Cost of childcare Westminster Hall debate
20 November 2013

About The Children’s Society

The Children's Society is a leading national charity, providing vital help to the most vulnerable children, young people and families in our society through a range of services. The Children’s Society runs a network of around 45 Sure Start Children’s Centres, including a number providing nursery provision. We believe that high quality, affordable childcare plays a crucial role in reducing child poverty by helping parents make the move into work.

Reforms to support with childcare costs

Currently, working parents in receipt of tax credits can receive up to 70% of their childcare costs. In addition, parents receiving housing benefit can get additional support covering up to a further 20% of their childcare costs – meaning up to 90% of their childcare costs are covered through a combination of housing benefit and tax credits.

In the future, for many of those currently getting help with childcare costs through tax credits and housing benefit, this will be done through universal credit – originally intended to cover 70% of childcare costs. However, the government has announced £200 million of additional support with childcare costs through universal credit. The current proposal is to increase support for childcare to some of these families from 70% to 85% of costs. From 2016, these families will receive this additional support if they get universal credit and all parents are earning above the income tax threshold.

Current employer supported childcare vouchers will be replaced by the new tax free childcare scheme and this will cover 20% of childcare costs up to £6000 per child every year (therefore providing a limit in the help paid of £1200 per child). Families will be eligible for this support if all parents are working, neither is earning more than £150,000 per year and they are not receiving help with childcare costs through tax credits or universal credit. The government believes that this will cost in the region of £750 million per year.

Key points

- The government is currently undertaking major reform of the way in which parents receive financial support for childcare, including a plan to introduce a tax free childcare (TFC) scheme to replace employer supported childcare vouchers.

- Parents on universal credit will not be eligible to receive TFC. Instead they will receive a childcare component of universal credit. From 2016 this will be worth up to 85% of childcare costs if all parents are earning above the income tax threshold. The lowest income working parents will receive help with 70% of childcare costs.

- Having these two separate systems of childcare support for working parents is overly complex. It could also risk increased levels of fraud and error (as a result of parents claiming help from both systems).

- In addition, providing a lower rate of support for the lowest income working families through universal credit will fail to adequately support those who need help the most.
Key concerns with the proposals

We are concerned that current proposals to reform help with childcare costs are overly complicated and do not provide enough support to those who need it most.

They are not simple

Additional support for childcare costs is welcome, but the proposals create more complexity for families. This is particularly the case for two groups:

1. Families earning around the income tax threshold – who (if their earnings fluctuate,) may not know whether they will receive 70% or 85% of their childcare costs covered through universal credit.

2. Families where household circumstances or income change and as a result universal credit entitlement may be reduced or stopped. Households that have fluctuating income or household circumstances may need to repeatedly move between childcare support in universal credit and tax free childcare. This is likely to create confusion, bureaucratic delay and for many families, periods where they potentially do not receive the financial support they are entitled to, and as a result a disincentive to taking on more work.

They are not focussed on those who need support the most

The additional support provides help with childcare costs for families earning too much to qualify for universal credit and those in receipt of universal credit where all parents earn more than £10,000 a year.

It does not, however, give any additional support for those on universal credit with one or more parents earning less than £10,000 per year. Families who are on the lowest incomes and struggle most to make work pay are likely to be in this group. They are also the ones the ones who are most likely to lose out from the move to universal credit.

Currently around 100,000 families with childcare costs receive support through both tax credits and housing benefit. This additional support from housing benefit means they can currently get up to 90% of their childcare costs covered through the benefits and tax credits system. Within the universal credit system, there is no additional support with childcare costs for these families. Because working families who get housing benefit are typically living on a very low income, they are also very likely to have earnings that are too low to get help through the additional universal credit provision. As a result, many families would see their help with childcare reduced from 90% to just 70% under universal credit.

Questions for the minister

- If the government provides help with only 70% of childcare costs to the lowest income working families, can they still guarantee that every hour of work will pay for those on universal credit?
- Children’s charities including, The Children’s Society, have called for all families receiving universal credit to receive at least 85% support for their childcare costs. How will the government ensure that support for childcare costs is given to the families most in need?
- How does the government seek to ensure that the interaction between tax free childcare and universal credit is made as simple as possible?
- Is the government concerned that if the personal allowance for income tax is increased some families will lose money because of receiving reduced support with childcare through universal credit?

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