

Locked out of work

How support with
childcare for low income
families is reinforcing
instead of removing
barriers to work



Executive Summary

The Spring Budget is set to focus on reducing economic inactivity in a bid to drive growth. Alongside measures to support disabled people and those with long-term health conditions who have left the labour market, it's critical the government focuses on removing barriers holding low income parents back.

Parents wanting to work need to buy childcare, but with the cost of full-time care for children under 3 now exceeding the average cost of renting in England, many simply can't afford to.^{1,2} And instead of helping parents overcome these barriers, the support offer for low income families reinforces them.

Support is only available after fees have been paid, locking parents out of work. And parents who are able to find the upfront costs will find they can't work the hours they want because of limits on support set over 15 years ago that no longer reflect the cost of childcare today.

Hundreds of thousands of low income parents who want to work are being locked out of jobs, or trapped in part-time work due to a support system that isn't fit for purpose.

Getting the support offer right for low income families who wouldn't otherwise be able to enter work is a win-win situation. Families benefit from higher incomes, employers benefit from additional workers, and the economy benefits from higher productivity.

The government must reform the childcare offer for low income parents. It can either extend the provision of free childcare hours to younger children or reform the Universal Credit offer.³ The latter must include providing support in advance – to parents or directly to providers – and removing the reimbursement limit so that it reflects the true cost of childcare.

¹ The average (median) monthly rent was £800 for England between October 2021 and September 2022 (latest available data). See: Office for National Statistics (2023) [Private rental market statistics in England: October 2021 to September 2022](#)

² The average cost of full-time childcare for a child under 2 at nursery is £273.57pw (£1,188.73pm) and for a 2 year old £265.38pw (£1,153.14pm). See: Coram Family and Childcare (2022) [Childcare survey 2022](#)

³ Recognising calls from the sector for providers to be reimbursed the full cost of providing free hours for 2 and 3 year olds. For example, [Early Years Alliance](#)

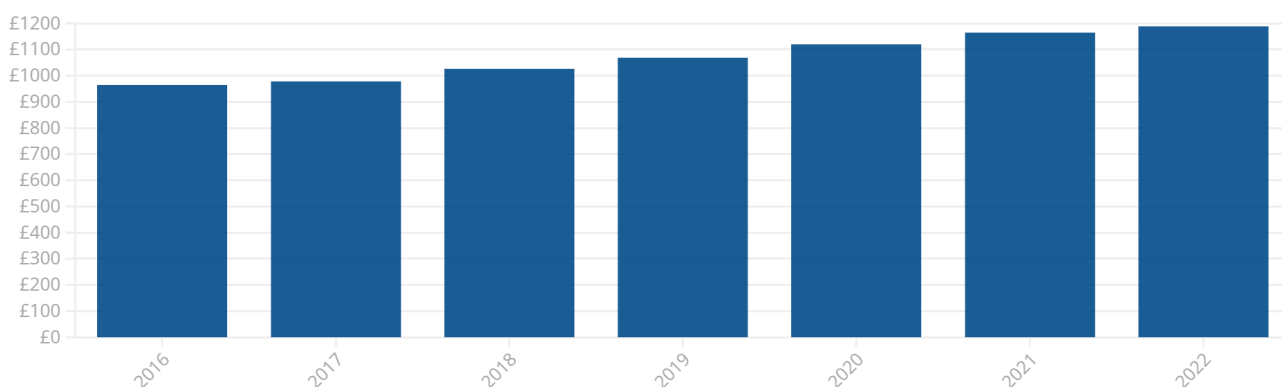
Childcare is a key piece of the economic inactivity puzzle

The conversation around economic inactivity has largely focused on rising levels of ill-health among working-age people. It's vital this group receives the right support to return to and progress in work. But alongside this recent trend, a large group of people with caring responsibilities who want to work face stubborn barriers to doing so. Over 380,000 people who are economically inactive because they are looking after their family want a job. Almost 90% of this group are women.⁴

Unaffordable childcare is central to this challenge, particularly for low income families - and an even greater challenge for single parents trying to cover childcare fees on a sole income. This can be seen in economic inactivity rates and levels of underemployment among single parents that are twice as high as for couples.⁵

With childcare costs set to climb further, this will only get worse. Costs have risen by 23% over the last 6 years, outstripping inflation and are due to rise further.^{6,7}

The average monthly cost of full-time childcare for a 1 year old child in England



Source: Coram Family and Childcare childcare surveys 2016-2022

⁴ Office for National Statistics (2023) [Economic inactivity \(aged 16 to 64 years \) by reason \(seasonally adjusted\)](#)

⁵ Gingerbread (2023) [The single parent employment challenge](#)

⁶ Change in the average weekly cost of full-time nursery childcare for a 1 year old in England. See: Coram Family and Childcare (2016) [Childcare survey 2016](#) (2022) [Childcare survey 2022](#)

⁷ The Early Years Alliance (2023) [Cost of living media release](#)

Our advisers see the impact of this every day.⁸ Parents seeking our help are forced to give up job offers because they can't afford the childcare required to start work, or are forced to reduce their hours or leave their job entirely during school holidays when childcare costs increase dramatically.

A successful system of childcare support should reduce these cost barriers so that parents aren't priced out of work. So why are so many being held back?

Universal Credit is reinforcing parents' barriers to work

Childcare is expensive for everyone, but families on lower incomes with little or no savings need additional support to afford it - and everyone benefits when they do. Families benefit from higher incomes, employers benefit from additional workers, and the economy benefits from higher productivity.

On the face of it, Universal Credit appears to fulfil this need. Parents can have up to 85% of their childcare costs covered by Universal Credit, a larger subsidy than the tax-free childcare system offers. But the way the subsidy is delivered through Universal Credit is reinforcing parents' barriers to work, instead of removing them.

There are 2 major issues with the offer that can and should be fixed at the Spring Budget:

- 1) Universal Credit doesn't provide support in advance but weeks after childcare fees are due, reinforcing the financial barrier to work instead of removing it.
- 2) Universal Credit prevents parents of young children from working full-time because of outdated limits on support.

⁸ Citizens Advice (2021) [Universal Credit is locking hundreds of thousands of parents out of work](#)

Barriers to entering and sustaining work

Advisers consistently tell us the biggest problem for parents is that support is provided in arrears, weeks after childcare fees are due. Parents are forced to pay for childcare upfront, provide the receipt to the Department for Work and Pensions and then wait up to 5 weeks for reimbursement. But too many simply don't have the money to pay the upfront fees.

Abigail's story

Abigail is a single parent with 2 young children and receives Universal Credit. She wants to return to her job after maternity leave, but can't afford the upfront costs of childcare.

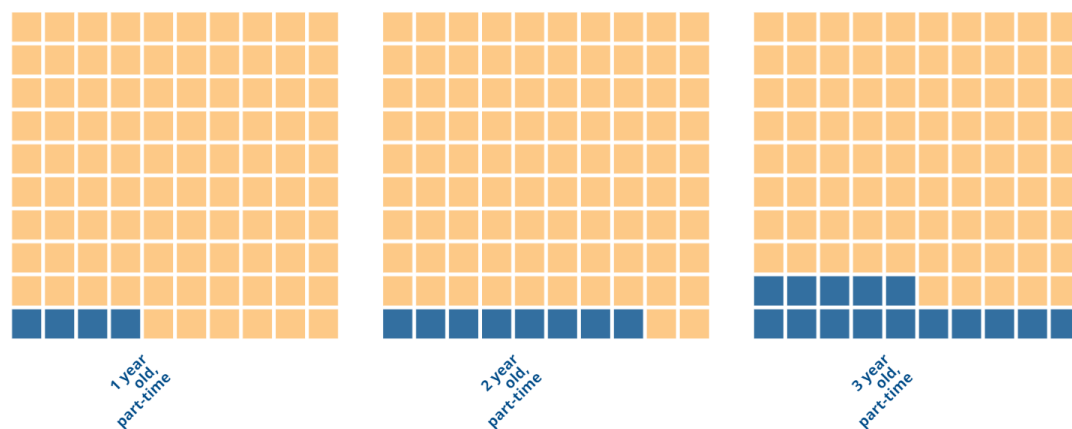
She would need to pay £1,100 in nursery fees upfront. But once her rent has been paid, she has little money left at the end of each month and no savings to draw on. Though she really wants to get back to work, the financial cost seems insurmountable and she's thinking about resigning from her job.

This is particularly the case for single parents of young children; 96% of the single parents who come to us for help with debt and want to move into work are unable to afford the upfront costs of just part-time childcare for a 1 year old and 92% of those with a 2 year old can't meet the upfront payment.⁹ Full-time care is even less affordable. For parents of multiple children, the barrier is even greater.

⁹ Of the 3,399 single parents receiving Universal Credit who were seeking employment and came to Citizens Advice for intensive support with debt in 2022.

Ability to afford upfront childcare fees among people we support with debt

Affordability ■ Could afford upfront costs ■ Could not afford upfront costs



Source: Citizens Advice data on people coming to us for support with debt and Coram Family and Childcare (2022) Childcare survey costs¹⁰

Children in households earning very low incomes are eligible for 15 hours free weekly childcare when they turn 2. And when children reach 3 years old they become eligible for 30 hours of free childcare if their parents are working.¹¹ But both of these are for only 38 weeks of the year. At an average of 11 hours a week (for 2 year olds) or 22 hours a week (for 3 year olds) over the course of a full year, this still leaves families facing substantial upfront costs. And even once children are in school, school day wraparound care and holiday childcare costs continue to present barriers to work.

This isn't just a problem for people coming to us in debt. Our polling suggests that over 300,000 parents receiving Universal Credit are prevented from taking on a job or additional hours because of the upfront payment rule.¹²

The government has recognised this issue, but the current approach to mitigating the problem using the Flexible Support Fund isn't working. The fund exists to help job seekers with work-related expenses - travel and clothes for an

¹⁰ The 38 weeks funded 2 and 3 year old childcare places have been averaged out across all 52 weeks of the year to establish the average 'top-up' parents would need to be able to work part-time.

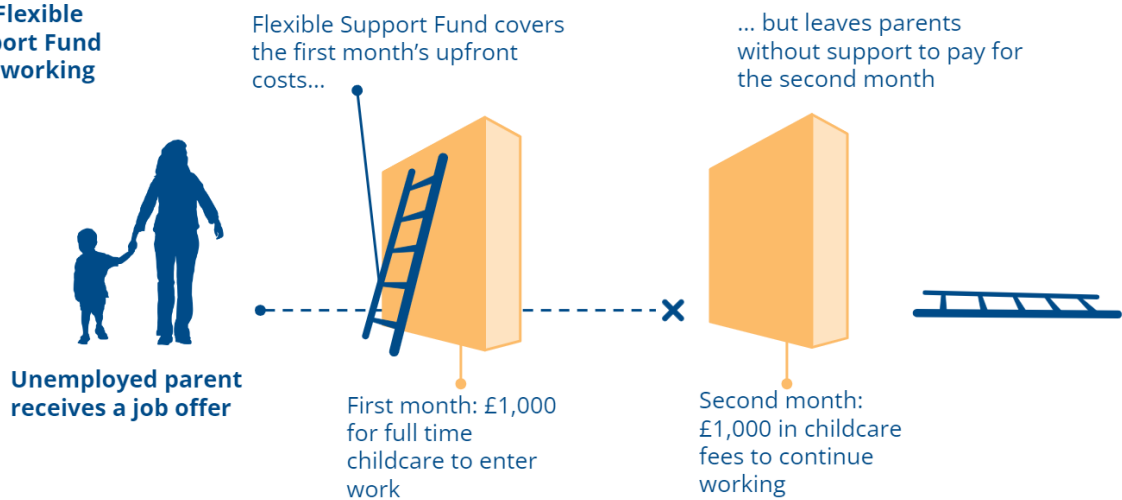
¹¹ See: www.childcarechoices.gov.uk

¹² Citizens Advice (2021) [Universal Credit is locking hundreds of thousands of parents out of work](#)

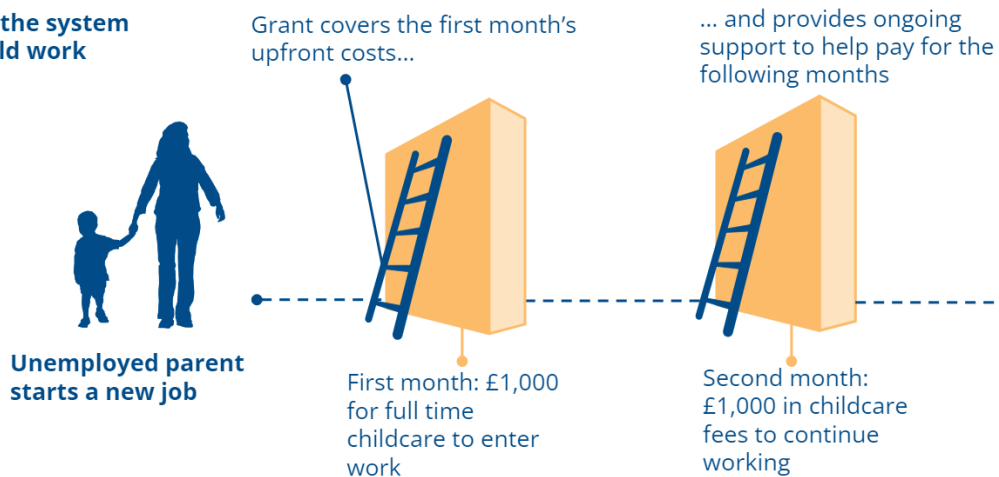
interview, or childcare to start a job - that would otherwise have held them back. But instead of removing the barrier of upfront costs, it just delays it.

Universal Credit's rules mean that parents can't be reimbursed for childcare fees paid using the Flexible Support Fund. While the grant helps parents with the first month's fees, they are left to cover the upfront costs of the second month without support - pushing the upfront costs problem into the following month.

The Flexible Support Fund isn't working



How the system should work



The government needs to provide support for childcare costs in advance - either to parents or directly to providers - to remove this barrier to work. This can be done by either:

- Introducing a non-repayable grant to help parents pay for childcare when moving into work or taking on additional hours. The grant must trigger ongoing support through the childcare element of Universal Credit to avoid replicating the problems of the Flexible Support Fund.
- Paying providers directly by developing a payment system that links providers, DWP and claimants, mirroring that used under tax-free childcare.

Barriers to working full-time

Parents of younger children who are able to overcome the upfront costs barrier and access support will find their choices around work constrained by outdated limits in Universal Credit. The maximum amount of support available through Universal Credit - £646 a month for 1 child - is based on an assessment of what childcare cost in 2005, and hasn't increased since the Universal Credit limit was set in 2016.¹³ As the cost of childcare has risen significantly, and the limit has remained frozen, parents of younger children have become unable to work full-time.

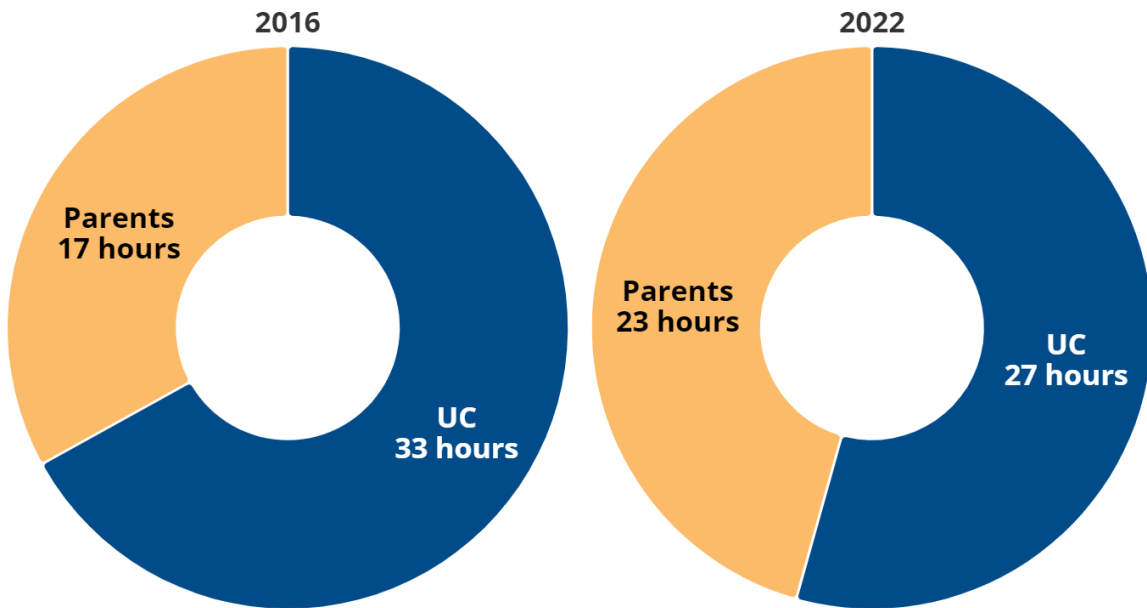
A parent of a 1 year old child has to buy around 50 hours of childcare to work full-time, accounting for the travel to pick up and drop off their child either side of work. In 2016, Universal Credit would fully cover around 33 of those 50 hours.¹⁴ In 2022 it covered just 27 hours.¹⁵

¹³ The limit on support was introduced with [Working Tax Credit](#). Parents could receive 70% of eligible costs (up to £760 a month). While [Universal Credit](#) increased the reimbursement rate to 85%, the limit on eligible costs remained at £760 (giving parents a maximum of £646 a month).

¹⁴ The full-time cost of childcare for a 1 year old was £964.60 a month in 2016. See Coram Family and Childcare (2016) [Childcare survey 2016](#)

¹⁵ The full-time cost of childcare for a 1 year old was £1,188.73 a month in 2022. See Coram Family and Childcare (2022) [Childcare survey 2022](#)

Universal Credit (UC) covers less of the 50 hours of full-time childcare for a 1 year old than in 2016



Source: Our calculations using Coram Family and Childcare 2016 and 2022 childcare surveys and Universal Credit limit

Parents with 2 children face a less generous limit of £1,108 a month. And parents with 3 children or more receive no additional support through Universal Credit.

The number of hours covered by Universal Credit has fallen but parents can't pick up the slack. If parents exceed the limit, they spend more on childcare than they earn from working additional hours, after tax and the Universal Credit taper is applied.¹⁶ We looked at how the limit affects parents' ability to work additional hours, as they try to increase their working hours in half and full-day blocks.

Parents in London are disproportionately affected because childcare costs are significantly higher in the capital but are subject to the same limit.¹⁷

London-based single parents with a child under 2 would see their income fall if they worked more than 19 hours a week at the minimum wage. Buying another half day of childcare to work additional hours would mean they reach the point

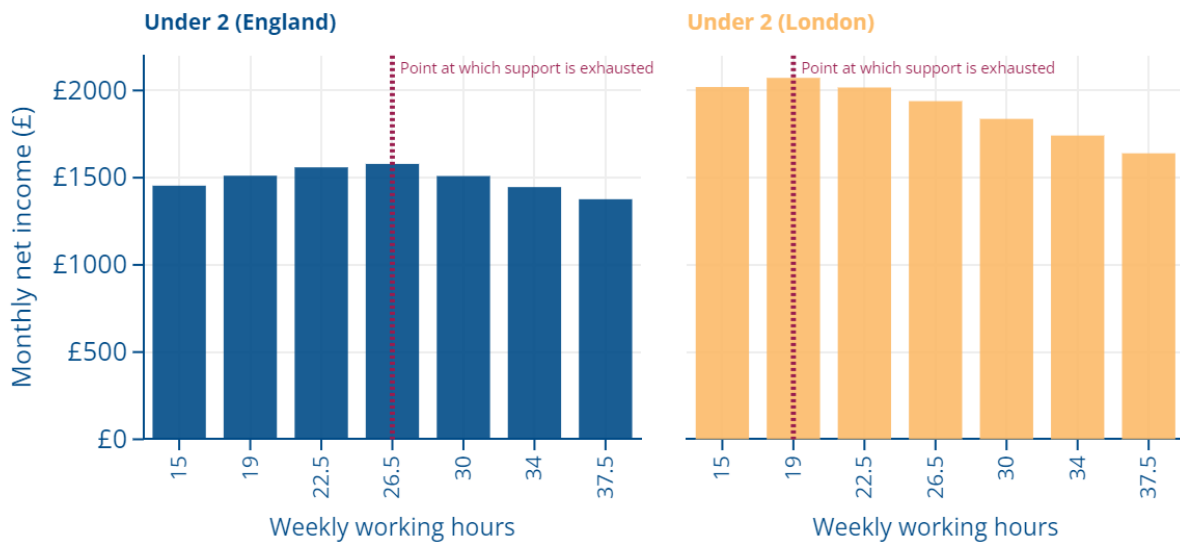
¹⁶ The 'taper rate' reduces your Universal Credit as you earn money through working. For every £1 that you earn through work, your Universal Credit award is reduced by 55p. Therefore, to get an extra £1 in your pocket, you need to earn more than twice that amount.

¹⁷ Childcare costs in London (for a 1 year old, full-time in 2022) are between 10.63% and 41.11% higher than the rest of England, on average. See Coram Family and Childcare (2022) [Childcare Survey 2022](#).

at which support from Universal Credit is exhausted, and they face paying more out on childcare than they earn from the additional hours. Parents outside of London with children under 2 can work a maximum of 26.5 hours before reaching the same point.

Work doesn't pay for single parents with young children.

Monthly income by number of hours worked for single parents.

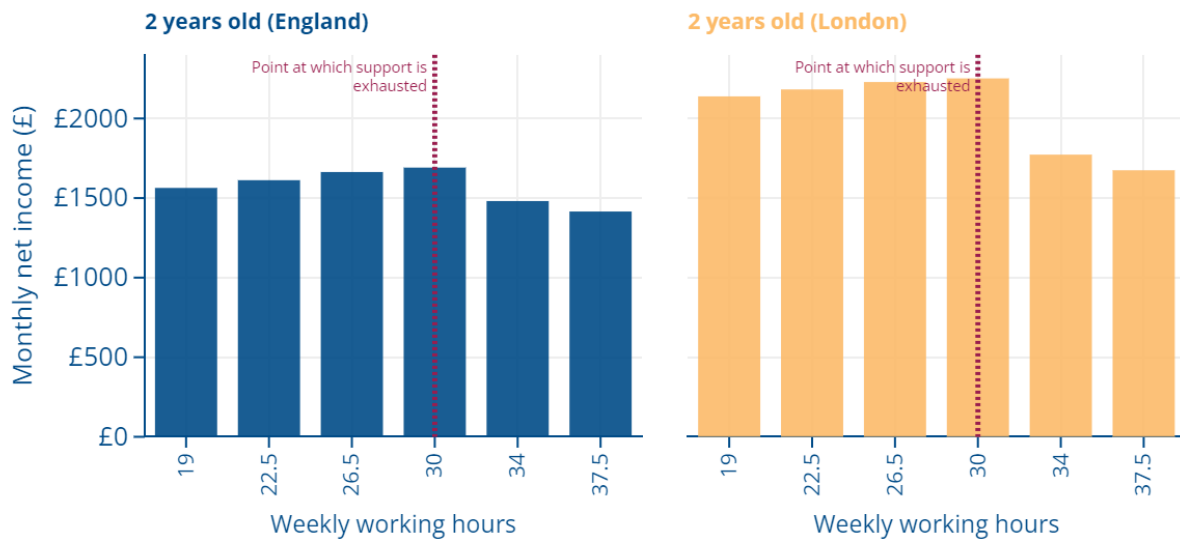


Source: Our calculations using Coram Family and Childcare 2022 childcare survey and Universal Credit limit, based on working at the minimum wage for an individual over 23 years old

While parents of children aged 2 receiving Universal Credit are eligible for 15 hours of free childcare for 38 weeks, eligibility is withdrawn once their earnings exceed £15,400 - at around 34 hours a week on the minimum wage. That means parents working 30 hours a week who want to buy another half day of childcare to increase their hours would cross the threshold, lose their entitlement to the 15 free hours and exceed the reimbursement limit as a result - trapping them at working 30 hours a week.

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Source: Our calculations using Coram Family and Childcare 2022 childcare survey and Universal Credit limit, based on working at the minimum wage for an individual over 23 years old

Once a child turns 3 and qualifies for 30 hours of free childcare for 38 weeks of the year their parents are able to increase their hours. But that leaves over 320,000 single parents receiving Universal Credit with a child under 3 who would be prevented from working full-time because of the limit on childcare support.

The outdated limit on childcare support in Universal Credit prevents parents from taking up full-time opportunities until their children reach the age of 3. And if the limit remains frozen, the number of hours parents of younger children can work will continue to decrease. The government needs to remove the limit to give all parents the opportunity to work full-time.

Conclusion

The government's current focus on reducing economic inactivity must involve careful examination and reform of the childcare offer for low income households.

Instead of breaking down barriers to work, it's reinforcing them. Parents are prevented from taking up job offers or are forced to reduce their hours because support isn't provided in advance but weeks after fees are due.

Even parents who are able to access support will find the rules of Universal Credit prevent them from working full-time until their child reaches 3 years old. Instead of giving parents the opportunity to work the hours they want, their working lives are dictated by outdated limits set over 15 years ago that don't reflect the cost of childcare today.

For the people we help, that can mean being trapped in debt or without enough to make ends meet, with the only route to increasing their income blocked off.

These 2 problems are key reasons why just 13% of eligible parents are able to take up the childcare offer within Universal Credit.¹⁸

With average full-time childcare fees for younger children in excess of £1,000 a month, access to effective support is critical to give parents who want to return to work the opportunity to do so.

The choice is simple; to extend the provision of free childcare hours (noting the need for providers to be fully funded for these) or to deliver change within Universal Credit. By fixing Universal Credit's childcare offer through paying support with fees in advance, either to parents or providers, and removing the reimbursement limit to prevent parents from being locked out of work or in part-time roles, the government could finally deliver on the Universal Credit promise of making work pay.

¹⁸ Department for Work and Pensions (2022) [Universal Credit claimants eligible for and receiving the childcare element between March 2021 to February 2022](#)

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