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

## 1. Summary

1.1 Citizens Advice has unparalleled evidence on the roll out of Universal Credit. We have helped nearly 150,000 people with Universal Credit issues since the benefit was introduced. In 2017-18, our advisers supported 60,000 people with 128,000 Universal Credit issues, and we see the equivalent of 12% of all new starts to Universal Credit each month. Our client data gives us a unique insight into emerging issues with the new benefit.

1.2 We support the principles underpinning Universal Credit - to simplify the benefits system and help more people to move into employment, where appropriate. To achieve this second aim, it is vital that support is in place for people who need help meeting the cost of childcare. In the 12 months up to the end of August 2018 we have helped nearly 1,400 people with issues relating to childcare costs within Universal Credit. Our evidence suggests there are a number of implementation issues with the provision of support for childcare costs through this system, as well as some key challenges for claimants deriving from the design of Universal Credit.

1.3 Nearly 500,000 low income families will rely on Universal Credit to pay their childcare bills once the managed migration of current Tax Credits claimants is complete. 95% of the additional 113 million hours of work promised in the Universal Credit business case will be carried out by people who have caring responsibilities for children, with 78 million of these hours attributed to lone mothers[1]. The economic activity of parents is closely tied to the fixed costs of work, and most claimants will need to weigh the benefits of any additional hours of work against the cost and logistics of increased use of childcare. If Universal Credit is to fulfill its aim of supporting more people to begin work, and to increase their hours and earnings, it is vital that its systems support parents to find and sustain appropriate childcare.

## 2. Recommendations

**2.1 The DWP must explore options to remove the barrier of the upfront cost of childcare for low-income parents.** The move from payment in advance, which existed within Working Tax Credits, to a system of reimbursing costs creates a barrier to work and means some parents are left facing significant financial challenges as they struggle to bridge the gap. We believe the

[1] 'Universal Credit Programme Full Business Case Summary', DWP (June, 2018). The figures within the business case are calculated using employment elasticity modelling derived from Brewer, Duncan, Shepherd and Suarez (2005) (for lone mothers) and Meghir (2008) (for all other groups)

Government should consider the recommendations made by the Treasury Select Committee in 2018 to explore paying the childcare element of Universal Credit directly to providers, or else to pay parents in advance.

**2.2 The DWP should develop a centralised system to help claimants evidence their childcare costs, building on the initial success of the Landlord Portal.** This could form part of the Government's online childcare service and allow large providers to verify costs and childcare placements without the need for additional claimant evidence.

**2.3 The DWP should explore the options for allowing people greater flexibility around assessment periods.** This could include the ability to set the timing of these so that they make income more stable and budgeting easier - particularly for people in insecure work - and options for those whose working and wage patterns do not fit neatly into a monthly cycle of assessment periods.

## 3. How does access to childcare support under Universal Credit compare to the legacy system and the new Tax-Free Childcare (TFC) system?

3.1 Universal Credit brings several positive changes in access to childcare support. We welcome the increase in support from 70% in the legacy system to the 85% offered through Universal Credit. We also support the removal of the 16 hours threshold to get assistance with childcare costs, which will allow more people, including those with limited capability for work, to get this help.

3.2 A major difference between tax credits and childcare support under Universal Credit is the immediate reduction or withdrawal of support for childcare costs as earnings increase. The automatic withdrawal of childcare support in this way could act as a disincentive for low-income workers to increase their hours and earnings. Claimants on Working Tax Credit do not see their tax credits (including their childcare costs) eroded until the rise in their annual earnings exceed £2,500. This is because tax credits are assessed annually (at the end of the tax year) and an annual increase in income of under £2,500 is disregarded when the tax credit award is finalised. With UC, any increase in income is taken into account straight away due to the monthly assessment process and the lack of a change in income disregard.

3.3 Families are therefore likely to see an immediate reduction in the amount of childcare support they receive, as soon as they increase their household earnings. The lowest earning households may see their universal credit award taper at a faster rate than their wages rise, once childcare costs have been taken into account. With such a delicate balance between the cost of childcare and return from working more hours, childcare calculators need to be accurate and easy to use.

3.4 Our evidence suggests that Universal Credit also introduces new challenges as compared with the legacy benefit system, specifically:

1. Difficulties managing the payment of childcare costs in arrears
2. Problems with evidencing childcare costs
3. Confusion over the relative benefits of different childcare schemes

We address each of these issues in our responses to the questions below.

### 4. How do upfront payments and the structure of reimbursements under UC affect low-income parents, including in their decisions to access childcare and take up work?

4.1 The move to a system of reimbursing childcare costs is the primary difference between Universal Credit and the legacy system. Universal Credit claimants cannot claim back the cost of childcare before it has taken place, even if they have already incurred the cost by paying for it in advance. This contrasts with Tax Credits and Tax-Free Childcare, both of which allow claimants to receive help with costs as soon as they have paid them.

4.2 Our evidence suggests that many of our clients are having difficulty meeting the upfront costs of childcare. This has led to serious consequences for some of our clients. Our advisers tell us that some Universal Credit claimants are running up arrears, going into debt, and - in extreme cases - losing both their child's place in a setting and, subsequently, their job.

4.3 Paying childcare costs upfront is a particular problem for our clients because of other challenges they face in managing their money as they move onto Universal Credit. DWP evidence has shown that 4 in 10 Universal Credit claimants are in financial difficulty[2]. Many of the problems we see derive from difficulties managing the initial 5 week wait, delays in receiving a full first payment, and the more general challenge of moving to a monthly payment regime. 1 in 4 (26%) people who come to us for help with Universal Credit also need help with debts - compared with 18% of people we help with legacy benefits.[3]

**Case study: Bridging the gap between nursery costs and UC payments**

Sinead is a lone parent with an 18 month old son. She was moved onto Universal Credit after moving house to a full service area. She earns £126 a week by working 21 hours, topped up by a Universal Credit award of £740 a month.

Since Universal Credit only reimburses costs in arrears, and the nursery requires payment in advance, Sinead has found herself unable to bridge the gap between the two. As a result, Sinead is now in arrears with her childcare

[2] 'Universal Credit Full Service Survey', DWP (June 2018)
[3] 'Universal Credit and Debt', Citizens Advice (September 2017)

costs, and the nursery have informed her that failure to pay the amount will result in her son losing his place.

***Recommendation 1: The DWP must explore options to remove the upfront cost of childcare for low-income parents.*** The move from payment in advance which existed within Working Tax Credits to a system of reimbursing costs creates a barrier to work and means some parents are left facing significant financial challenges as they struggle to bridge the gap. We believe the Government should consider the recommendations made by the Treasury Select Committee in 2018 to explore paying the childcare element of Universal Credit directly to providers[4], or else to pay parents in advance.

## 5. How is monthly reporting and assessment working in practice and how could it be improved?

5.1 The design of Universal Credit has several advantages over the legacy system in terms of how claimants administer their claims. In particular, bringing 6 benefits into one single payment means that people do not have to communicate with several different agencies at once, and may help to increase take up. However evidence from local Citizens Advice offices suggests that, in practice, some claimants are struggling with the evidence requirements of Universal Credit and the potentially unpredictable nature of monthly payments.

5.2 Providing evidence for childcare costs can be more time consuming and complex under Universal Credit than in Tax-Free Childcare or through the legacy benefits system. In a survey of our clients in full service areas, 1 in 3 (35%) people said they found it difficult to evidence childcare costs. DWP can ask for receipts on headed paper, yet smaller childcare providers may not be able to provide these. Difficulties in evidencing childcare costs are a particular problem at the beginning of a claim. The NAO's recent analysis of DWP payment timeliness data shows that 1 in 3 (32%) new claims which include the childcare element are not paid in full and on time[5]. Our advisers tell us about cases where clients have waited more than 10 weeks to be reimbursed for childcare bills they have already paid.

5.3 In addition, while Tax-Free Childcare users are re-assessed on a quarterly basis, UC claimants must submit evidence every month, and in some cases even more frequently. Our advisors tell us that some clients appear to face onerous reporting requirements, including weekly trips to the Jobcentre to provide receipts.

[4] '9th Report - Childcare', Treasury Select Committee ( March, 2018)
[5] 'Rolling Out Universal Credit', National Audit Office (June, 2018)

**Case study: Burden of reporting childcare costs**

Angela pays her childcare costs weekly, and has been asked to report the costs to Universal Credit every time she makes a payment, as well as providing physical proof she has done so. This means she has to attend the Jobcentre to make an appointment so she can then go back in and provide evidence she has paid her childcare bill each week. Angela finds managing this process to be very time consuming and stressful on top of working and looking after her family.

5.4 We have also supported clients who have experienced confusion between the requirement to report childcare costs and the need to evidence them. Reporting requires a note to be added to a claimant's journal, and must be done within the assessment period the childcare is used. The amount must be apportioned on a pro-rata basis if the fees have been paid in a lump sum in advance of the assessment period.

5.5 By contrast, evidencing requires the submission of receipts, and the practical logistics of submitting them, along with the timescales, can vary between different Jobcentres. If the claimant confuses the two, or misses a deadline for reporting or evidencing, they will not be reimbursed their costs.

5.6 Finally, there are broader issues with the monthly system of reporting and assessment which is likely to affect those who claim the childcare element of Universal Credit. Some claimants face losing their whole award, including childcare costs, due to the way UC assesses household income on a monthly basis. For example, if someone is paid weekly and their UC assessment period spans a month when they receive 5 pay packets instead of 4, their claim may be closed because it looks like they have exceeded the upper earnings threshold. They will not be able to claim for the childcare costs they incurred in the previous month, despite their overall annual income remaining the same. This could potentially leave claimants with two or more children around £1,000 out of pocket, and without the means to pay the next month's childcare bill.

**Case study: Delays to payment of the UC childcare element**

Josie claimed Universal Credit in November 2017, having previously been in receipt of Working Tax Credit.

Josie disclosed her childcare costs when she claimed, and these were uploaded by Jobcentre Plus, as evidenced in her journal. Later, Josie was told her costs had been reported out of time. She is appealing this decision.

As a result, her Universal Credit award has not included her childcare costs since November 2017, except for one payment in April 2018, which arrived late. Josie doesn't have the funds to pay for ongoing childcare because she doesn't earn enough. This has lead to arrears with her childcare bills, and because Universal Credit will only reimburse childcare costs once they have been paid (even if the childcare has already been used) she has not been able to report any further bills for reimbursement.

Josie is now £3000 in debt due to non-payment of Universal Credit. Her son is now unlikely to be able to return to nursery due to her debt, and she is facing the prospect of giving up work as she cannot afford to pay the fees without help from Universal Credit.

***Recommendation 2: The DWP should develop a centralised system to help claimants evidence their childcare costs, building on the initial success of the Landlord Portal.*** This could form part of the Government's online childcare service and allow large providers to verify costs and childcare placements without the need for additional claimant evidence.

***Recommendation 3: The DWP should explore the options for allowing people greater flexibility around assessment periods.*** This could include the ability to set the timing of these so that they make income more stable and budgeting easier - particularly for people in insecure work - and options for those whose working and wage patterns do not fit neatly into a monthly cycle of assessment periods.

## 6. How could the Government improve the system for supporting low-income parents' access to support for childcare under Universal Credit?

6.1 Although we welcome the most recent improvements to the Government's childcare calculator, we are still concerned that there is a lack of clarity about which childcare scheme would work best for low and middle income families. Support under Tax-Free Childcare covers 20% of childcare costs compared with 85% offered under Universal Credit. Complications with Universal Credit may mean that the TFC system is easier to access and parents may feel it places fewer restrictions on when people can make a claim. However, the two schemes now have regulations in place which prevent claimants from accessing both simultaneously, meaning any claim for Tax-Free Childcare automatically ends a claimant's entire UC claim, including help for a range of passported benefits such as free school meals, help with medical costs, school uniform grants, and educational maintenance allowances. Weighing up the costs and benefits of claiming help for childcare bills therefore becomes far more complex than simply understanding the different rates of rebate offered under the two schemes.

6.2 Some parents may feel that TFC better supports the fluctuating nature of their childcare requirements. For example, parents using Tax-Free Childcare accounts can 'even out' their spend across the year by paying into their account every month and then spending more in the summer, whereas parents on

Universal Credit have to absorb the higher costs upfront, waiting for them to be repaid in subsequent benefits payments.

6.3 Moving between the two schemes is not straightforward for the many families who will regularly move in and out of eligibility for Universal Credit due to a fluctuating monthly household income. If a household starts a claim for TFC during a month when they are ineligible for UC, any funds accrued in the account are counted as capital when they are reassessed for UC, despite the funds being restricted to paying for approved childcare only.

6.4 Our advisers are therefore seeing clients who need help understanding different childcare systems and calculating which is better suited to their needs.

**Case study: Confusion over support with childcare costs**

Karolina is a single parent who was looking to return to work full time as her maternity leave was coming to an end. She was concerned about how she would afford to pay childcare costs of around £900 per month alongside her rent and other living costs.

Karolina came to Citizens Advice for help as she was having difficulty finding out which childcare scheme would be best for her - and whether she would be better off in work or not.

She was unsure whether to apply for the Universal Credit element, Tax-Free Childcare, or Childcare vouchers. Karolina said she thought the government childcare calculator was complicated and was frustrated that she could not work out how much her Universal Credit payments would be when she returned to work. Although she had been to the Jobcentre for help, she was advised that they could not help her as Universal Credit had not yet been fully rolled out in that area.