

# Citizens Advice response to the Work and Pensions Select Committee inquiry on Universal Credit and childcare costs

January 2022

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## About Citizens Advice

Citizens Advice provides free, confidential and independent advice to help people overcome their problems. In 2020-21, we helped 1.4 million people over the phone, 624,000 by email and web chat, and there were 40 million visits to our self help website<sup>1</sup>.

During 2021 we helped over 320,000 people with issues relating to Universal Credit, including around 7,500 people with issues linked to support for childcare costs. The top three topic areas related to eligibility, calculation of support and evidence and verification.

The geographical scope of this response covers England and Wales.

## Questions:

### How childcare support is paid

#### 1. What is the impact of having to pay for childcare upfront under Universal Credit on parents' decisions to work, or to work more hours?

The availability and cost of childcare is a significant deciding factor for parents when assessing the costs and benefits of entering work or working more hours. The price of childcare in the UK varies with a child's age, but remains one of the highest among OECD countries. For example, in 2019 typical net childcare costs for two children in full-time care accounted for around a quarter of low income single parents' median full-time earnings.<sup>2</sup>

In a survey commissioned by Citizens Advice last summer **almost a fifth of parents receiving Universal Credit (UC) with children under 16 (18%) said the cost of childcare means it is not worth them finding a job or working more hours.**<sup>3</sup>

Financial support with childcare costs is available under UC but families are required to pay for childcare upfront and reclaim up to 85% of these costs around a month later, at the end of the assessment period in which the child care is delivered. How long people have to wait to be reimbursed and how much someone is paid each month can depend

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<sup>1</sup> Citizens Advice [Impact Report 2020-21](#).

<sup>2</sup> OECD (2020) [Is Childcare Affordable?](#)

<sup>3</sup> Between 15th July and 2nd August 2021, ICM unlimited surveyed a nationally representative sample of 2,183 households receiving Universal Credit on behalf of Citizens Advice. The sample included 1,103 households with children under 16.

on whether the delivery of their childcare matches up to their assessment period. The maximum amount people are able to reclaim each month is £646.35 for one child and £1,108.04 for two or more children.

Many childcare providers require deposits or upfront payments - which can exceed £500.<sup>4</sup> Hundreds of thousands of families simply can't afford these upfront costs. For example, our research found families receiving UC with children under 5 have, on average, only £200 left over for food and other costs every month, including childcare, once they have paid housing costs and essential bills, and just £121 in savings.<sup>5</sup> Evidence from those we help shows in order to pay such costs people are often left with no option but to fall behind on bills or build up high levels of debt.

The upfront payment rule also potentially blocks many parents from accessing the support that is designed to help them start or remain in work. Our research shows that over 1 in 6 families receiving UC with children under 16 - equivalent to 317,000 households - are potentially prevented from working or taking on additional hours because of the requirement to pay childcare costs upfront.<sup>6</sup>

Additional research undertaken with Citizens Advice advisers across England and Wales found 1 in 3 (34%) have helped people in the last 6 months who were unable to accept a job offer because they couldn't afford the upfront costs of childcare.

Equally worrying, our evidence shows many who are already in employment can struggle to find the money to pay upfront childcare costs when their work situation or childcare arrangements change. Nearly 1 in 3 (30%) of our advisers have helped people forced to give up their job or reduce their hours in the last 6 months because of upfront childcare payments.<sup>7</sup>

### **Jackie's story**

Jackie is a single parent living with her 8 month old son. She started a new job in June 2021, working 16 hours a week earning the National Minimum Wage. Jackie claims Universal Credit to top up her earnings. Jackie usually relies on her mum to look after her son while she's working, but now she is no longer able to provide childcare. Jackie has found a nursery place for 2 days a week but the nursery wants her to pay £495 upfront in childcare fees which she can't afford. She has existing debts and is struggling to pay her council tax bill. She has tried to negotiate a payment plan with the childcare provider but they will not accept payment in instalments.

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<sup>4</sup> For a child under 2, the average cost of part-time childcare at a childminder is £514 a month. See Coram (2021) [Childcare survey 2021](#)

<sup>5</sup> Citizens Advice (2021), [Universal Credit is locking hundreds of thousands of parents out of work](#)

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

We also see cases where delays in the payment of the childcare element, due to issues with the verification and timing of receipt submissions, are causing significant financial difficulties for parents. This can leave some people in a very difficult position to the extent they feel there may be no other option but to give up their job.

With millions of families facing financial hardship this winter<sup>8</sup>, due to a combination of the £20 a week UC cut, soaring energy prices and rising inflation, finding the money to pay for upfront childcare costs is likely to be even more challenging.

We are currently rerunning our claimant research to assess any potential impact of the UC cut and the wider cost of living crisis. We would be happy to share our latest findings with the Committee once available.

## **2. How effective is the support that DWP offers with upfront costs (for example, through the Flexible Support Fund)? How could it be improved?**

In July 2021 101,600 UC payments included a childcare element.<sup>9</sup> Our research found over a third of families receiving UC with children under 16 are claiming support for childcare costs as part of their UC claim (35%). However, potentially many more families may be eligible for this support but are not currently claiming. Almost 1 in 3 (29%) are not currently claiming support to cover childcare costs as part of their claim either because they are unaware of the support available (17%), or because these costs have to be paid upfront and reclaimed (12%). Around 1 in 4 (24%) don't pay for childcare.<sup>10</sup>

The Flexible Support Fund (FSF) is a discretionary fund offered by local job centres to help with additional costs associated with looking for or starting a job. This includes support to cover the upfront costs for the first month of childcare when people start work. Currently this type of support is not generally available to people already in employment. Some working parents in the 'light touch' conditionality regime may be able to apply for support with childcare costs via the FSF if they are offered a new job or additional hours of work in their existing role, however this is at the discretion of their work coach. Existing UC claimants who may be ineligible for support from the FSF may be able to apply for a Budgeting Advance to cover the initial upfront costs of childcare. Although to qualify people must have earned less than £2,600 (£3,600 jointly for couples) in the past 6 months, and unlike the FSF this is a loan which needs to be repaid within 12 months via a deduction from future UC payments.

Our evidence shows current mitigations for the upfront payment rule aren't working for everyone. Our advisers suggest that low levels of awareness of the FSF are part of the

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<sup>8</sup> Citizens Advice (November 2021), [Three million families facing crisis as cost of living crunch bites](#)

<sup>9</sup> DWP (October 2021), [Universal Credit Payments with childcare element receiving the maximum amount between August 2020 and July 2021](#)

<sup>10</sup> ICM unlimited research - see footnote 3 for details.

problem. 2 in 3 (68%) advisers say that the majority of UC claimants with children they had seen in the last 6 months were unaware of financial support for childcare costs through the FSF.<sup>11</sup>

Even if awareness was improved, the scale of the problem likely dwarfs the size of the fund. This is in spite of recent increases in funding. In July 2020, as part of the Government's ongoing response to the COVID-19 pandemic, DWP was given access to up to £1.4 billion additional funding. This included £150 million to the Flexible Support Fund. However, due to ongoing COVID restrictions and the extension of the furlough scheme there was less demand for the fund than anticipated, so total FSF spending amounted to £46.4 million during 2020-21.<sup>12</sup> A breakdown of expenditure by category is not available for the last financial year but our previous calculations have estimated between 4% to 23% of FSF expenditure goes towards childcare costs.<sup>13</sup> With potentially hundreds of thousands of parents not entering work or taking on additional hours due to the upfront payment rule, and average monthly childcare costs ranging from £160 to £510,<sup>14</sup> current levels of spending would not be sufficient to meet their needs.

### **Amy's story**

Amy is a single mum with 3 children. She works part-time and has been on Universal Credit for some time. She recently returned to work following maternity leave and now has nursery costs of over £790 per month.

Amy only has enough money to pay rent and other priority bills. She cannot afford to pay nursery fees upfront. She now owes the nursery 2 months worth of fees. She has no family members who can help pay her childcare bill and risks losing the nursery place, going into debt or going without other essentials. Three weeks ago she requested support from the Flexible Support Fund but has yet to hear whether her application has been successful. It is possible she may not be eligible for help from the FSF as she's returning to work following maternity leave. She feels soon she may have no option but to give up work.

For some claimants who have managed to access the FSF this can also just push the problem into the next month. Under current UC rules, to claim the childcare element of UC on an ongoing basis a claimant must prove they have paid for the childcare themselves. As FSF payments are paid directly to a registered childcare provider this cannot be used in the same way as a childcare costs receipt. This can therefore leave

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<sup>11</sup> Citizens Advice (2021), [Universal Credit is locking hundreds of thousands of parents out of work](#)

<sup>12</sup> DWP (2021), [DWP annual report and accounts 2020 to 2021](#)

<sup>13</sup> Citizens Advice (2021), [Universal Credit is locking hundreds of thousands of parents out of work](#)

<sup>14</sup> Coram (2021) [Childcare survey 2021](#)

people struggling again to cover upfront costs in the second month. In Northern Ireland Universal Credit Regulations have recently been amended so that a receipt for any upfront childcare costs paid through the Adviser Discretion Fund (their equivalent to the FSF) can be submitted for the purposes of calculating the childcare element of UC at the end of the month, as though the parent had paid these costs themselves. This should help to ensure that they have sufficient resources to pay for subsequent months of childcare in advance before reclaiming those costs in arrears from UC. The Fund itself however remains discretionary.

Similar regulatory change for the rest of the UK would go some way to ease the financial burden on parents but more fundamental change is needed. Citizens Advice believes the Government can fix the root cause of these problems by paying childcare costs *in advance* - either to parents or directly to providers. We are currently assessing a range of policy options. The DWP have expressed some concern that the Northern Ireland model potentially risks paying claimants support for childcare costs twice for one month over the course of their claim. We recognise this may be the case in some situations but believe the benefits of moving to a system that pays support for childcare in advance far outweigh any potential additional costs involved.

### **Recommendations:**

**The need to pay for childcare costs upfront and reclaim them from Universal Credit at a later date is causing significant financial difficulties for many parents, and is clearly acting as a real barrier for many more parents to enter employment or remain and progress in work. To address this problem fundamental change to the current system is needed.**

- DWP should issue stronger guidance to local job centres to ensure work coaches are actively promoting the Flexible Support Fund and Budgeting Advances to all eligible parents moving into work or taking on additional hours, to ensure they receive the support available to help them cover initial upfront childcare costs. Currently the onus is on the claimant to ask what support is available.
- Access to the Flexible Support Fund should be extended to all parents already in employment who are struggling to pay upfront childcare costs following a change to their childcare arrangements or work situation, including when returning from maternity leave and during school holidays. This would help prevent people from having to make the difficult decision to give up work or reduce their hours.
- As a minimum the Government should change UC regulations to allow Flexible Support Fund payments to be treated as if they were a receipt for childcare costs, entitling the claimant to receive the childcare element of UC in subsequent

months. As detailed above, Universal Credit Regulations in Northern Ireland have recently been changed to this effect.

- Pay parents a non-repayable grant on movement into work or when taking on additional hours. A similar change in regulations would then be needed to ensure this grant could be used to calculate ongoing entitlement for support with childcare costs (as above).
- In the longer term, pay childcare providers directly on an ongoing basis by developing a centralised system which provides a link between providers, DWP and claimants - building on the initial success of the Landlord Portal for housing payments.

### **Caps and limits on support**

#### **3. What is the impact on claimants of the monthly maximum reimbursement cap on childcare costs in Universal Credit, and the 85% cap? Is there a case for changing either of them? If so, what do we know about the likely costs and effects?**

No comment.

#### **4. What effect do the existing caps have on childcare providers and the availability of childcare? What has been the impact of not uprating the maximum amount payable since 2005?**

No comment.

#### **5. What impact do deductions from benefit payments have on the amount of childcare support that people actually receive? Are there any changes DWP could make to the way it manages deductions?**

When people on benefits fall behind on their bills, one way they can manage certain essential debt repayments is through benefit deductions. During 2021 Citizens Advice helped over 23,000 people with issues relating to UC deductions. The top three topic areas were the repayment of Advance Payments, benefit overpayments and issues linked with the calculation of deductions.

Deductions are made from people's UC standard allowance. The main aim is to protect people from enforcement action by creditors - but at the same time it also eats directly into the amount of money that people receive in their UC payment. This can have a direct impact on people's ability to pay for childcare, especially as such costs have to be paid upfront and reclaimed. We are currently talking to our advisers about how this works in practice for working parents who are claiming support for childcare costs as

part of their UC claim and would be happy to update the Committee once this information is available.

Recent changes by DWP to reduce the amount that can be taken in deductions are welcome but people still face up to 25% of their UC standard allowance being taken in this way.

### **Jodie's story**

Jodie is a single mum to two children. She started a new job in April 2021 but is currently off sick due to ongoing mental health issues. She has multiple priority and non-priority debts. She is also repaying an Advance Payment, which means £110 per month is being deducted from her UC standard allowance. Her financial situation was made worse after she received much less support with childcare costs than she was expecting. Due to an issue with evidencing these costs between April and June the amount she received under the childcare element was around a quarter of what she had paid out. This is further affecting her mental health and ability to return to work. She cannot afford to feed herself and pay her debts and is unsure how she will manage in the future.

We have previously raised concerns that deductions can tip people into very difficult circumstances.<sup>15</sup> At a time when people are facing unprecedented challenges, it's vital that DWP, local government, landlords and utility companies are supporting people who are subject to deductions as much as possible.

Citizens Advice recently commissioned research which focused on experiences of using deductions for energy bills, but it also considered wider experiences of deductions. While the recommendations in our report focus on improving the customer journey for energy deductions,<sup>16</sup> several should also be considered for other deductions.

### **Recommendations:**

- Ensure repayments are based on a person's ability to pay
- Provide clearer information/guidance to claimants and creditors on how deductions work
- Provide more support to help people get back on track after they finish paying their debt.

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<sup>15</sup> Citizens Advice (2019), [Managing money on Universal Credit](#)

<sup>16</sup> Citizens Advice (2021), [Taking too much? The experience of benefit deductions to pay for energy and other debts](#)

### **Advice on childcare support**

- 6. In 2019, the Department said it would work with other departments to improve communication with, and information provided to, claimants about childcare support. How effective have these changes been? What further changes could DWP make?**

No comment.

### **Wider childcare support schemes**

- 7. Does the Government's current approach to funding childcare support represent good value for money?**

No comment.

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