

# Universal Credit Policy Briefing Note 10

## Childcare

### 1. Introduction

- a) Universal Credit is designed to help improve work incentives by clarifying claimants' potential gains to work and reducing the risks associated with moves into employment. The Government fully recognises that for many parents childcare is essential to support their return to, and/or their progression in work.
- b) The introduction of Universal Credit has provided the opportunity to look afresh at how best to support the childcare costs of working parents. We need to do so in a way which is fair, affordable and targeted to those most in need. When considering the design of childcare support within Universal Credit, the Government has listened to the valuable views of childcare users, childcare providers, MPs and Peers. This advice and expertise has been integral to shaping the design of the childcare policy.

### 2. Policy rationale

- a) We have considered the most effective method of supporting the childcare costs of working parents in the context of the support currently available within the tax credit system and also the Government's wider childcare offer.
- b) The childcare element of tax credits is currently the Government's main mechanism for providing support with the costs of childcare to working parents. Latest published data from HM Revenue and Customs (HMRC)<sup>1</sup> shows that around 500,000 families currently receive the childcare element. Claimants can claim 70% of childcare costs of up to £175 for one child and up to £300 for two or more children. The average amount of childcare costs claimed for is around £95 a week.
- c) The current eligibility rules in tax credits require families to work a minimum of 16 hours a week before they can access childcare support. However, this hours' threshold presents a barrier for parents to make the first steps into work. Currently parents working under 16 hours per week, are at a significant risk of facing unfavourable Participation Tax Rates in excess of 100% once childcare costs are taken into account, meaning they would be 'worse off in work'. Supporting those working fewer than 16 hours is therefore critical to ensuring that there is an incentive for parents to enter work.

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<sup>1</sup> Child and Working Tax Credit Statistics, April 2011 <http://www.hmrc.gov.uk/stats/personal-tax-credits/menu.htm>

- d) As outlined in the Universal Credit White Paper 'Universal Credit: Welfare that works', one of the Government's aims when designing childcare policy within Universal Credit has been to remove the hours' threshold to ensure that parents are rewarded for taking the first steps into work. This fits with the general principle of Universal Credit, which will extend a ladder of opportunity to those who have previously been excluded from the world of work.

### **3. Key policy proposals**

- a) Retaining the basic structure of paying a percentage to a maximum limit of childcare costs is the best way to provide childcare support in Universal Credit. This support will be an additional element of Universal Credit and will be subject to the taper.
- b) In recognition of the Government's commitment to helping parents with the costs of childcare we have committed to investing an additional £300 million into childcare support. This is on top of the £2 billion already spent within the current Tax Credit system and disregards within Housing Benefit/Council Tax Benefit.
- c) Support for the costs of childcare within Universal Credit will be available to all lone parents and couples, where both members are in work, regardless of the number of hours they work. Removing the current requirement to work 16 hours will provide an important financial incentive to those taking their first steps into paid employment. It will mean that for the first time around 80,000 extra families will be eligible to receive support through childcare.
- d) Families will be able to recover childcare costs in line with the current arrangements: 70% of up to £175 for one child or £300 for two or more children per week.
- e) Currently in Working Tax Credit childcare costs are set as weekly limits. In Universal Credit, this will be converted into monthly limits. Parents will be able to recover childcare costs of 70% of up to £760 for one child or £1300 for two or more children per month. For those paying average childcare costs, this support would enable a parent to buy up to around 40 hours of childcare a week, if they chose to do so.
- f) Moving from weekly to monthly limits enables more flexibility for parents whose costs may fluctuate during the month for example, during school holiday periods where they may have additional costs for some weeks and lower costs on other weeks.
- g) Many families who qualify for Universal Credit will receive a higher net payment under Universal Credit, as we know that households with children are more likely to gain overall than households without children. In addition, we are developing a package of transitional

protection to ensure that there are no cash losers as a direct result of the migration to Universal Credit, where circumstances remain the same.

#### **4. Further work**

- a) We recognise that people often find the current childcare element in Working Tax Credit confusing. Claimants are required to forecast their average childcare costs across a future tax year. This complex process leads to high levels of errors and overpayments and undermines the extent to which the childcare element can support parents to move into and/or progress in work. The new system provides the opportunity to improve and simplify the way childcare support is offered.
- b) We are currently considering a number of delivery issues, including assessment and payment periods and the reporting of childcare costs. We will continue to work with stakeholders to design a delivery mechanism which balances responding well to parents' needs with minimising the burden on claimants and suppliers.