



Citizens Advice Briefing: Support for childcare costs in Universal Credit

November 2013

Introduction

Citizens Advice advised 2.1 million people on 6.6 million problems in the year 2012/13. In the last four quarters for which statistics are available, bureaux gave advice on almost 3 million enquires on benefits and tax credits.

Citizens Advice supports the aims of Universal Credit and has remained actively involved in working with the Government to help realise the objectives of Universal Credit. We believe it is important that the system is as simple as possible to use, and that financial traps and cliff edges within the system do not undermine the ability of claimants to make work pay.

We welcome the extra £200 million support for childcare costs in Universal Credit announced in the budget of 2013. The Government has proposed using this extra funding to give 85% childcare costs to families if all parents are earning above the income tax threshold. The lowest income working parents will receive help with 70% of childcare costs. We believe that this proposal if implemented will undermine the aims of Universal Credit.

We are concerned that this proposal creates a system that is more complex, less flexible and is not targeted at those who are most in need. As a result some parents, particularly those earning at or near the minimum wage and often being expected to work variable hours, will have very limited options to make work pay. As well as explaining our concerns with the current proposal this briefing identifies four worrying situations that, as a result of this proposal, parents may encounter as their child grows up:

- **Lone parents or second earners who want to return to work after maternity leave** - if they are on a low hourly rate of pay with no access to informal childcare are likely to find it difficult to return to work
- **Households with high childcare costs with variable hours of work** will find it impossible to predict whether they will lose money by working an extra shift
- **Lone parents with more than two children of school age** are likely to find it extremely difficult to cope through the school holidays if they need to pay for formal childcare
- **Tying the threshold to the Personal Tax Allowance (PTA)** means that people who are actually working the right number of hours to qualify for the higher rate of support risk sudden and dramatic loss of income (potentially up to £180 a month, over £2000 a year) if PTA rises.

Recommendation

We believe that to make work a viable and beneficial option for parents, Universal Credit claimants should receive at least 85 per cent support with their childcare costs. This level of support shouldn't be restricted to those earning above the personal tax threshold – soon to be £10,000 a year.

In addition we feel that further consideration needs to be given to the interaction of Universal Credit with the proposed Tax Free Childcare (TFC) support system and the practical burdens of reporting childcare costs monthly so that further potential barriers to work are reduced.

Overall concerns with the current proposal

It does not make work pay at all hours for many parents

Lord Freud recently commented that Universal Credit 'creates a simple system, one that makes work pay at all hours'¹

However the current proposal is a two tier system of childcare support in Universal Credit. For some parents this will have the consequences of significant financial disadvantage and reduced rather than increased options to make work pay. For these parents it will increase the complexity of the system.

It provides less support to those who need it most

As those with higher incomes receive 85% support with childcare they are able to make work pay across a wider range of hours; whilst this proposal decreases such options for those parents on a lower income. Someone earning the minimum wage does not reach the tax threshold and therefore become entitled to the 85% support unless they are working an average of at least 31 hours a week. However, if they have high childcare costs because their children are young, they may actually reach the childcare cap and start seeing reductions in their financial gain from working this amount of hours. On the other hand, someone earning £10 an hour will reach the personal tax threshold and start receiving 85% support with all their childcare costs when working 20 or more hours a week. Someone earning £15 an hour will receive 85% support with their childcare costs when working 14 or more hours a week. Yet because of the higher level of income of these groups compared to childcare costs they are less likely to have difficulty making work pay anyway.

The current proposal for support within UC is complex, meaning parents will find it difficult to know whether they can take on extra work without losing money

The creation of a two tier system of childcare support within Universal Credit is incredibly complex and will be difficult to understand and navigate – parents won't know whether taking an extra shift will benefit them or not without a complex 'better off' calculation. In many cases as shifts are allocated on a weekly or fortnightly basis it will be impossible for parents to know in advance whether they will be better off or not, meaning they will potentially have to take a large financial risk each month.

Some parents will need to make complicated decisions about whether they are better off on Universal Credit or Tax Free Childcare and switch between the two throughout the year

The many parents who need extra childcare in the summer holidays and those whose income fluctuates will find themselves in the difficult situation of having to switch between the different types of childcare support. The government consultation on TFC indicates that there is consideration of restricting the number of times people can switch throughout the year. Once again this increases the complexity of the decisions parents face about childcare as they will have to decide when it is most beneficial to switch.

Combined with the practical difficulties of monthly reporting and verification of childcare costs in Universal Credit these plans will increase uncertainty and the risk of over and under payments

Currently parents report their childcare costs to tax credits annually or when they change significantly. Not all claims require verification of childcare costs but this is increasing through Compliance exercises. As Universal Credit is assessed and paid monthly, parents will have to report and potentially verify their childcare costs each month; creating a massive practical burden for already time-stretched parents and increasing the risk of errors and over or under-payments. We are concerned that delays in reporting and verification are likely to lead to delays in payments which could put many parents into financial hardship.

¹ <https://www.gov.uk/government/speeches/welfare-reforms-progress-update>

Taking into account these concerns we have looked at four worrying situations that parents may experience as their child grows up as a result of the current proposal.

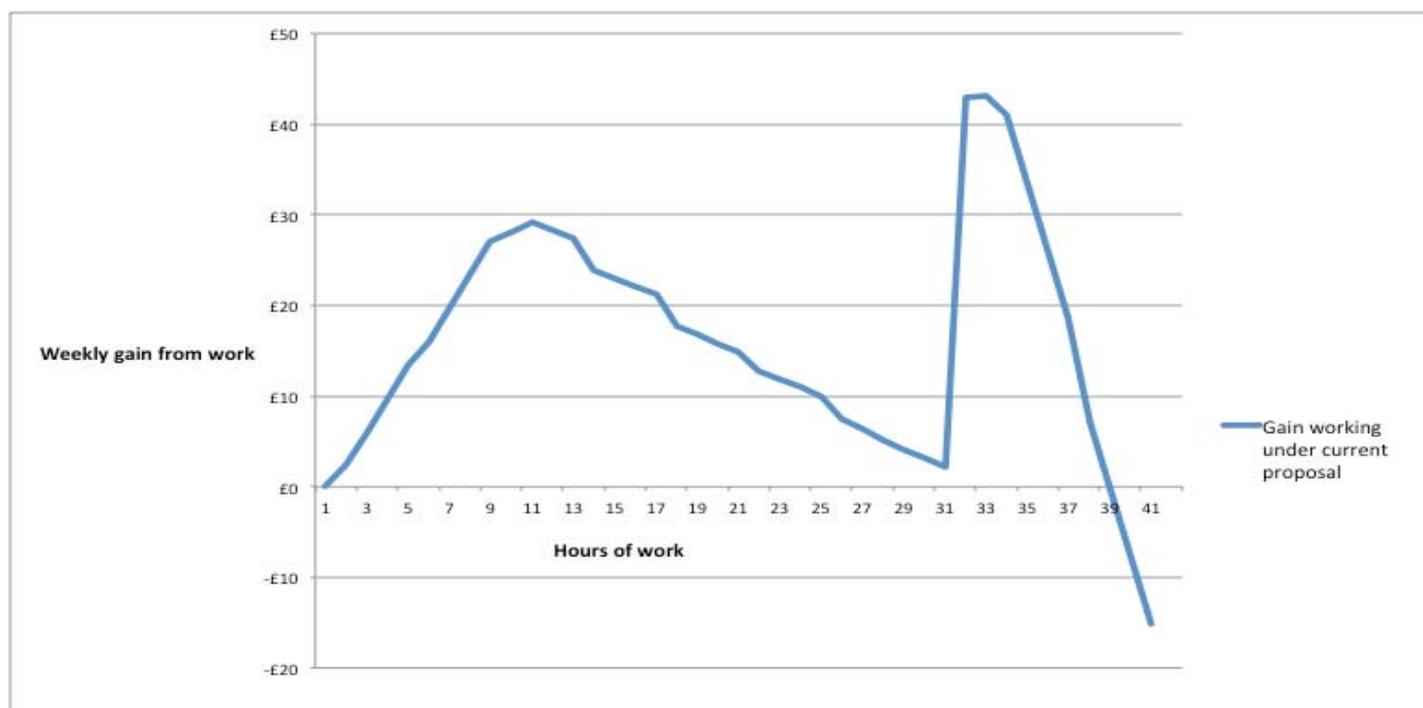
Returning to work after maternity leave

Following maternity leave, whether to return to work and what hours to work are key decisions for many parents.

We strongly believe that if a parent doesn't wish to return to work after maternity leave that should be their decision. But for those wanting to return to work it is vital to create a system that reduces any difficulties in doing so; particularly as it is likely to be much easier to get back into work at this point with a job to go to than later after a long period out of the workforce.

Using the current proposal, the graph below shows what the gains from working are for a lone parent with two children aged one and three, wanting to return to minimum wage employment after maternity leave. It shows her gains as she increases her hours of work and **demonstrates that unless she can pick the exact number of hours a week she works she risks losing money by working extra hours.**

Figure 1 – Graph showing change in gain from work as hours of work increase for a single parents earning minimum wage with two children aged 1 and 3 returning to work after maternity leave



As can be seen from the peaks in the graph, having two rates of childcare costs payable depending on income introduces complexity and uncertainty. If she can negotiate with her employer to work a couple of four hour shifts each week, she will be able to gain as one of her children is entitled to 11 hours a week of free childcare². However if the employer insists on her working more hours than

² Three year olds are entitled to 15 hours a week of free childcare for 38 weeks a year. The gains from work are reliant on her being able to negotiate with her childcare provider for her to average this free offer over the whole year.

this, she starts to lose money by doing extra shifts as she begins to have to pay for both children's care, her earnings disregard has run out and her council tax support is reducing. She would gain if she can negotiate working 31 or 32 hours a week but she will rapidly start to lose money if she needs to work more hours than this as she will have reached the childcare cap and so will get no support with any further childcare costs.

Because of the move to treating Maternity Allowance as income under Universal Credit, many parents in receipt of this will have already faced the difficult decision of having to return to work before the end of their maternity leave and sooner than they intended, due to hardship. Under the current proposal if they cannot negotiate the right hours of work they may find that their financial situation has not improved and that they have no further options to improve it.

The **current system is actually more generous to those who need extra support** than the changes proposed. Under the current system, low earners with childcare costs who work more than 16 hours a week receive support with 90 to 95% of their childcare costs. This level of support guards against a loss of money by parents who take on more hours. Because of this, when returning to work following maternity leave parents are able to be much more flexible about their working hours than they will under the current proposal. Yet despite this, bureaux often see clients who want to return to work after maternity leave but are having problems negotiating this with their employer and the childcare provider:

'A single mother from Wales with 2 children came to the bureau as she was struggling to arrange a return to work following maternity leave. She worked for a large supermarket chain and needed to change her shift pattern so that she could sort out childcare. Despite being flexible and suggesting several different shift patterns that would be suitable she was told she had to do some evening shifts. Because of this she is now looking for another job or contemplating claiming Income Support as she cannot arrange childcare after 5:30'

'A client working for a large supermarket chain asked to return to work part time following her maternity leave. Shortly afterwards she was told that she was being made redundant and she feels that this was due to her request for a change in working hours'

'A client from the West Midlands came to the bureau as she faced an impossible decision. Her work place have informed her that due to restructuring in the workplace she either has to take a lower paid job with fluctuating hours on return from maternity leave or take redundancy. The client doesn't know what to do as having fluctuating hours would be incredibly difficult with a small child'

Having fluctuating hours of work

As the graph in figure 1 shows there are two small peaks where the gains from work are maximised. However working more or less hours than this and gains will be reduced – in some cases very significantly.

From the figure 1 graph it is clear that a parent on fluctuating hours, aiming to work 31 hours per week, could find themselves in a very difficult situation. If their average hours drop to 30, they will receive about **£170 less than they were expecting at the end of the month** – if they have significant extra costs such as for travel to work they will have actually lost money by working. However if they **overshoot their hours** then they are likely to find the bill from their childcare provider exceeds the cap of £300 on childcare costs so they will not get any help with some of those costs and as a result **may again be about £170 worse off at the end of the month** than they were

expecting. A sudden unexpected drop in income on this scale for someone on a low income would be very difficult to cope with.

Much has been made of removing the cliff edge so that those working less than 16 hours can still receive support with their childcare costs. Of course this is useful - but the proposals mean that **for many the cliff has been replaced with two peaks**. It is possible to move away from a cliff edge – it is not possible to move away from a peak - one cannot move backwards or forward – any variation in average hours worked either way will lead to severe loss of income.

Even when parents have worked out which hours will make work pay, evidence from bureaux indicates that they are often under pressure from employers to take on extra hours or suddenly find their hours being cut. The current proposal means that employees will not be able to be at all flexible about their hours of work as small changes can mean they are significantly worse off.

Although technically workers are not obliged to take extra disadvantageous hours, clients often report that they are afraid that refusing antisocial or inconvenient offers of shifts might result in their loss of future work which the employer is not obliged to provide to them. CAB advisers continue to see a lot of parents who are being pressured into taking shifts that lead to expensive childcare.

'One bureau in the South East advised a lone parent with two school age children. She had worked for ten years as a part time care worker in a residential nursing home. She was told she had to start working weekend shifts. She found it very difficult to get a reply to her request not to work these shifts and was finding it very difficult to cope with the atmosphere which she was facing in the workplace as a result of her request'

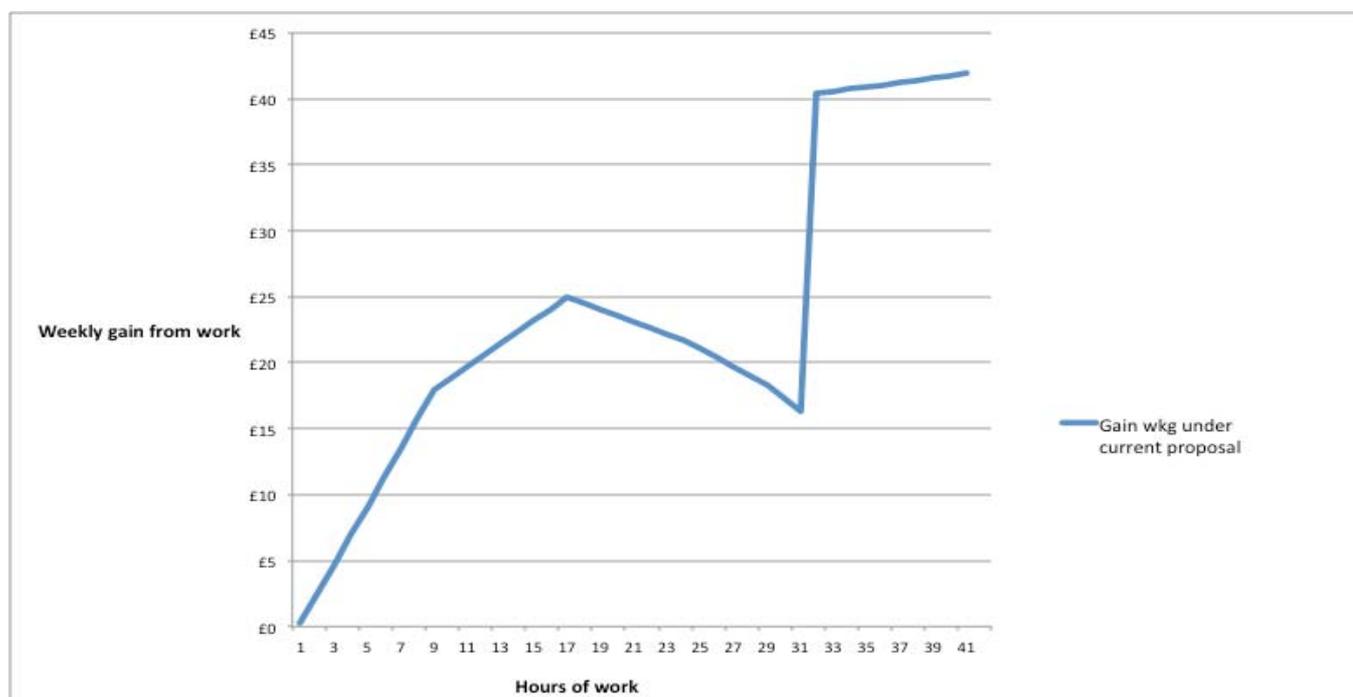
'Another adviser reported seeing a lone parent with a three year old child. The client resigned from her job because of the level of unpleasantness caused by this issue. She worked for a clothing company and was frequently rung at very short notice and asked to work extra shifts. The adviser commented that the client "felt under pressure to agree to the shifts requested as she felt that she couldn't face the uncomfortable atmosphere at work when she would return if she refused." With the help of the bureau she managed to get an agreement about not being pressured into taking shifts that caused her difficulties with her childcare. However as a result, the atmosphere between her and her manager became so unpleasant that she felt she had no option but to resign'

'A client from Stoke on Trent needed to reduce her hours to increase the amount of time she had to care for her disabled daughter. Because of the care arrangements available she was only available to work one night shift a week. After working for the hospital for over 20 years they are now in the process of dismissing her as they have deemed that her inflexibility makes her incapable of doing the job'

These complex calculations continue as children grow up and childcare costs reduce.

The following graph shows gains from working at the minimum wage for a second earner in a couple. It assumes she has a contract for 16 hours of work a week and that one of her children is in school, while the other is entitled to 11 hours of free childcare. Working up to 16 hours a week, she is gaining from every extra hour of employment. If the extra work takes place outside of school hours she will still gain, if she can work an average of at least 31 hours that month - but if she averages less than 31 hours the extra hours she has worked will have cost her money.

Figure 2 – Graph showing change in gain from work as hours of work increase for second earner on minimum wage in a couple with two children aged 3 and 5 years



Many will not be in a position to know at the beginning of the month whether they will get enough extra shifts to move over this threshold. It may depend on factors entirely outside their control, such as when a colleague will be back to work from sick leave. This introduces an unacceptable level of uncertainty into the system. In the current system it is already difficult to calculate gains from work. Under the current proposal for childcare support in Universal Credit it will actually be impossible for someone in this position to work out whether they will gain or lose money by working an extra shift.

‘A client with 3 children recently started a job as a care worker. She was told that she would be working at least 16 hours a week but was placed on a zero hour contract. Since starting so far she has only been offered less than a third of the hours she expected, meaning she cannot make ends meet. She wants to resign but is worried about repaying training costs and problems with her benefits’

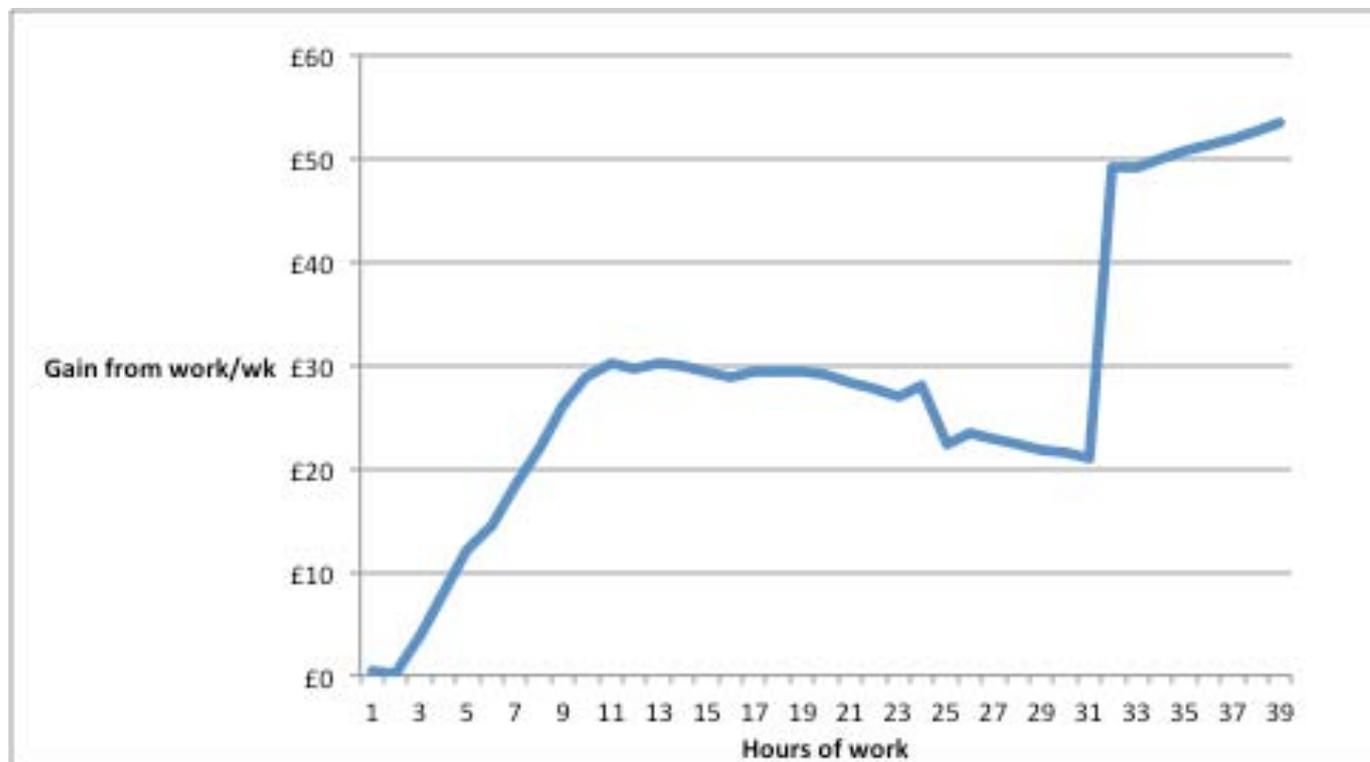
‘A bureau in London recently saw a client who normally worked 40 hours a week but after returning from some annual leave found that his shifts had been given to another staff member and he was left with a small amount of varying hours. He is worried that as he can’t make this work with his childcare arrangements he will not be able to accept the new hours at all let alone afford to live on a smaller wage’

Needing school age childcare

It may seem that when a child reaches school age all challenges around childcare and making work pay are resolved. However the current proposal will still cause difficulty for those on the minimum wage leading to losses at some points as hours increase, because children will still require childcare during non-school hours, especially where parents are on fluctuating shifts. This will particularly affect lone parents and second earners.

The following scenario looks at a single parent with three school age children and assumes that the children need to attend a breakfast club for every four hour shift and an after school club for longer shifts³. As well as these term time assumptions, it takes into account school holidays when it is assumed that on each working day the children need to attend a holiday childcare scheme.⁴

Figure 3 – Graph showing change in gain from work as hours of work increase for a single parent on minimum wage with three school age children



What is of concern is the dip in gain between about 20 hours of work and 32 hours of work. At this point, this parent is paying national insurance contributions and is also losing support through council tax support; meaning the gain from work reduces.

Understanding how to make work pay is particularly complex for this group, as unlike under the current system they will not be able to average out their childcare costs over a year due to the monthly assessment periods of Universal Credit. This means that during the summer holidays, when need for childcare is highest, they may find that they cannot get support towards the whole amount due to the cap of £300 per week for childcare costs.

Parents in this situation may be better off stopping their Universal Credit claim and applying for Tax Free Childcare. Come September, with term time childcare resumed, confusingly they may again be better off on Universal Credit and will be required to restart this claim.

Even with the current system bureaux tell us that parents face difficulties in changing their hours and affording childcare care outside of school hours and for the summer holidays.

'A client working in a hotel in Basingstoke needed advice as whilst trying to change to weekday shifts so she could arrange childcare she was told that this was not possible as it would place too great a burden on other employees. Her employer told her that if she insisted that she couldn't work weekends she would have her full time hours reduced to 3 days a week which she couldn't afford'

³ Average rates for UK used as found in survey by Family and Childcare Trust

http://www.daycaretrust.org.uk/data/files/Research/costs_surveys/Childcare_Costs_Survey_2013.pdf

⁴ <http://www.familyandparenting.org/news/Press-releases/2013+Press+Releases/Holiday+Childcare+Costs+Survey>

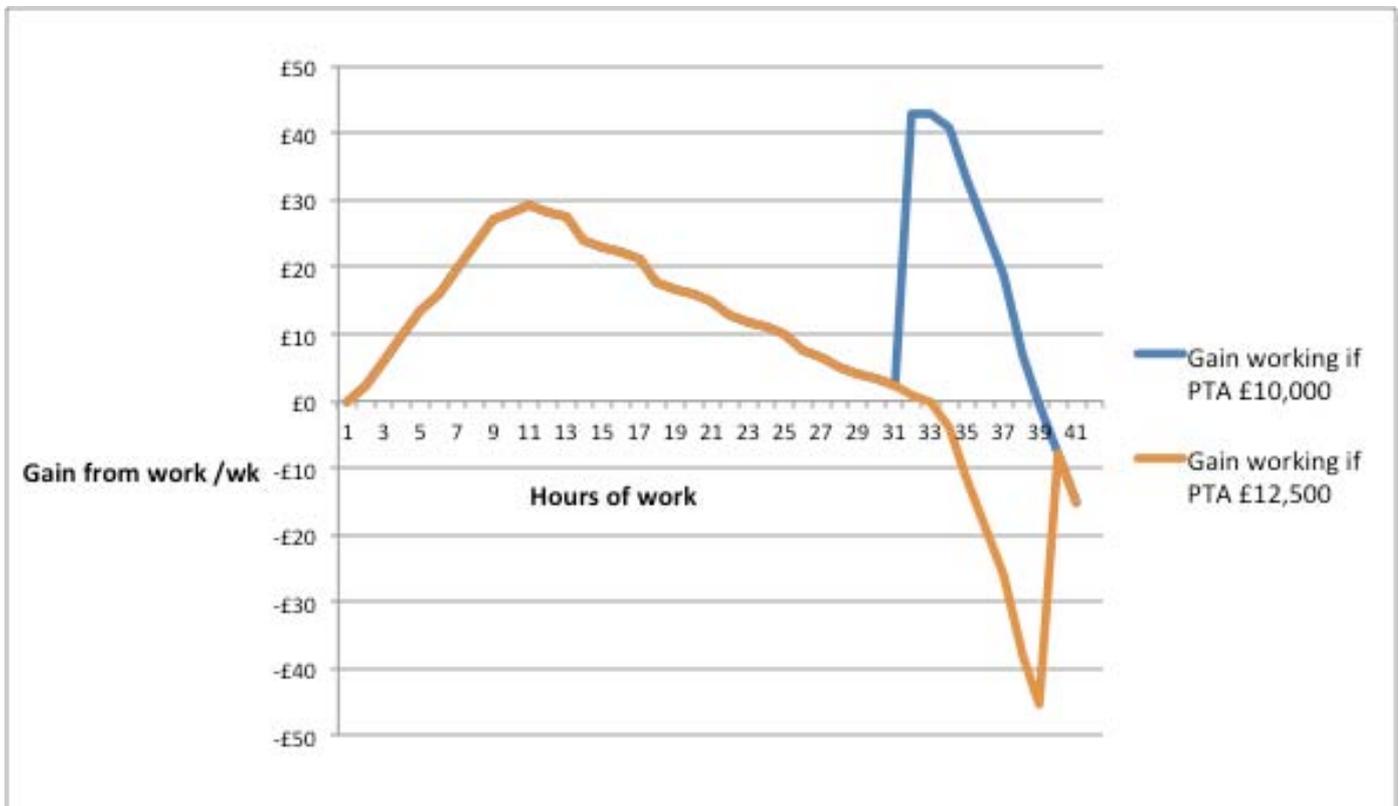
'A client from London is looking after his 11 and 13 year old during the summer holidays. He has two full time jobs and doesn't have access to informal childcare. He felt that he had no option but to ask for unpaid parental leave for the summer holidays which has since been refused'

A bureau saw a client recently who was panicking about childcare costs during the school summer holidays. She had managed to afford the £90 per week cost for the first 2 weeks but could not find any money to pay for the remainder of the holiday period. She had applied for help with childcare costs for the summer holidays but delays in the processing of her claim have meant she has not received this support when it was needed.

Changes in the Personal Tax Allowance (PTA)

Tying the threshold for the highest rate of childcare support to the Personal Tax Allowance (PTA) means that parents who have managed to secure the right number of hours to qualify for the highest rate risk sudden and dramatic loss of income (potentially up to £180 a month, over £2000 a year) if the threshold of that allowance changes. Many parents will actually be losing significant sums of money as a result of working if the PTA rises and they no longer have to pay tax as they will drop from 85% to 70% support for childcare costs. They are likely to struggle with the shifting of the goalposts – many will be caught unawares and be thrown into financial difficulty. Even if they are aware many will be unable to adjust their hours to prevent this loss.

Figure 4 – Graph showing the impact of the Personal Tax Allowance increases for a single parent with two children returning to work after maternity leave on minimum wage



Conclusion and Recommendation

Far from being simple and ensuring work always pays, we have presented several very real situations that will negatively impact on families up and down the country if the current proposals for childcare support are implemented.

We believe that to make work a viable and beneficial option for parents, Universal Credit claimants should receive at least 85 per cent support with their childcare costs. This shouldn't be available only to those earning above the personal tax threshold – soon to be £10,000 a year.

We have modelled a couple of ways this could be delivered at a cost we estimate to be between £200 and £300 million. We have looked at the impact of paying 85% of childcare costs through UC and at paying 70% in UC plus allowing UC claimants to claim TFC. As can be seen by the graph below, paying at least 85% of costs through either of these options would ensure that most people, even on a low income and with high childcare costs, would not lose money as a result of working more hours.

The Government's current proposal does not provide support to those who need it most and it increases complexity whilst decreasing the amount of flexibility parents can have with their working hours. If no extra money is available then removing the two tier system and spreading the money evenly between all UC claimants would at least remove the risk and complexity that the current proposal introduces and ensure that those who need extra support the most receive some help.

Figure 5 – Graph showing impact of different ways of delivering support for childcare costs in Universal Credit for a single parent earning minimum wage with two children aged one and three

