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# 'A big, vast, grey area': Childcare and Universal Credit

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Drawing on interviews with 22 low-income parents in receipt of Universal Credit (UC), this policy brief highlights the key findings of our supplementary report, published in February 2025, exploring how they managed childcare costs, as well as their broader experiences of childcare and work conditionality requirements. The interviews were conducted in 2022/23 as part of a wider qualitative longitudinal research study, funded by abrdn Financial Fairness Trust, exploring the experiences of working claimants on UC. Eighteen of these parents were re-interviewed in June 2024 specifically on the topic of childcare.

Our report makes the following recommendations:

- Reform the childcare element of Universal Credit to:
    - Pay 100 per cent of childcare costs through UC
    - Ring-fence the childcare element so that it is not subjected to the earnings taper rate
    - Make upfront costs support more widely available to all working parents
    - Allow non-working parents and single-earner households who are receiving the free hours for disadvantaged two-year-olds to claim for additional costs such as top up fees or administrative charges through the UC childcare element.
- Longer term, make pre-school childcare for working parents on Universal Credit fully free and pay childcare costs directly to providers across the UK.
- For school-age children, expand the entitlement to wraparound care costs support in UC to clubs that are not Ofsted or equivalently registered.
- Provide fully free hours of universal childcare for 15 hours for all two-year-olds regardless of parental working status.
- Re-establish Sure Start to provide community-based childcare and holistic family support.
- Develop a childcare workforce strategy.
- Reform employment support and conditionality rules for parents.

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# Childcare and low-income families

Support for childcare in the UK is complex and partial and provision is geographically patchy. There are several streams of support available – some financial, some in-kind, some universal, some means tested – as well as differences across the devolved administrations. There have been recent increases to the free hours of childcare for working parents which have been generally well-received. But there remain issues for parents and providers. The increased free childcare hours, for example, often do not address working parents' needs or cover the full cost of childcare. Low-income parents can therefore find themselves having to reclaim additional childcare costs through Universal Credit which can be complicated and insufficient. Parents may also face wider issues with childcare availability and finding suitable care that meets their children's needs. At the same time, there are stricter work conditionality rules for parents on Universal Credit. Childcare providers, too, face significant challenges in meeting the rise in demand for childcare places as a result of the expanded free hours offer.

# Policy context

## Childcare reform

In April 2024, the previous Conservative government increased childcare support for working parents in England by extending the free childcare hours, previously only available for working parents with three- and four-year-olds, to two-year-olds, together with an extension to children from the age of nine months old from September 2024, and plans to increase investment in wraparound care.[1] The Labour government elected in July 2024 has committed to supporting these pledges.

Although free childcare hours are welcomed by many, they were introduced at the same time as a reduction in other areas of early learning and childcare support, including cuts to funding of Sure Start centres, which decreased by two-thirds between 2010 and 2022. Sure Start centres have been found to have many positive outcomes for disadvantaged children. However, the focus on recent childcare reforms have been about encouraging families to work/work more, fuelled, in part, by concerns about rising labour market inactivity. There has therefore been less focus on child development and reducing inequalities in children's life chances.[2]

1 Wraparound care is before and after school care for primary school aged children during term time. Often run on a school site, around 60 per cent of primary schools in England currently offer wraparound childcare.

2 Farquharson, C (2024). Childcare: The newest branch of the welfare state. Institute for Fiscal Studies. https://ifs.org.uk/sites/default/files/2024-02/Slides_Nursery%20World%20talk_2024_for%20upload.pdf

## Childcare and Universal Credit

For low-income families, reclaiming additional childcare costs through UC involves paying the costs upfront and then reclaiming them back each month through the online system, after the childcare has been provided. Childcare fees are reimbursed up to 85 per cent of costs up to a maximum of just over £1015 per month for one child and £1739 per month for two or more children. However, the amount that parents are reimbursed for their childcare is included in their overall Universal Credit award, not separately identified or ring-fenced. The contribution they get is also means tested. This means that the total Universal Credit payment, including the amount for childcare, can go up or down, depending on household earnings, as the overall award is reduced by the 55 per cent taper rate for earnings above the work allowance.[3] Parents, therefore, do not receive the full amount of childcare costs they have paid for.

## Conditionality

All claimants of Universal Credit must agree to, and sign, a 'claimant commitment', which sets out their obligations in relation to work, backed up by financial sanctions for those who are judged to have failed to comply. For parents, there have been significant changes over recent years regarding the conditionality requirements they are expected to meet. Since autumn 2023, the number of hours that lead carers with a youngest child aged three are expected to work, or look for work, has increased from 16 to 30 hours a week. Parents are therefore facing complex work-childcare decisions within this new conditionality context.

## Other issues for low-income families

Childcare costs support is one of a number of aspects in the design of Universal Credit and the means-tested benefit system more broadly, which can be a barrier to parental employment and increasing hours of work. For example, in couple households with children, there is no work allowance for second-earners, who are most typically mothers. Furthermore, as earnings increase, households can find themselves above the earnings thresholds for entitlement to various forms of additional means tested support such as Council Tax Reduction, prescriptions and free school meals.

3 Households with children and those eligible for Limited Capability for Work (LCW) or Limited Capability for Work and Work-Related Activity (LCWRA) receive a work allowance which disregards a certain amount of earnings before the 55 per cent taper rate is applied. As of April 2024, the flat rate monthly work allowance applying to eligible household types was £404 per month, if the Universal Credit payment included a housing element, and £673 if it does not.

# Key findings

- The parents who took part in our study generally welcomed the free childcare hours. Yet currently, many low-income families continue to face high childcare costs because:
  - Working parents can require more childcare hours than offered.
  - There are variations in support for childcare costs in the devolved nations.
  - Providers may charge parents more than the subsidised rates they receive from government, for example, for food.
  - There are minimum earnings thresholds for eligibility for free childcare for working parents.
  - There are no free hours of support for after school clubs.
  - Funded childcare during school holidays is limited.
- Parents on Universal Credit can reclaim some childcare costs through the UC childcare element if they (and their partner, if they are in a couple) are working. But most of the parents in our sample found the childcare support in UC to be onerous, complicated and inadequate.
- The most challenging issues with the UC childcare element were linked to the system of monthly assessment in Universal Credit. In particular:
  - The UC childcare element is means tested and reduced by 55 per cent in relation to any earnings over the work allowance. This, together with the 85 per cent cap on the UC maximum childcare contribution, meant reimbursements were not enough to cover the full cost of childcare.
  - The amount of childcare contribution received could vary if childcare costs/earnings and/or household circumstances changed month to month, also making it hard to decipher the accuracy of payment, and to budget.
  - The requirement to pay childcare costs upfront, in advance, and then wait to be reimbursed for the hours used within their UC monthly assessment period meant delays in receiving reimbursements and ongoing challenges meeting childcare costs.
  - Delays are especially problematic for parents whose childcare invoices span two UC monthly assessment periods or those who have to pay more than one month's childcare in advance. Both scenarios meant claimants could wait two months to receive what they are owed.
  - The administrative burden of submitting monthly evidence of fees was additional work both for working parents and providers and increased the risk of errors, which could lead to additional delays in payments.
- Some of the parents compared the monthly system of reclaiming childcare costs through UC unfavourably to the legacy tax credit system of annual reporting, which generally provided reliable monthly payments and placed a lower administrative burden on parents.

- Other issues with the UC childcare element included:

  - A general lack of information about how the UC childcare element works, including reclaiming childcare costs.
  - Lack of information about, and difficulties in accessing upfront childcare costs through the Flexible Support Fund (FSF), which is currently only available to parents who are increasing their hours or starting a new job.
  - Shortfalls in the amount of childcare costs reimbursed due to the 15 per cent contribution parents must make and the monthly cap on the maximum amounts that can be reclaimed.
  - Poor communication over the UC journal about any issues with evidence provided, resulting in working parents having to attend the Jobcentre to rectify problems.
  - Limitations on the types of afterschool and holiday clubs that are eligible for help within the UC childcare element, where these are not Ofsted registered (or equivalent in devolved areas).

- Our findings also show that children are missing out on valuable early years experiences. Non-working and single-earner families who cannot afford additional charges and are ineligible for UC help with childcare costs can end up removing their children from early years childcare altogether. Single-earner couple households earning just above the eligibility threshold for free two-year old childcare may also be missing out.

- Parents who had relied on free childcare hours only when their children were pre-school age found themselves with higher childcare costs when their children started school as they had to pay for after school clubs (and in some cases breakfast clubs where these were not free).

- Parents also faced issues finding childcare places which created difficulties working extra hours or overtime. Some had to reduce their hours of work; use more expensive providers; or were obliged to use poor quality childcare they were not happy with.

- Children also varied in how they responded to the available childcare provision, in some cases reflecting children's different temperaments. Some parents also felt that the quality of provision was lacking.

- Parents of children with disabilities and complex needs struggled the most as few providers could meet their children's additional needs.

- The most positive childcare experiences reported by the low-income parents we spoke to occurred when they felt that the support expanded beyond the childcare setting; where they had good communication, were made to feel welcome and cared for as a family; and where families with complex needs were offered advice and support tailored to their and their child's needs.

- Working parents facing additional conditionality requirements from the Department for Work and Pensions (DWP) to increase their working hours felt that this threatened to undo work-care arrangements which they had struggled hard to achieve.

- Many jobs available to parents in our sample were not family-friendly in that they did not offer flexible work arrangements or the option to work from home. This made the extra conditionality demands seem especially unfair and hard to achieve for low-income parents.
- Parents were facing these childcare challenges alongside other benefit-related barriers to work or increasing their hours, including the loss of entitlement to other means tested support if their earnings rose above certain thresholds and, for couples, the lack of a second-earner work allowance in UC.

# What can be done?

## Make pre-school childcare for working parents on Universal Credit fully free and pay childcare costs directly to providers

Making pre-school childcare fully free for working parents on UC and paying providers directly would remove all the challenges associated with the Universal Credit childcare element for families with pre-school children. The additional exchequer costs of this provision would be limited, given the fact that most claimants of the UC childcare element are working and nearly half have a youngest child aged between one and three years,[4] so already qualify for 15 hours, rising to 30 hours of free childcare. This should be a UK-wide policy, which would remove current disparities with the free childcare support between the nations. There should be a one-year run-on of access to free childcare for working parents on UC with pre-school children so that the support would only end if claimants had a nil UC payment for 12 consecutive months. This would remove issues around temporary earnings rise or losing support when earnings rose above the eligibility threshold for UC.

## Reform of the childcare element of Universal Credit

Paying providers directly may take time to establish and therefore an incremental stage reform would be to pay 100 per cent of childcare costs through UC and to ring-fence the childcare element so that is not subjected to the earnings taper rate. In addition, upfront costs support should be more widely available to all working parents, not simply those starting work

4 Department for Work and Pensions (2024). Universal Credit childcare element statistics, March 2021 to May 2024. https://www.gov.uk/government/statistics/universal-credit-statistics-29-april-2013-to-11-july-2024/universal-credit-childcare-element-statistics-march-2021-to-may-2024

or increasing their hours. Additionally, non-working parents or single-earner households who are receiving the free hours for disadvantaged two-year-olds should be able to claim for additional costs such as top-up fees or administrative charges through the UC childcare element. The earnings thresholds should be removed so that all households on Universal Credit can receive the 15 hours childcare for two-year-olds. However, this would not remove issues around the delays in reimbursements for childcare costs or the monthly administrative burden for parents, which currently acts as a deterrent to take up. Therefore, the ultimate goal should be to pay providers directly.

## For school-age children, expand the entitlement to wraparound care costs support in UC to clubs that are not Ofsted or equivalently registered

For school-aged children, childcare costs support in UC needs to be expanded to include different types of childcare and provision for school-age children, recognising that after school and some holiday clubs do not meet the needs of all primary age children, especially as they get older. There are also children who may benefit from other types of clubs, such as leisure centre or drama clubs, which may not be Ofsted registered (or equivalent in devolved areas). This recommendation was made in a recent DWP-funded report about childcare costs and Universal Credit.[5] In due course, childcare costs for school-age children could also be covered in full for working parents on UC and paid directly to providers, as recommended above for pre-school children.

## Provide universal childcare for two-year-olds

Fully free hours of universal childcare for 15 hours should be provided for all two-years-olds regardless of parental working status, as is currently being rolled out through the expansion of the Flying Start scheme in Wales.[6] This would mean that all two-year-olds can benefit from early years childcare and reduce inequalities between children as they enter three- and four-year-old childcare and nursery education.

In the longer term, the government should move to a fully supply-side funded early years education and childcare system, in which children are entitled to at least 15 hours of free provision from nine months onwards, rising to 30 hours.

5 For school-age children 'Being able to use UC Childcare costs support for extra-curricular enrichment activities which are not Ofsted registered would enable parents to afford this type of activity'. See: Department for Work and Pensions (2024). Universal Credit childcare costs support research, 7 October 2024, p.21. https://assets.publishing.service.gov.uk/media/6711026c9cd657734653d722/universal-credit-childcare-costs-support-research.pdf

6 In Wales there is free childcare for two–four -year-olds if they live in a 'Flying Start' (economically deprived) area for 12.5 hours per week in term time regardless of whether they are on UC or not and how much they earn. All areas in Wales are gradually becoming Flying Start areas.

## Re-establish Sure Start to provide community-based childcare and holistic family support

The evidence that Sure Start reduced inequalities in child development, and that its benefits far outweighed its costs, is compelling.[7,8] Re-establishing the Sure Start programme – building out from the existing Family Hubs network – should form part of a new childcare and early years strategy. Funding should return to the levels in the previous Labour government, as recommended by former Prime Minister Gordon Brown and other senior Labour figures.[9] This would also support the ambition in the government's consultation on its Child Poverty Strategy that there should be 'better local support, focused especially on children's early years'.[10]

## Develop a childcare workforce strategy

Improving the quality of early years childcare and learning is also critical, as the Nuffield Foundation[11] and others have argued. This requires a workforce strategy to address the issue of staff recruitment, retention, skills and progression opportunities for early years practitioners and the improvement of SEND childcare provision.[12] The recent unpublished review conducted by Sir David Bell recommended the development of a new 0-7 qualified teacher status (QTS) and suggested other ways to improve quality in the early years sector.[13]

## Reform employment support and conditionality rules for parents

Instead of the current very limited support provided by Jobcentre work coaches, specialist and non-stigmatising employment support – similar to the help provided under the New Deal for Lone Parents – that recognises the complex and demanding role of being a working parent should be offered to all families on UC. The recent extension of conditionality to lone parents and lead carers in couples whose children are aged three – who are now expected to be working or looking for work for 30 hours per week – should also be reversed.

7 Carneiro, P., Cattan, S. and Ridpath, N. (2024). The short- and medium-term impacts of Sure Start on educational outcomes. The Institute for Fiscal Studies.

8 Carneiro, P. et al. (2024). The effect of Sure Start on youth misbehaviour, crime and contacts with children's social care. The Institute for Fiscal Studies. https://ifs.org.uk/sites/default/files/2024-10/The-effect-of-Sure-Start-on-youth-misbehaviour-crime-and-contacts-with-children-social-care.pdf

9 Weale, S. and Crerar, P. (2024). Senior Labour figures call for 'life-transforming' Sure Start policy. The Guardian, 9 April. https://www.theguardian.com/education/2024/apr/09/senior-labour-figures-call-for-life-transforming-sure-start-policy

10 Cabinet Office (2024). Tackling Child Poverty: Developing Our Strategy. https://www.gov.uk/government/publications/tackling-child-poverty-developing-our-strategy/tackling-child-poverty-developing-our-strategy-html

11 Nuffield Foundation (2022). The changing face of early childhood in Britain. https://www.nuffieldfoundation.org/series/changing-face-of-early-childhood-in-britain

12 Hodges, L., Shorto, S. and Goddard, E. (2024). Childcare Survey 2024. Coram Family and Childcare. https://www.familyandchildcaretrust.org/sites/default/files/Childcare%20Survey%202024_3.pdf

13 Turner, C. (2024). Labour's early years review findings revealed. TES Magazine, 11 September. https://www.tes.com/magazine/news/early-years/labour-early-years-review-findings-revealed

# Going forward: Making work pay and the new Child Poverty Strategy

Since being elected in July 2024, the Labour government has set up a child poverty taskforce to develop a strategy for reducing child poverty, in part through increasing economic activity rates and earnings in families and improving early years learning. The Labour Party has also promised to 'make work pay' through its New Deal for Working People and increases in the National Minimum Wage,[14] and, in November 2024, the *Get Britain Working* white paper was published.[15] Ensuring these goals are met for low-income families will depend on the availability of affordable, quality childcare that can meet the diverse needs of all children. We hope that this report and recommendations can contribute to meeting these objectives.

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14 Labour Party (2024). Labour's Plan to Make Work Pay. https://labour.org.uk/wp-content/uploads/2024/05/LABOURS-PLAN-TO-MAKE-WORK-PAY.pdf

15 HM Government (2024). Get Britain Working. https://assets.publishing.service.gov.uk/media/67448dd1ece939d55ce92fee/get-britain-working-white-paper.pdf

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