justice. The transformative potential of subsidised childcare is greatest at the lower end of the income scale where it can increase take-home pay more substantially in relative terms, help reduce household worklessness and support parents who want to work, and give children with less support in life a better chance to thrive.

#### **4.4.4 Reducing the upper eligibility thresholds for TFC and 30 hours' free childcare could help pay for a more generous childcare element in UC for low-income parents**

For the reasons outlined in this section, the Government should urgently consider revising the current eligibility criteria that exist to claim TFC and 30 hours' free childcare for three and four-year-olds. This would help to pay for a more generous childcare element in UC, to support the families who need it most.

Table 2 shows our estimates for the savings that lowering the upper earnings thresholds for TFC and 30 hours could release, at a range of thresholds.

84 R Johnes, J Hutchinson (2016). Widening the gap? The impact of the 30-hour entitlement on early years education and childcare, London: EPI, May 16 [<https://epi.org.uk/wp-content/uploads/2016/05/widening-the-gap-final-epi.pdf>]

85 L Powell MP (2017). A Lost Generation: Why social mobility in the early years is set to go backwards, London: Social Market Foundation, Aug 17 [[www.smf.co.uk/publications/a-lost-generation/](http://www.smf.co.uk/publications/a-lost-generation/)]

86 Ibid

Table 2: Estimated savings from lowering the upper earnings threshold for TFC and 30 hours

Upper earnings threshold (per person)	TFC		30 hours		Total savings
	Savings	% of eligible parents who would lose entitlement	Savings	% of eligible parents who would lose entitlement	
£70,000	£60m	5.9%	£44m	6.2%	£104m
£60,000	£97m	9.7%	£61m	8.6%	£158m
£50,000	£147m	14.7%	£89m	12.4%	£236m
£40,000	£239m	23.8%	£157m	22.0%	£395m
£30,000	£414m	41.4%	£276m	38.6%	£690m

These estimates should be treated with caution as there is a lack of reliable data about childcare use and spending across the income distribution. Both policies are also relatively new and we do not know how take-up will evolve over time.

However, these estimates show that reducing the upper earnings thresholds for TFC and 30 hours would release significant resources within the Government’s overall childcare budget, which could be diverted to help pay for improvements in childcare support for low-income families through UC. It would be important for the Government to strike the right balance between withdrawing poorly targeted childcare subsidies from high earners and ensuring that middle earners who cannot benefit from support through UC continue to receive appropriate support with their childcare costs. Lowering the income threshold too far risks damaging the employment prospects of this latter group of families.

## 4.5 To enjoy more generous childcare support in UC, parents must be able to access it easily and the administration that underpins this support could be refined to maximise uptake

The impact of a more generous childcare offer in UC will be blunted if claimants find it hard to make use of this support in the first place. To maximise its impact, policy makers should also make sure it is as accessible as it can be.

### 4.5.1 UC has the potential to improve the way in which childcare support is claimed

UC changes the way in which individuals claim childcare support. The WTC system it replaces was riddled by complexity, error and overpayments.<sup>87</sup> In 2011, for instance, 16.6 per cent (£265 million) of the total spend on the childcare element of WTC was claimed erroneously or fraudulently – more than double the rate for WTC overall (the vast majority of this is likely to be due to error, rather than fraud).<sup>88</sup> And problems caused by

87 See, for example: Citizens Advice Bureau (2008). Understanding tax credits: Client and adviser experiences, May 08 [www.citizensadvice.org.uk/Global/Migrated\_Documents/corporate/tax-credits-adviser-and-client-experiences-may08-final.pdf]

88 Ibid

complexity have persisted; in 2015–16, for example, there were 0.2 million misstatements for the childcare element of WTC alone, costing the taxpayer around £210 million.<sup>89</sup>

In part, this is because the childcare element of WTC is claimed in the same annual assessment as the rest of the benefit, which means families must estimate their yearly childcare costs. This can be difficult for parents to do accurately and the system is then also unresponsive to changing circumstances. In 2015 a Committee of the House of Lords captured this point well, reporting that:

[t]here is evidence of complexity in the funding available to assist working parents with childcare costs through Working Tax Credits. The design of the childcare subsidy is confusing, and leads to erroneous claims or worse, under-claiming by those whom the subsidy is designed to assist.<sup>90</sup>

UC is designed to address these issues by removing the yearly calculation made at the start of a WTC claim and instead requires families to pay for childcare upfront, report their costs on a monthly basis, and subsequently claim back support in arrears. This change corresponds with the wider monthly tempo of UC, which is designed to mirror working life and reflect most workers' pay patterns.<sup>91</sup> It also allows officials to adjust support each month in a far more sophisticated and efficient way through the real time PAYE information employers report to HMRC. By avoiding erroneous payments, it is estimated that the new system saves the taxpayer some £100 million relative to the WTC.<sup>92</sup> It will also help reduce the uncertainty and worry that overpayments can cause for parents.

**4.5.2 UC will soon support a large number of families with childcare, and the Government has a chance now to step in where there may be a case for fine-tuning** UC is incrementally replacing WTC. In the early stages of its rollout, eligibility for UC was limited to claimants in relatively uncomplicated circumstances – primarily single jobseekers without dependent children. In this context, only a small proportion (14,000 out of 880,000 households) currently use the childcare support available through UC.<sup>93</sup>

As UC's rollout accelerates in 2018 and beyond, many more low-income families will become eligible for childcare support. Officials estimate that half a million households will benefit from this by the time all claimants have migrated to the new system in 2022.<sup>94</sup> The big influx of transfers to UC from legacy benefits, including tax credits, will start in 2020–21 and continue into 2021–22, with hundreds of thousands of families due to move to UC in this period.<sup>95</sup> This will place new pressure on the systems through which childcare support is claimed. It is important that, where necessary, policy makers use the opportunity they have now to fine-tune the administrative architecture that underpins the childcare element of UC, to help it reach its full potential and minimise stress for individuals who make use of it.

89 OBR (2018). Welfare trends report, Jan 18 [[http://obr.uk/docs/dlm\\_uploads/WelfareTrends2018cm9562.pdf](http://obr.uk/docs/dlm_uploads/WelfareTrends2018cm9562.pdf)]

90 House of Lords Select Committee on Affordable Childcare (2015). Affordable Childcare, Feb 2015 [<https://publications.parliament.uk/pa/ld201415/ldselect/ldaffchild/117/117.pdf>]

91 Hargreaves, H. (2016). CIPP Payslip Statistics Comparison 2008 – 2016, London: The Chartered Institute of Payroll Professionals, Sep 16 [[www.cipp.org.uk/asset/52DBB847-6DE9-4053-974E84123BA1CBD0/](http://www.cipp.org.uk/asset/52DBB847-6DE9-4053-974E84123BA1CBD0/)]

92 Ibid

93 DWP (2018). Stat-Xplore, Oct 18 [<https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml>]

94 DWP (2016). '£300 million childcare boost for hard-working families under Universal Credit', Press Release, Apr 16 [[www.gov.uk/government/news/300-million-childcare-boost-for-hard-working-families-under-universal-credit](http://www.gov.uk/government/news/300-million-childcare-boost-for-hard-working-families-under-universal-credit)]

95 OBR (2018). Welfare trends report, Jan 18 [[http://obr.uk/docs/dlm\\_uploads/WelfareTrends2018cm9562.pdf](http://obr.uk/docs/dlm_uploads/WelfareTrends2018cm9562.pdf)]

### 4.5.3 There are concerns that some parents will have problems when claiming childcare. If these issues endure, a number of practical measures could be taken to refine the process

While there is a clear need to minimise error in the claiming process, it is also important that childcare support is responsive to individual circumstances. As we outline below, some accounts suggest that the two do not always operate in perfect synchronicity and where appropriate, we offer practical refinements to the current system that could be adopted if these problems continue to surface.

Upfront childcare costs, and a lack of symmetry between assessment cycles and due payments, could make it harder for parents to arrange childcare without going into debt.

Upfront costs are common when arranging childcare. Nine in ten childcare providers demand fees in advance, and 59 per cent require monthly payments.<sup>96</sup> Providers increasingly require payment for a whole day's care rather than hours used.<sup>97</sup> And it is estimated that 40 per cent of providers charge deposits of up to £150.<sup>98</sup>

This means that upfront fees for one month's childcare could be as much as £1,000 for a full-time place for a one-year-old, or £680 for a part-time place. Even including free hours entitlements for older children, the costs can still be high: it has been estimated that a full-time place for a two-year-old receiving the 15-hour entitlement would be £880 on average, and a full-time place (40 hours per week) for a three- or four-year-old would be £360 despite receiving the 30-hour entitlement.<sup>99</sup>

Under UC, parents must pay for childcare (including upfront costs), report these to DWP, and wait to be reimbursed. This could leave many parents out-of-pocket for several weeks. For some parents, this could dissuade them from taking up the childcare support available to them in UC, considerably reducing the likelihood that they will look for work or try to increase their working hours.

In addition, childcare costs are apportioned monthly, but childcare payments often do not align with the assessment period used in UC. Parents could pay upfront for a month's worth of childcare and be repaid over two months, making the wait to be reimbursed even longer and further disincentivising a move into work or an increase in hours. In this context, parents may constantly try to catch up and fall into debt as a result.

Parents also often face higher childcare costs in the holidays, because the free-hours offers only cover 38 weeks a year and are often delivered during traditional school term-time. Some parents will 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 for this to be reimbursed.

Jobcentre (JCP) work coaches have a number of levers to support parents with childcare, but these tools may not fully mitigate the challenges associated with upfront costs.

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96 Citizens Advice Bureau (2014). The practicalities of childcare: an overlooked part of the puzzle?, Jul 14 [www.citizensadvice.org.uk/Global/Migrated\_Documents/corporate/the-practicalities-of-childcare---an-overlooked-part-of-the-puzzle.pdf]

97 Ibid

98 Ibid

99 Save the Children (2018). Make Childcare Work: Fixing upfront childcare costs for families on Universal Credit [www.savethechildren.org.uk/content/dam/global/reports/fixing-upfront-childcare-costs.pdf]



- Work coaches can support job-seeking claimants with funds from the Flexible Support Fund.<sup>100</sup> However, there is some evidence to suggest that this is primarily seen as a fund for small, one-off expenses related to interview or short-course training costs, such as travel, clothing, or childcare to cover time spent at interviews, rather than upfront fees for regular childcare costs.<sup>101</sup> A recent parliamentary question found that only two per cent of the fund was spent on childcare costs in 2016/17,<sup>102</sup> and the fund as a whole 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.<sup>103</sup>
- Parents are sometimes granted budgeting advances to help them start or maintain work.<sup>104</sup> However, eligibility is limited to households that earn under a certain threshold and have been claiming UC for at least six months (although the latter criterion can be waived to support employment), and households cannot hold more than one budgeting advance at a time.<sup>105</sup> This means that those who are still paying off a previous advance would not be eligible, and claimants would have to take one out in the knowledge that they will not be able to use another one in case of emergency until the loan is paid off, which could deter some from accessing support.
- A recent evaluation by the DWP also found that many parents had not been informed of advances to help with childcare.<sup>106</sup>

By requiring parents to pay their childcare costs upfront before claiming them back, the new system will help avoid taxpayer-funded overpayments. Yet without further adjustments, some families are likely to encounter problems.<sup>107</sup> The absence of an in-built, immediate support mechanism for regular upfront payments in UC's childcare element might deter claimants from taking up paid work because they cannot afford childcare. It may also prompt individuals to take out aggressively priced personal loans and incur unsustainable debts.

### Case studies: Lucy and Jenny

As part of this research, Save the Children has spoken to parents receiving the childcare element of UC, to hear about their experiences and the challenges they face.

#### Lucy's story

Lucy has a one-year-old daughter and a nine-year-old son, and recently returned to work 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

100 McGuinness, T., Kennedy, S., Jones, A., Jobcentre Plus Flexible Support Fund, HoC Briefing Paper 06079, London: House of Commons Library, Oct 16 [<http://researchbriefings.files.parliament.uk/documents/SN06079/SN06079.pdf>]

101 DWP (2012). The Jobcentre Plus Offer: Findings from the first year of the evaluation. London: DWP

102 PQ 131067, 5th March 2018

103 McGuinness, T., Kennedy, S., Jones, A., Jobcentre Plus Flexible Support Fund, HoC Briefing Paper 06079, London: House of Commons Library, Oct 16 [<http://researchbriefings.files.parliament.uk/documents/SN06079/SN06079.pdf>]

104 DWP (2017). Universal Credit Statistical Ad Hoc: Payment Advances, Oct 17 [[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/648831/universal-credit-payment-advances-statistical-ad-hoc.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/648831/universal-credit-payment-advances-statistical-ad-hoc.pdf)]

105 Ibid

106 DWP (2017). Universal Credit Test and Learn Evaluation: Families. London: DWP

107 A number of recent studies have highlighted this issue. An example which provides a useful assessment of the impact of upfront fees particularly on single mothers is Gingerbread, *Up-front: a childcare deposit guarantee*, Mar 16 [[www.gingerbread.org.uk/wp-content/uploads/2017/10/Upfront.pdf](http://www.gingerbread.org.uk/wp-content/uploads/2017/10/Upfront.pdf)]

advances, but is not eligible as she is in the process of challenging a decision due to errors in her UC 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 Lucy'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.

Lucy 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.*

### **Jenny's story**

Jenny is a single mother with a three-year-old daughter who has just been offered a job. She is worried about how to pay for her childcare costs upfront once she starts working – she has heard there is a loan available but does not have much information about how it works. She does not want to take it up as it will put her in a worse financial situation. She also missed the deadline for getting her receipts, as she was not aware of it, and is going to have to wait longer to get her money back as a result.

These worries about childcare costs have caused Jenny a lot of stress and have worsened her anxiety. She's concerned about the impact on her daughter: she had to come out of nursery and go to a childminder, and Jenny worries that the lack of money at home means she is not getting the experiences a child should.

Jenny said:

*It's crazy that you're putting yourself into debt for this. And I don't know if I'll be able to afford to pay it back because I don't know what my wages will be under universal credit... I'm just totally and utterly stressed out. I've had depression in the past and I can feel my anxiety getting higher and higher.*

We outline below a number of practical steps the Government could take in the short-term to address these challenges as UC is rolled out to much greater numbers of families with childcare costs.

- Strengthen guidance and training for work coaches on the support and flexibilities they can already offer to parents who would otherwise struggle with upfront childcare costs.
- Consider improvements to the Flexible Support Fund, including better management of the fund within local areas and across the year.
- Introduce a campaign (for example, poster campaigns in jobcentres and tailored letters) to raise awareness about the support that is available to eligible parents under UC, so that more parents raise this in conversations with their work coaches.

Depending on the effect of the measures outlined above, and the extent to which challenges still remain, the Government may also want to consider further reaching reform. It could, in this instance, introduce the following packages of reforms.

- Allow parents to agree childcare costs (plus any deposit or registration fee) with a registered provider for the month ahead.
- Parents then receive a written bill and submit this immediately to DWP, which triggers the immediate processing of the claim for the childcare element.
- Some providers may be prepared to wait for payment until DWP has paid out the childcare element, but others will demand payment immediately. This will still leave parents facing upfront childcare costs, although the time delay in paying the bill and receiving the money back from DWP will be much reduced.
- Initially, this facility could be restricted to parents who are subject to work-search conditionality to ensure that the upfront UC payment is strictly linked to helping people back to work and limit the risk of overpayments.
- In future, the Government could consider extending this facility to parents with younger children, so that they have incentives to return to work if they want.

To minimise the risk of overpayments, the Government could consider wrapping the following safeguards around the proposals outlined above.

- Only allow parents to claim for the coming month of childcare costs (rather than a full year, as under WTC).
- Base the payment on proof of costs agreed with the provider (rather than asking parents to make their own estimates, as under WTC).
- Limit upfront payments to parents facing specific work search conditions under UC.
- Introduce an explicit clause in the UC claimant commitment to make it clear that childcare costs must be repaid if circumstances change.

#### **Verification and reporting requirements are not always user friendly**

Parents can now report childcare bills online. This has improved on the previous reporting system, where parents could only report childcare bills to work coaches by hand or post. This is a welcome innovation for families. However, it is important that during the rollout of UC, the DWP monitors parent's experiences of using the system and addresses any challenges that emerge.

## 4.6 The interface between UC and Tax-Free Childcare should be more seamless so that individuals do not lose out financially when they move between the two

Families receiving WTC/UC cannot claim TFC at the same time.<sup>108</sup> Instead, TFC supports families with their childcare costs as they increase their incomes and move off WTC/UC entirely.<sup>109</sup> But for this transition to be most effective, it must be seamless. And this is not always the case. As families move up or down the income scale, they might be able to claim:

- (a) WTC or UC only;
- (b) TFC only; or
- (c) one of the above, at their discretion.

Where they have the option of claiming either of the two means of support, many parents find themselves claiming a subsidy that is less generous than the other. In 2014 HM Treasury estimated that approximately 50,000 families claiming WTC or UC would be better off claiming TFC instead.<sup>110</sup> Claiming a sub-optimum support means that childcare might appear to be more of a financial weight than it could be.

In part, this mismatch is driven by avoidable friction between the support systems. Once WTC/UC claimants earn enough to claim TFC, they must actively opt out of the former to claim the latter. Conversely, parents claiming TFC must actively choose to stop claiming this and opt in to WTC/UC if their circumstances change.<sup>111</sup> There is no mechanism that automatically transfers parents into either system based on the one that best supports their childcare costs. Parents can only change to, and return from, one support system to another within a 12-month period.<sup>112</sup>

To help parents calculate the relative gains of the two systems, the Government introduced an online 'better off calculator',<sup>113</sup> and it launched the Childcare Choices website to provide parents with information on the different eligibility criteria for the different streams of support.<sup>114</sup> As we outline in chapter 3, however, many parents still have a very limited understanding of eligibility criteria for childcare support and struggle to navigate the suite of online information that is available.

The Government should refine the interface between UC and TFC. The number of people who oscillate between the two, in terms of eligibility, is considerable. Around 100,000 families a year who are eligible for TFC experience personal changes that would make

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108 Childcare Payments Act 2014, reg. 31 [[www.legislation.gov.uk/ukpga/2014/28/section/31](http://www.legislation.gov.uk/ukpga/2014/28/section/31)]

109 HM Treasury, HMRC (2014). Delivering Tax-Free Childcare: the Government's response to the consultation on design and operation, London: HM Treasury, HMRC, Mar 14 [[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/337894/tfc\\_response\\_to\\_consultation\\_on\\_childcare\\_account\\_provision.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/337894/tfc_response_to_consultation_on_childcare_account_provision.pdf)]

110 Ibid

111 Ibid

112 HMRC, Technical consultation on draft secondary legislation for the Childcare Payments Bill, 14 [[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/331748/tax-free-childcare-commentary.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/331748/tax-free-childcare-commentary.pdf)]

113 HM Treasury, HMRC, Delivering Tax-Free Childcare: the Government's response to the consultation on design and operation, London: HM Treasury, HMRC, Mar 14 [[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/337894/tfc\\_response\\_to\\_consultation\\_on\\_childcare\\_account\\_provision.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/337894/tfc_response_to_consultation_on_childcare_account_provision.pdf)]

114 HM Government (2017). UK families will soon see bills cut as date announced for the launch of Tax-Free Childcare [[www.gov.uk/government/news/uk-families-will-soon-see-bills-cut-as-date-announced-for-the-launch-of-tax-free-childcare](http://www.gov.uk/government/news/uk-families-will-soon-see-bills-cut-as-date-announced-for-the-launch-of-tax-free-childcare)]

them better off on UC.<sup>115</sup> According to other estimates, the *total* number of families ‘falling into gaps’ between the schemes could be as high as 335,000.<sup>116</sup> The lack of an automatic transfer system to a support of best-fit puts parents in a difficult position. As the Earl of Listowel succinctly put it:

Many families will find it difficult to identify which childcare support is best for them and will potentially miss out on much needed financial support... Many parents, particularly those with fluctuating incomes and uncertain working hours, such as those who are self-employed, work overtime or have a zero-hours contract, will find the sheer complexity of the schemes difficult to navigate, potentially leading to the loss of greatly needed financial support.<sup>117</sup>

For people stepping out of benefits, there must be a strong footing for consolidating those gains. And it is just as important to make sure people do not slip into poverty as it is to help them out of it. Whatever the direction of travel, individuals should be supported through a more scientific evaluation of best-fit. The roll-out of UC provides an exciting opportunity to design a more intricate and fluid system of support. Its Real-Time Information (RTI) system allows the Government to accurately track employment outcomes and other circumstances.

As a starting point, the DWP should consider how it can use the rich information it will hold on the circumstances of families in receipt of UC to alert targeted groups of families that they *may* be better off by switching to TFC. Relevant communications could be targeted at families with eligible childcare costs in UC and relatively small total UC awards, that fall below a certain threshold. Personalised written communications could be periodically generated to alert those families to the fact that they *may* be better off claiming TFC, and provide information on how to check their entitlements.

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115 Finch, D. (2015). Making the most of UC: Final report of the Resolution Foundation review of Universal Credit, London: Resolution Foundation, Jun 15 [[www.resolutionfoundation.org/app/uploads/2015/06/UC-FINAL-REPORT1.pdf](http://www.resolutionfoundation.org/app/uploads/2015/06/UC-FINAL-REPORT1.pdf)]

116 Rutter, J., Hope, A., Lugton, D. (2014). The childcare support gap 2014, London: Coram Family and Childcare, Dec 14 [[www.familyandchildcaretrust.org/file/2938/download?token=-g8jVgDq](http://www.familyandchildcaretrust.org/file/2938/download?token=-g8jVgDq)]

117 HoL Deb. 9 Dec 2014, col 1805 [<https://publications.parliament.uk/pa/d201415/dhansrd/text/141209-0003.htm#14120965000252>]

# Appendix A

## Current system (85% of costs covered)

Hours worked per week	Monthly household income after childcare costs	Difference in income on moving into work	Difference per hour worked	Difference as % of hourly wage	Difference on moving from part-time to full-time work by extra hour worked	Difference on moving from part-time to full-time work as % of hourly wage
<b>Second earner with one child aged one</b>						
0	£2,050.99					
16	£2,231.13	£180.14	£2.60	32%		
35	£2,383.89	£332.90	£2.19	27%	£1.86	23%
<b>Lone parent with one child aged one</b>						
0	£1,289.86					
16	£1,628.52	£338.66	£4.88	59%		
35	£1,781.28	£491.42	£3.24	39%	£1.86	23%
<b>Second earner with two children aged one and three</b>						
0	£2,342.03					
16	£2,509.37	£167.34	£2.41	29%		
35	£2,636.08	£294.05	£1.94	24%	£1.54	19%
<b>Lone parent with two children aged one and three</b>						
0	£1,580.90					
16	£1,906.76	£325.86	£4.70	57%		
35	£2,033.47	£452.57	£2.98	36%	£1.54	19%

Proposed system (100% of costs covered)

Hours worked per week	Monthly household income after childcare costs	Difference in income on moving into work	Difference per hour worked	Difference as % of hourly wage	Difference on moving from part-time to full-time work by extra hour worked	Difference on moving from part-time to full-time work as % of hourly wage
<b>Second earner with one child aged one</b>						
0	£2,050.99					
16	£2,280.11	£229.12	£3.30	40%		
35	£2,491.04	£440.05	£2.90	35%	£2.56	31%
<b>Lone parent with one child aged one</b>						
0	£1,289.86					
16	£1,677.50	£387.64	£5.59	68%		
35	£1,888.43	£598.57	£3.95	48%	£2.56	31%
<b>Second earner with two children aged one and three</b>						
0	£2,342.03					
16	£2,571.15	£229.12	£3.30	40%		
35	£2,782.08	£440.05	£2.90	35%	£2.56	31%
<b>Lone parent with two children aged one and three</b>						
0	£1,580.90					
16	£1,968.54	£387.64	£5.59	68%		
35	£2,179.47	£598.57	£3.95	48%	£2.56	31%



The Centre for Social Justice,  
10 Greycoat Place  
London SW1P 1SB

[www.centreforsocialjustice.org.uk](http://www.centreforsocialjustice.org.uk)

@csjthinktank