

Universal Credit is locking hundreds of thousands of parents out of work

- Rigid rules on childcare in Universal Credit are making it harder for parents to enter work or increase their hours, and are forcing some parents to give up their job entirely
- Requiring parents to pay for childcare costs upfront - and partially reimbursing them up to a month later - is potentially locking over 300,000 parents out of the labour market
- As pressures on low-income households' budgets rise,¹ and tackling economic inactivity becomes a key target for driving our recovery,² fixing the upfront cost rule could support hundreds of thousands of parents back into work

Childcare rules in Universal Credit are creating barriers to work

To access financial support with childcare costs, families on Universal Credit are required to pay for childcare upfront. The price of childcare in the UK varies with a child's age, but remains one of the highest among OECD countries.³ Many childcare providers require deposits or upfront payments - which can exceed £500.⁴

Hundreds of thousands of families simply can't afford the upfront costs of childcare fees. Families receiving Universal Credit with children under 5 have, on average, only £200 left over for food and other costs every month after housing costs and essential bills, and just £121 in savings.⁵

¹ CPIH inflation hit 3% in August, a nine year high (see ONS - [Annual CPI inflation time series](#)). In October 2021, energy bills rose by £139 - £153 a year just as households receiving Universal Credit lost £20 a week. In Spring 2022, energy bills are predicted to rise again and even more sharply - [by £383 annually](#).

² See Institute for Employment Studies (2021) [Labour market statistics, October 2021](#)

³ OECD (2020) [Is Childcare Affordable?](#)

⁴ 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](#)

⁵ 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 527 households with children under 5. We have used the median values.

This potentially leaves hundreds of thousands of parents locked out of the labour market

Our research shows that over **1 in 6 families receiving Universal Credit 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.⁶

Some parents who secure a job offer are left unable to take it up due to this rule. 1 in 3 (34%) of our advisers have seen clients in the last 6 months who were unable to accept a job offer because they couldn't afford the upfront costs of childcare.⁷

Parents who want to but are unable to work due to our childcare system creates a huge loss in potential earnings, estimated at £1.2 billion per year, with knock-on effects for lost tax receipts.⁸

...and leaves working parents with difficult choices

School holidays can mean additional childcare costs and difficult choices - between debt, reducing their hours or losing their job altogether - for many working parents receiving Universal Credit. Nearly 1 in 3 (30%) of our advisers had seen clients forced to give up their job or reduce their hours in the last 6 months because of upfront childcare payments.⁹

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 and 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.

⁶ Ibid. We asked 1,103 households receiving UC with children under 16 what, if anything, would prevent them from increasing their income from earnings. Figures from the survey were extrapolated to the population level using DWP data on the total number of households receiving Universal Credit with children under 16 in May 2021 (latest available data).

⁷ In August 2021, we surveyed over 200 advisers across England and Wales. 201 advisers answered a question about the impact they had seen, if any, of the upfront payment rule in the last 6 months.

⁸ Save the Children (2018) [Lost opportunities, lost incomes](#)

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Available mitigations aren't working well enough

The Flexible Support Fund (FSF) is available to support parents who are unable to cover the upfront costs of childcare - but this mitigation isn't working for everyone.

Our advisers suggest that low levels of awareness are part of the problem. 2 in 3 (68%) advisers say that the majority of Universal Credit clients with children they had seen in the last 6 months were unaware of financial support for childcare costs through the FSF.¹⁰

Even if awareness increased, the scale of the problem likely dwarfs the size of the fund. Total spending through the Flexible Support Fund amounted to £36.4 million in 2019-20 - with 4% to 23% going to childcare costs.¹¹ With potentially hundreds of thousands of parents locked out of work and average monthly childcare costs ranging from £160 to £510,¹² current levels of spending would not be sufficient to meet their needs.

Help parents work by fixing the upfront payment rule

The upfront payment rule creates a significant cash flow problem that potentially blocks hundreds of thousands of parents from accessing the support that is designed to support them into work.

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 to provide an effective and practical solution.

¹⁰ In August 2021, we surveyed over 200 advisers across England and Wales. 210 advisers answered a question about awareness of the FSF among Universal Credit clients with children. We have combined the categories 'most clients are unaware' (39%) and 'almost all or all clients are unaware' (29%) into 'the majority of clients are unaware' (68%).

¹¹ Flexible Support Fund expenditure amounted to £36,411,000 for the [financial year 2019-20](#). Expenditure for childcare is only recorded as a separate category from October 2019 onwards and was recorded in the 'removing barriers' category between April - September 2019. The lower end of the range (4%) assumes none of the expenditure on 'removing barriers' was spent on childcare. The upper end of the range (23%) assumes that all expenditure on removing barriers between April and September 2019 was spent on childcare. The true value will be between these two figures.

¹² Coram (2021) [Childcare survey 2021](#)