

# **Universal Credit: Increasing the Childcare Offer**

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# Introduction

Universal Credit represents a once-in-a-generation reform of the welfare system. It is a new benefit for people who are on a low income or out of work, and can currently be claimed by some families in certain parts of the country.

Work is the best and most sustainable route out poverty. Universal Credit acknowledges this and will

- ensure work pays;
- foster independence and personal responsibility;
- end entrenched worklessness in households experiencing long-term unemployment;
- remove the requirement for claimants to work a minimum of 16 hours, and thus support the most vulnerable households;
- support more households into work; and,
- grow the economy.

This Government is committed to providing support to households to ensure that those who can work, do work. But we recognise that many parents who want to fulfil their work and career ambitions face difficulty in doing so because of the high cost of childcare.<sup>1</sup>

Universal Credit is a key part of the wide range of childcare support being offered to hundreds of thousands of working families, alongside Tax-Free Childcare, 15 hours per week free early years education for qualifying young children, and policies to improve the availability and affordability of childcare places. Under Universal Credit, parents will receive support for childcare costs no matter how many hours they work, and in addition to the money they get to help with the costs of bringing up a child, plus any child benefit they may be entitled to.

The Government has already increased childcare costs support in Universal Credit compared to the legacy benefits system, by extending childcare costs support to parents working fewer than 16 hours per week for the first time. This means an additional 100,000 families on Universal Credit will already benefit from support with childcare costs.

Last year the Government consulted on plans for further expanding support offered through childcare. We listened to stakeholders and parents who wanted to ensure that all working families under Universal Credit benefit from a higher rate of support. The Government has therefore committed a further £350 million a year to offer all working families on Universal Credit support of up to 85% of their childcare costs, up to a monthly cap, from 2016. This is an increase from the current rate of up to 70% in the Tax Credit and Universal Credit systems.

Increasing support with childcare costs is an important part of the Government's goal of getting more households into work and ending child poverty, and is central to Universal Credit as it will help remove barriers to work and ensure work pays. Overall, around 500,000 working families will receive help with childcare under Universal Credit. All of these working

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<sup>1</sup> Family and Childcare Trust, Childcare Costs Survey 2014

families will benefit from the decision to increase the rate of childcare costs support from 70% to 85%, and will get more out of the money they earn.

### About this document

This report sets out the support for childcare costs in Universal Credit, confirming the increased rate of support for childcare costs available to all eligible working families through Universal Credit.

In August 2013, HM Treasury and HMRC published a consultation document seeking views on the design and operation of Tax-Free Childcare<sup>2</sup>, inviting comments on the proposed increase in the rate of childcare support available under Universal Credit from 70% to 85% only for households paying income tax. The Government responded to the consultation in March 2014<sup>3</sup>, and announced that the increased 85% rate of support would be extended to all working families claiming Universal Credit.

The extended childcare offer is outlined in this report, along with a summary of measures that will ensure Universal Credit and Tax-Free Childcare complement each other effectively in the interest of working families.

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<sup>2</sup> Tax-Free Childcare: consultation on design and operation (August 2013)

<sup>3</sup> Delivering Tax-Free Childcare: the Government's response to the consultation on design and operation (March 2014)

# Support with the Costs of Childcare

## The Government's childcare offer

Through its long term economic plan the Government is committed to reducing unemployment and child poverty, and supporting parents to move into work or increase their earnings at work. Parents and stakeholders tell us that the high cost of childcare presents one of the biggest barriers to work for households on low incomes, and prevents parents who are in work from increasing their hours and earnings.

The childcare costs element of Universal Credit is an integral part of the Government's wider offer on childcare for low- and middle-income families. Universal Credit already provides support worth up to 70% of eligible working families' childcare costs, up to a monthly cap. From 2016, this will increase to up to 85% of childcare costs<sup>4</sup>. As a result, more parents will be able to go into work and increase their earnings, moving their families out of poverty and off benefits. An estimated 500,000 families will benefit from this additional support. Funding for the increase in support with the costs of childcare is available from within the existing Universal Credit programme, as set out at Autumn Statement 2014.

### Box 1: Case studies of childcare costs claims and awards

**Example 1:** A claimant couple who both work have two children, aged 2 and 8. In order to work, they use 25 hours' nursery provision per week for their youngest child, and 15 hours at an after-school club for their 8 year-old.

Their nursery provision costs £120 per week, while the after-school provision costs £50 per week, at a total cost of £737 per month<sup>5</sup>. They report the charges on the day they are paid, and following the end of the monthly assessment period receive their UC award, including the childcare costs element.

The amount of childcare support is calculated as 70% of £737 = £516

From 2016, the amount of childcare support is calculated as 85% of £737 = £626

This is below the monthly cap on childcare costs support for one child.

**Example 2:** A lone parent claimant works and has three children, aged 2, 5, and 9 years old. Their youngest child uses 25 hours nursery childcare per week. The older children require 15 hours of after-school clubs, and a child-minder to collect them from school, each week.

The weekly costs are £120 for nursery, £50 for each child in an after-school club, and £70 for the after-school pick-up. The total monthly cost is £1257, which the claimant reports to DWP after each payment is made. Following the end of the assessment period the claimant receives their UC award, including the childcare costs element.

The amount of childcare support is calculated as 70% of £1257 = £880

From 2016, the amount of childcare support is calculated as 85% of £1257 = £1068

This is below the monthly cap on childcare support for two or more children.

<sup>4</sup> At the 70% rate of support the monthly caps are £532 for one child and £912 for two or more children. After the increase to 85% support, this will be equivalent to £646 and £1108 respectively.

<sup>5</sup> Indicative costs based on average weekly costs in the South East of England. Source: Family and Childcare Trust, Childcare Costs Survey 2014

## Universal Credit: Increasing the Childcare Offer

The Government already spends over £1 billion on childcare support through Tax Credits, which will be replaced by Universal Credit as it rolls out to families across the country. This is to be enhanced by a number of other measures to improve households' access to affordable childcare.

- At Budget 2013, the Government announced plans to introduce Tax-Free Childcare, which will provide Government support with 20% of childcare costs up to a maximum £2000 support per child per year, for eligible families expecting to earn above a minimum threshold where no parent is an additional rate taxpayer.
- Once their child is aged three, all families will be eligible to receive 15 hours of funded early education a week, in order to help prepare their child for school.
- Around 40% of lower-income families will be able to access 15 hours funded early education a year earlier, once their child turns two.

Taken together, these policies will ensure that all families have access to a universal free early education offer, and that eligible working parents will receive flexible, targeted support with the costs of childcare which responds effectively to changes in their circumstances. Alongside these measures, the Government has also announced a number of measures to improve the availability, affordability, and choice of childcare by

- simplifying the regulatory system;
- encouraging schools to offer after-school care facilities;
- creating child-minder agencies; and
- making funding available to high-performing childcare providers<sup>6</sup>.

## Consultation

In August 2013, the Government launched a consultation to seek views on Tax Free Childcare and proposals to increase the rate of support for childcare costs under Universal Credit, from 70% to 85%, for households who pay income tax. Following the consultation, the Government has committed an additional £350 million to offer the increased rate of support for childcare costs to all working families on Universal Credit, from 2016. Support with childcare costs will be available to claimants who work less than 16 hours per week for the first time. Around 500,000 families are expected to be claiming Universal Credit when roll-out is complete, all of whom will benefit from this increase in support.

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<sup>6</sup> More Great Childcare – Raising quality and giving parents more choice (January, 2013): <https://www.gov.uk/government/publications/more-great-childcare-raising-quality-and-giving-parents-more-choice>

More Affordable Childcare (July 2013): <https://www.gov.uk/government/publications/more-affordable-childcare>

### Box 2: Consultation Questions on Universal Credit

31. How will the proposed change to Universal Credit affect people who have earnings that change from month to month?
32. The proposal is to use gross taxable earnings as a proxy for people whose earnings are above the tax threshold. What other proxies could the Government use?
33. The Government wishes to ensure help is targeted at those who need it most within the fiscal constraints it faces. Should people who are getting Statutory Sick Pay, Statutory Maternity Pay, Ordinary Statutory Paternity Pay, Additional Statutory Paternity Pay, Statutory Adoption Pay and Maternity Allowance be entitled to the 85% support or not?
34. What information will people need to understand the impact of the measure on their own circumstances?

Universal Credit is designed to simplify how benefits are awarded to claimants, and to make work pay. The Government wants to ensure that parents are able to take up work or increase their earnings, and have confidence that they will always be better off in work than on benefits. By providing up to 85% of all eligible working families' childcare costs, rather than imposing a minimum earnings or working hours requirement, the Government will ensure that working parents will be able to anticipate the level of support they will receive every month. They will therefore be able to increase their earnings with confidence that they will be better off, eventually moving off benefits as their income grows.

The Government is committed to targeting help at those who need it most but also to ensure that parents who want to work are able to do so. Therefore, the 85% rate of support for childcare costs will apply to all Universal Credit claimants in receipt of Statutory Sick Pay, Statutory Maternity Pay, Ordinary Statutory Paternity Pay, Additional Statutory Paternity Pay, Statutory Adoption Pay and Maternity Allowance<sup>7</sup>. This will allow parents to maintain their childcare provision during temporary absence from work, and ensures the smoothest possible transition back into work if they choose to return.

The Government understands the importance of providing claimants with adequate information about their responsibilities<sup>8</sup>. In order to ensure families know how much they can claim under Universal Credit, and know how and when to claim, the DWP continues to work closely with other Government Departments, Local Authorities, stakeholders and parents, to ensure our communications are clear, accessible, and provide adequate and accurate information.

## Interactions with Tax-Free Childcare

At Budget 2013, the Government announced its intention to introduce Tax-Free Childcare to working families earning above a minimum threshold, where no parent is an additional rate taxpayer. The minimum income level will be based on a parent working eight hours a week at National Minimum Wage - meaning parents will qualify where they expect to earn at least £52

<sup>7</sup> This applies to claimant couples where both are receiving one of these support payments, or where one is working or exempt from work and the other is receiving one of these support payments.

<sup>8</sup> Details of the current work-related requirements for parents on Universal Credit can be found here: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/374508/uc-supports-families.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/374508/uc-supports-families.pdf)

a week on average. Tax-Free Childcare will provide Government support with 20% of working families' childcare costs, up to an annual limit of £2,000 Government contribution per child. The Government estimates that, once fully rolled out, 1.8 million families will be eligible for support through Tax-Free Childcare.

As families move into work and increase their income, they may move from Universal Credit to Tax-Free Childcare, or may choose to 'opt out' of Universal Credit and instead claim Tax-Free Childcare. The introduction of Tax-Free Childcare will give parents confidence that, as they increase their income, they will continue to receive Government support towards their childcare costs. Respondents to the consultation were clear that parents should have maximum flexibility to move between the two schemes, and we want to make it as straightforward as possible to do so.

The Government's response to the consultation on the design and operation of Tax-Free Childcare dealt in detail with respondents' comments on the interactions between the two schemes<sup>9</sup>, and this is outlined below. Respondents outlined the need for the interactions to be smooth and not place excessive administrative burdens on parents. At the same time, respondents were supportive of offering parents a choice of in which scheme they participate, and the flexibility to move between the schemes.

The DWP continues to work closely with HMRC to ensure the schemes complement each other effectively, and that parents will have the guidance they need in order to make an informed decision on which scheme will provide the best support for them.

### Moving between Universal Credit and Tax-Free Childcare

The Government recognises that a family's circumstances may change over time. Families on low incomes may experience more frequent changes to their circumstances than those who earn more, for example due to temporary employment or fluctuating working patterns.

Whilst parents can only receive support from one scheme at any time, where families are eligible for both they will have the freedom to choose the scheme which best meets their needs and will be able to move freely between schemes as their circumstances change. Relevant changes of circumstances in this respect might include a change in the make-up of the household, such as a claimant forming a couple or ceasing responsibility for a child, or a change in employment status.

Where there are no relevant changes of circumstances, parents may still leave Tax-Free Childcare at any time but will not be able to repeatedly move between the schemes. This will ensure parents have the freedom to manage their finances independently, and make choices on how to receive support for their childcare as their needs and circumstances change.

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<sup>9</sup> Delivering Tax-Free Childcare: the Government's response to the consultation on design and operation (March 2014), 2.67 – 2.74



**Box 3: Case study of a claimant with changing circumstances**

Mr Singh – changes in working hours

Mr Singh is a lone parent with two children. He works for an estate agency and regularly works 35 hours per week. Mr Singh registers for Tax-Free Childcare in May 2016.

At the end of May 2016, Mr Singh's shifts are reduced to eight hours a week. He would be better off on Universal Credit, so Mr Singh makes a claim to Universal Credit.

Mr Singh moves to Universal Credit because of his change in personal circumstances.

Mr Singh does not reconfirm his eligibility for Tax-Free Childcare at the end of his current quarterly entitlement period, and his 'top-up' payments cease at that point. He is still able to use any money in his account with an approved childcare provider, and his Universal Credit award will not be adjusted or reduced because of this money. He will receive up to 70% (or 85% from 2016) support towards his childcare costs, up to the monthly caps.

### Using funds accrued for childcare

Tax-Free Childcare will operate on a fixed quarterly entitlement period. Once a parent meets the eligibility conditions when they register for Tax-Free Childcare and open a childcare account, an entitlement period of approximately three months will start; entitlement will run until the end of that period. This will give parents certainty that they will receive top-ups for the whole period regardless of any unexpected changes in their circumstances

The fixed quarterly entitlement period under Tax-Free Childcare means that, where parents have moved to Universal Credit, they may have accrued funds to spend towards childcare, or have a limited period where they are entitled to receive support under both schemes. In these circumstances, Universal Credit awards will not be affected by Tax-Free Childcare payments in the same quarterly entitlement period.

A parent may accrue money in their Tax-Free Childcare account, including the Government-funded top-up. If a parent stops claiming Tax-Free Childcare and starts to receive Universal Credit before they have spent their accrued balance, they will be able to access this money for up to 24 months after their eligibility for Tax-Free Childcare has ceased<sup>10</sup>. Therefore claimants will not lose support they previously received towards their childcare when they move to Universal Credit.

In these instances, parents will be able to use their Tax-Free Childcare top-up without this having an effect on the amount of Universal Credit awarded. They will simply report their childcare costs to DWP when they pay them, and receive support of up to 70% (or 85% from 2016) of these costs as normal. This ensures it will be straightforward for parents to calculate what childcare support they are entitled to receive, and that no one will lose out as a result of changing schemes.

In calculating parents' entitlement under Universal Credit, the Government will take into consideration the parent's proportion of funds in their childcare account. The 20% of these funds representing the Government's top-up will be disregarded, and so will not affect a claimant's award. The remaining 80% of the funds belong wholly to the claimant, and therefore will be treated as capital for the purposes of calculating the amount of Universal

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<sup>10</sup> Where the child has reached the upper age limit for eligibility, the childcare account will remain open for 12 months

Credit the claimant will receive. This again ensures that claimants who move to Universal Credit are able to benefit from support they received previously, and that it is as simple as possible to do so.

## Next Steps

Universal Credit is landing safely. It's more than a year and a half since it first rolled out and we have made strong progress with this ground-breaking reform. Universal Credit is now available to single and couple claimants in over 80 Jobcentres in England, Wales and Scotland, and will be available in nearly 100 Jobcentres by Christmas. The Secretary of State has announced plans for national rollout to all jobcentres and Local Authorities in Great Britain from early 2015. By Spring 2015, 1 in 3 Jobcentres will be delivering Universal Credit. This marks a significant acceleration in one of the Government's biggest reforms, and we are committed to a careful Test and Learn approach to ensure that the system works for families, identifying any need for change and responding quickly.

Early evidence<sup>11</sup> suggests that Universal Credit is having a positive impact on the amount of time claimants spend looking for work and that claimants are spending more time in work. Claimants, jobcentre staff and employers are positive about the changes being brought about by Universal Credit.

The DWP has also underlined its commitment to open and evidence-based policy making, and continues to consult widely with various stakeholders, including parents, childcare providers, other Government Departments, and Local Authorities on the design, implementation, and communication of the Universal Credit offer on childcare. Following the consultation on increasing the rate of support for childcare costs from 70% to 85% for families paying income tax, the Government listened to the input from stakeholders and has announced that the higher 85% rate will be extended to all working families on Universal Credit. This represents an additional investment of £400 million in childcare support for working families.

This engagement will continue to ensure that all relevant parties have access to the information they need regarding the on-going design and implementation of Universal Credit. The Government will also work with stakeholders to develop guidance to help parents (and other interested parties) to understand particular aspects of Universal Credit, including how childcare costs support is provided and how this will interact with other sources of support<sup>12</sup>. In addition, clear guidance and communications tools (developed in collaboration with stakeholders) will help parents to understand their entitlements and responsibilities if considering making a claim, and how to do so.

This open and collaborative approach to policy design and implementation will ensure that all eligible working families are aware of the Universal Credit offer on childcare support and other sources of Government support available to help them to work, and ensure a simple and smooth process of making a claim, reporting their childcare costs, and receiving support when it is needed.

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<sup>11</sup> Universal Credit at Work (October 2014), <https://www.gov.uk/government/publications/universal-credit-at-work>

<sup>12</sup> Draft guidance for Tax-Free Childcare has been published and is available here: <https://www.gov.uk/government/publications/draft-legislation-tax-free-childcare-draft-guidance>