Family and Childcare Trust
Creating a family friendly UK

The childcare support gap 2014

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The Government is changing the way that families are helped with their childcare costs through the introduction of Universal Credit and a new tax free 'voucher'. But some 335,000 families may miss out on vital support because of the complexity and overlap between the two systems. Parents may not know which form of support is best for them and those most at risk are parents whose income varies from month-to-month.

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Executive summary

High quality childcare can reduce poverty by supporting parental employment and improving long term developmental outcomes for the most disadvantaged children. Successive governments have recognised this and acted to help families with their childcare costs to stop high prices acting as a barrier to work. Childcare costs are now subsidised through the part-time free early education, tax credits, employer-supported vouchers and a number of smaller schemes, for groups such as student parents.

In 2015, employer-supported vouchers will be phased out and replaced by a tax free voucher, which is worth up to £2,000 per child per year to families. As with the present childcare vouchers, it will not be available to those who receive any form of tax credit support, but for them, the Government proposes to increase the level of childcare help in the new Universal Credit in April 2016 to 85 per cent of childcare costs, up from the 70 per cent that is presently available through Working Tax Credit.

While this new help is welcome, we believe thousands of hard-working families will be caught in a confusing system where they won't know which type of childcare support system – Universal Credit or the tax free voucher – works best for them. Typically, these families will be ones whose childcare costs or wages vary from month-to-month, perhaps because they work overtime. We have termed this issue an information gap – because families will be left to guesswork when it comes to making financial decisions about childcare support.

Draft statutory guidance published in 2014 suggests that parents may be limited in the numbers of times they can switch between Universal Credit and the tax free voucher to no more than once every year and twice within a four year period. There are also different qualification criteria for the two systems relating to the ages and numbers of children whose childcare costs are supported. This can only add to parental confusion.

Our research shows that there is a related financial gap. Those receiving help with their childcare costs through tax credits – and in future, through Universal Credit – see the amount of financial assistance disappear quickly if their wages go up. Families in these circumstances may see little benefit from extra earnings from overtime or promotion, and again may be better receiving the tax free voucher.

Some 335,000 parents will be affected by these gaps in the childcare system. Their numbers include the self-employed and those who work overtime. Agency workers, those on zero hours contracts and parents whose incomes are boosted by commission are also at risk from falling into these gaps. Often these families are not the very poorest. Rather, they are hard-working people who are struggling on modest incomes.

Recommendations

It is essential that childcare policy is informed by the real life experiences of parents and an understanding of their work patterns and childcare needs. Based on the research, we make the following recommendations.

In the long-term the Family and Childcare Trust would like the Government to establish an independent review of childcare funding that simplifies the system for parents and makes sure those on the lowest incomes get the most help.

In the short term we recommend

- The Government should enable families to switch between the different childcare support systems easily, to accommodate the needs of families whose incomes or childcare costs vary from month to month.
- The Government should run a national campaign to inform parents about all types of help with their childcare costs.
- The eligibility criteria for Universal Credit and the tax free voucher should be harmonised – including the ages of children eligible – to help parents make decisions about work and childcare.
- The Government should raise the eligibility age for disabled children to 18 for both the childcare element of Universal Credit and the tax-free childcare scheme to align the schemes with the Childcare Act 2006 and more effectively promote good childcare for disabled children.

1. Introduction

Working parents use many different forms of childcare and their choices depend on many factors including preferences about particular forms of care, family income, hours of work, local childcare availability, informal childcare support networks and the age of their children. Data from the *2013 Childcare and Early Years Survey of Parents* suggests that in England some 68 per cent of families with children under 15 years use childcare, with 52 per cent of families using formal – regulated - provision provided by childminders, nurseries, sessional crèches, pre-schools, out-of-school and holiday clubs (Department for Education, 2014a).

High quality childcare is widely recognised as essential for children's development, and also helps parents – usually mothers – to return to work after having children, bringing benefits to families, employers and the broader economy. From the mid-1990s successive governments have prioritised childcare as an issue, with a clear shift away from the idea that it is a private matter for families. The numbers of places in nurseries, out-of-school and holiday clubs has greatly increased – there were just 59,000 nursery places in England and Wales in 1990, compared with 1.8 million today. Successive governments have also brought in measures to improve the quality of childcare, for example, childminders, pre-schools and nurseries now have to deliver the same early years' curriculum.

Governments have also acted to help families with their childcare costs, which are now subsidised through the provision of part-time free early education (a supply-side subsidy), tax credits, employer-supported vouchers and a number of smaller schemes, for groups such as student parents. In 2015, employer-supported vouchers will be phased out and replaced by a tax free voucher, which is worth up to £2,000 per child per year to families. As with the present childcare vouchers, it will not be available to those who receive any form of tax credit support, but for them, the Government proposes to increase the level of childcare help in the new Universal Credit to 85 per cent of childcare costs, up from the 70 per cent that is presently available through Working Tax Credit. This change will be introduced in April 2016.

Despite this extra financial help to parents, childcare remains a major cost burden for families. Year on year, the price of childcare has increased above the rate of inflation – nursery costs have increased by 27 per cent since 2010 - while wage growth for parents has been largely stagnant during the same period. Table One shows prices taken from the Family and Childcare Trust's 2014 Childcare Costs Survey. Typically, a parent using part-time nursery provision for a child under two and an after-school club for a child of school age would expect to pay £7,541 per year in childcare. In London and the south east this cost is usually higher, with nurseries 28 per cent more expensive than the British average.

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Table One: Average weekly childcare costs by region and nation, 2014

Region/Nation	Nursery 25 hours (under 2)	Nursery 25 hours (2 and over)	Childminder 25 hours (under 2)	Childminder (2 and over)	After-school club 15 hours	Childminder after-school pick up
East of England	£111.90	£105.02	£121.28	£120.45	£51.13	£58.37
East Midlands	£94.30	£97.19	£86.27	£86.05	£46.48	£61.84
London	£140.12	£136.93	£136.40	£138.77	£49.04	£93.83
North East	£108.24	£102.66	£90.88	£90.09	£49.52	£55.72
North West	£98.00	£97.58	£84.81	£89.27	£49.27	£60.59
South East	£130.08	£121.58	£110.32	£115.86	£47.68	£66.10
South West	£109.70	£104.96	£100.48	£99.54	£50.75	£61.54
West Midlands	£112.17	£101.85	£85.52	£82.85	£46.85	£62.37
Yorks and Humberside	£94.03	£87.94	£90.68	£90.75	£44.84	£62.38
England regional average	£110.95	£106.19	£100.74	£101.51	£48.40	£64.75
Scotland average	£106.04	£102.06	£95.59	£96.84	£49.54	£77.90
Wales average	£103.17	£102.28	£94.24	£94.24	£45.98	£55.61
Britain average of regions and nations	**£109.89**	**£105.52**	**£99.77**	**£100.52**	**£48.19**	**£65.08**

For many parents, childcare remains one of the most significant items of expenditure and this affects many aspects of family life, as parents cut back on food, clothing and days out together. The high price of childcare can also be a barrier to employment for some parents and prevents them returning to work, taking on extra hours of employment and thus moving out of poverty.

Finding effective ways of helping parents with their childcare costs is a major challenge for the Government. It is also an issue of concern for organisations who advocate for low income families. The Family and Childcare Trust believe it is important that we understand the impact of future changes on real families. To these ends we carried out 10 in-depth interviews with working parents in London, Derbyshire, Stockport and Edinburgh. These case studies were of low to middle income parents and their gross annual household incomes ranged from £8,300 to £45,000, with the net income in all but two of the families falling below the equivalised median income. Two of the families were living in poverty - in that their net household income was below the 60 per cent median household income. Two further families were single parents who worked part-time, both of whom had been lifted out of poverty through tax credit support. Further details about the ten families are given later in the report. The interviews were backed up by our analysis of secondary data, for example statistics from the HMRC.

The report comprises four sections. After this introduction, *Section Two* looks at childcare use in the ten case study families and the impact on family life of high childcare costs.

Section Three outlines how families receive financial help with their childcare costs now, and in future. It looks at tax credits and voucher support and also outlines the changes that will be introduced in 2015 and 2016 when the new tax free voucher is brought in, and help under Universal credit is increased. This part of the report highlights two inter-related problems facing working families on low and modest incomes. First, by 2016, parents will be receiving help with their childcare costs through different support systems: tax free voucher/legacy employer-supported voucher or Universal Credit/legacy Working Tax Credit. We believe

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that this complex system means that a substantial number of families will not know whether they will be better off receiving voucher support or through Universal Credit. Typically, these families will be ones whose childcare costs or wages vary from month-to-month, perhaps because they work overtime or are on zero hours contracts. We have termed this issue an information gap – because families will be left to guesswork when it comes to making financial decisions about childcare support.

Second, our analysis shows that there is a related financial gap in the new support system. Those receiving help with their childcare costs through Working Tax Credit – and in future, through Universal Credit – see the amount of financial assistance tapers off as their income increases. Families in these circumstances may see little benefit from any extra earnings from overtime or promotion, as their tax credit support decreases. Although individual circumstances influence the amount of tax credit support, some of these families may be better off opting out of tax credits and opting into the new tax free voucher system. However, draft regulations suggest there may be limits as to how many times families can switch between the two systems.

Typically families affected by the information and financial gaps are not the poorest 10 per cent of the working population, as this group receives tax credit support. Rather, they are people whose wages vary. Generally they are the second and third income deciles, although their net income may fall below the official poverty level in some months. They are hard-working people who are struggling on modest incomes, a group that is sometimes called the squeezed middle.

Finally, *Section Four* of the report outlines some policy recommendations that would help families affected by these two childcare support 'gaps'.

We welcome the fact that all the main political parties have committed so strongly to improving our childcare system. However we feel that problems we have highlighted require attention from the Government. We believe it must commit to simplifying the system to ensure that it benefits all families.

2: Childcare arrangements in the case study families

Figure Two: Childcare use in case study families

Name	Children	Formal childcare use	Informal childcare
Denise	Son, 4 years	Private nursery and state nursery for free hours	Grandmother and ex-husband
Tina	2 children aged 8 and 4	Breakfast club and nursery for free hours	Grandmother
Janine and John	3 children, aged 9, 4 and 20 months	Childminder, nursery	Shift-parenting, friends, grandparents
Naomi and Deborah	Daughter, 14 months	Nursery	Grandmother
Yasmin	Daughter, 4 years	Childminder	Friends in school holidays
Barbara	Daughter, 2 years	Nursery	Boyfriend's sister
Rachel and Robert	3 children aged 11, 6 and 3 years	Childminder then nursery for free provision Holiday childcare club for youngest and middle child	Grandmother, cousin
Charlotte and Adam	Daughter, 18 months	Private nursery	Shift-parenting, grandparents, sister-in-law
Katarzyna and Martin	Son, 2 years	Nursery	Shift-parenting
Lisa and Iain	Daughter, 4 years	Childminder	None

As already noted, we conducted in-depth interviews with ten families across the UK that highlighted the impact of high childcare costs on family life. Information about each family is given in the appendix. Here we examine how childcare arrangements impact on broader family life and highlight important issues that relate to childcare provision.

Complexity of childcare arrangements

Many of the families had complex childcare arrangements and use a number of formal and informal childcare providers, as shown in Figure Six.

Most parents used more than one childcare provider, often to accommodate pick-ups and drop-offs. Janine and John, for example, had three children aged 20 months, four and nine. This meant that she had three different pick-up and drop off points. Janine works compressed hours.

> *Recently I've been working from 9:30 till 2 without a lunch break so I get home that little bit earlier.*

She arranges her childcare around help from her parents, by coordinating her shifts with her husband's, and by sharing school drop-off and pick up responsibilities with other local parents. Every weekday, her son attends a local childminder from 8:30 until 15.30, her youngest daughter receives three hours of early education every morning during term-time and her oldest daughter goes to school, which finishes at 15.15. Janine's husband often works a late shift, which allows him to pick up their daughter from nursery, but Janine also gets help from other parents or her family. Janine's mother lives a short walk away, and her father lives in a nearby town.

One of the reasons that parents use this complex package of childcare is the inflexibility of some of the free early education provision. Denise's son attended two different nurseries, as the school nursery where he received his free provision is unable to provide the hours of care at the times when it is needed. The complexity of these arrangements, and the diversity of parents' use of childcare presents some challenges to public policy responses that aim to ensure that childcare is available and affordable. Extending the hours of free early education may not benefit working parents if the time that it covers does not correspond with parents' hours of work.

2: Childcare arrangements in the case study families

Reliance on informal childcare

The majority of families were heavily reliant on informal childcare, particularly at pick-up and drop-off points, outside normal office hours and during school holidays. The availability of informal care enabled parents to take on extra hours of work and in some cases to work at all.

Despite the recent expansion of formal childcare, there is little evidence to show that families are dispensing with informal care. Grandparents and others are less likely to provide full-time care, but they are still needed at 'coordination points' and to provide care outside nursery hours or in the school holidays (Rutter and Evans, 2012). However, there are a number of demographic and social changes which, in future, may impact on parents' ability to use informal childcare. Increased labour market participation by older women and the raising of the state pension, family breakdown, retirement migration and migration within the UK are demographic factors that affect the availability of informal childcare. Childcare policy needs to respond to a social reality where not all families have informal childcare support networks.

Flexible and understanding employers

Another crucial factor that enables parents to work is an employer who is flexible and understanding of parents' childcare responsibilities. As with informal childcare, a flexible and understanding employer made the difference between work and unemployment for the majority of the parents we interviewed. Charlotte, a part-time catering manager explained the changes to her work hours:

> *My work has been really good in catering for my needs, especially in regards to childcare because I think it's really due to the fact of how long I've worked there for. I think if I hadn't worked there as long as what I did have and I had just went back from maternity leave and said, "I need to cut my hours" there's no way they would have done it and they're really just doing it because of how long I've been there, which is really good of them.*

But not all employers had these characteristics and four parents had to change their jobs because they could not get their employer to agree to the hours of work that fitted with childcare. Yasmin's previous employer did not allow her to compress her work hours to fit around her childminder availability. This led to Yasmin taking a part-time job nearer her home, although this eventually became full-time. However, her career prospects are not as good as in her previous job, as she has taken a pay cut and her new employer is not able to pay for the training her previous company could offer. Tina, Barbara and Janine had also recently changed jobs to work for a more flexible and understanding employer and had traded off better career prospects for employer flexibility. They were experiencing the 'motherhood pay penalty' caused by women taking part-time or flexible work that offers fewer career prospects (Alakeson, 2012). Alongside dealing with affordability, childcare policy needs to reassert the need for flexible employment and also take measures to address the pay and career penalty suffered by mothers who work part-time.

Holiday childcare

Three of the families had children of school age and for two of them school holidays were a particularly difficult period. Not only is childcare difficult to find, it is also expensive, with the average weekly cost of holiday childcare coming to £118.65 in the private and voluntary sector in 2014 (Rutter and Lugton, 2014). Janine, for example, had paid out over £100 per week for holiday childcare but only received £18 per week help through the childcare element of Working Tax Credit.

> *£18 is a help but it is quite a small amount when you're working between you 80 hours a week.*

The case studies show that although out-of-school childcare is cheaper than under-fives provision, parents' childcare challenges do not end when a child starts school. It is important, therefore that policy responses address the needs of families with school-aged children.

2: Childcare arrangements in the case study families

Work is important for mothers' well-being

For many of the mothers, the short-term financial benefits of working were small. But there were other reasons why these parents chose to work. Denise, who was paying 34 per cent of her gross salary in childcare costs did not want jeopardise her future career prospects as a midwife by a career break. All of the parents felt work gave them financial independence and was also important for social reasons:

> *One of the main reasons I value my time at work is just having adult conversations and talking about other things than your kids and watching kid's programmes all day long (Lisa).*

> *I just loved my work and my independence really. I didn't want to just be a stay at home mum, I wanted to prove myself I suppose a little bit as being able to manage, and work, and have my own money and provide for my children (Naomi).*

Impact of childcare costs on family life

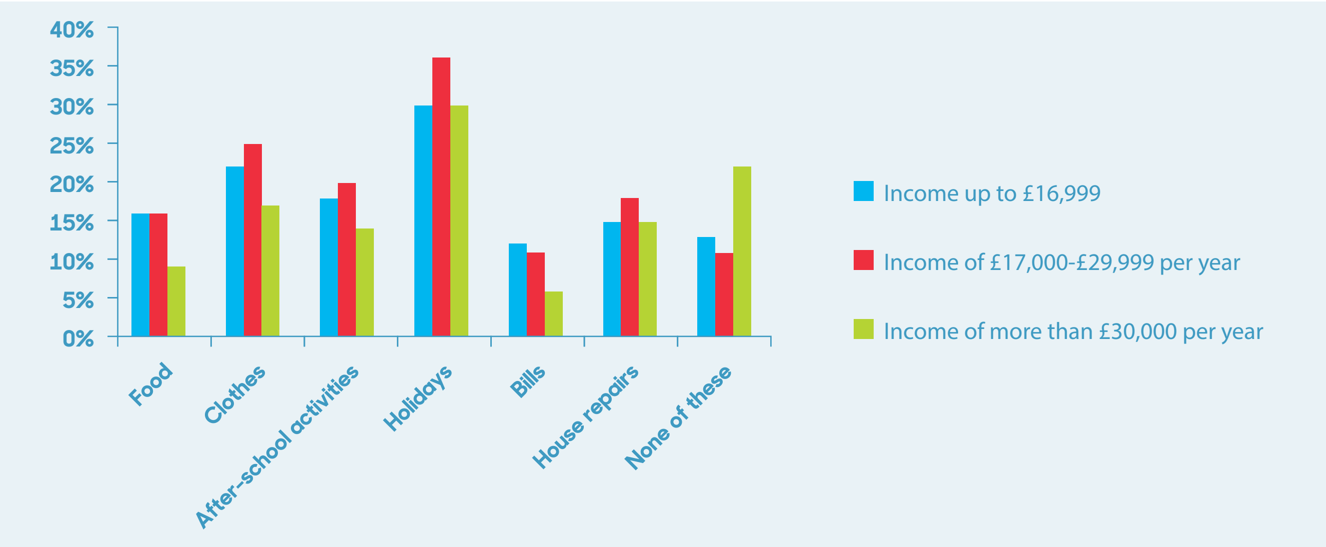
All the interviews highlighted the impact childcare costs had on family life. All of the families described changes to their purchasing patterns, moving to a different supermarket, cutting back on days out and holidays. Rachel and Robert had downsized their car and their children wore secondhand clothes. Denise described how she now shopped at a budget supermarket and had not bought herself new clothes in the last two years. At times she struggled to pay her mortgage and could rarely take her son on days out. Charlotte and Iain had also seen changes to their life style since they had children.

> *There are times when we really struggle. As soon as Emily started nursery, it has been financially hellish. We always used to go for ASDA and do a weekly shop. Now we shop around, we go to three or four different shops. We'll get the best deals, because we need to watch what we are spending. Now we don't go out, we just sit in the house and watch TV and stuff like that. Most of the time it doesn't bother us, but there are times when like it's a nice day and you want to get out, but you know you've got no money to go, there's no point.*

Our interview findings are supported in a recent Save the Children poll of 4,000 parents which showed that 30 per cent of families cut back on holidays and 9 per cent had cut back on food because of high childcare costs. In families on modest incomes earning £17,000 to £29,999 per year, high childcare costs had caused 16 per cent of families to cut back on food (Figure Three).

2: Childcare arrangements in the case study families

Figure Three: Items families have cut back on to afford childcare in the last year



Source: Save the Children, 2014

Rachel, Barbara, Yasmin and Lisa had gone into debt because of childcare costs, owing money to different people and organisations (including childcare providers) or overdrawing their accounts.

The high cost of childcare also limited families' capacity to take days out together or go on holiday. Shift-parenting had prevented four of families from taking a holiday together. For Rachel their only recent holiday was a three-day visit to the seaside.

> *We went to Skegness last year for was it three days or something like that, we just… but like I had to pay the childminder the day we was going. We just went with minimal kind of money because I owed her money. I think there was about £400 in the bank and I had to pay the childminder £150 before we even left home.*

Tight family finances, shift-parenting and a lack of family time together had put strains on family relationships in all the families. Naomi, a student parent, explained:

> *The cost of childcare has caused arguments. It's got to that point now. We are just generally down. We won't sit and talk because we are just fed up with the whole situation. …I couldn't actually afford to buy her new stuff… At one point I stopped buying baby food or pureed baby food, or anything like that or fruit because it's just too expensive. We feed her proper food that has been blended up… If we want to go out anywhere, for a drink or to the cinema we can't afford it. We can't go out and do things that we want to, which is putting pressure on us both, because we are bored.*

Food and clothing matter to families, but so does spending time together. The Family and Childcare Trust is concerned that high childcare costs have the potential to impact negatively on the quality of family relationships. From a child wellbeing perspective it is not desirable for parents to split up due to financial worries, or because they simply are not spending time together.

2: Childcare arrangements in the case study families

Financial help with childcare costs

Figure Four: Families' help with childcare costs

Family	Help
Denise	Free early education and employer supported vouchers that save her £933 per year.
Tina	£4,300 help with childcare costs through the childcare element of Working Tax Credit.
Janine and John	Free early education and limited help through the childcare element of Working Tax Credit amounting to £2,000 per year.
Naomi and Deborah	None
Yasmin	Childcare element of Working Tax Credit in some months, depending on her income. Her help with childcare costs through tax credits amounts to about £1,000 per year.
Barbara	£3,300 help with childcare costs through the childcare element of Working Tax Credit.
Rachel and Robert	Free early education.
Charlotte and Adam	None.
Katarzyna and Martin	None.
Lisa and Iain	Childcare element of Working Tax Credit in some months, depending on her income.

Figure Four summarises the help that each of the ten families received with their childcare costs. A number of families had found that tax credit reporting mechanisms were cumbersome, particularly when their income or childcare costs changed. Barbara, a single mother with a two year old daughter, worked as a part-time support worker for adults with mental health and learning difficulties. Financial pressures meant that she sometimes took on extra shifts. Although Barbara received help with her childcare costs through the childcare element of Working Tax Credit, her income and childcare costs varied from week to week. But she has found it expensive and time-consuming to arrange tax credits by telephone and to report changes to her income and childcare costs.

> *It costs a fortune on your phone. I've gone over my contract phone quite a lot ringing in tax credits at the moment.*

Confusion about support mechanisms

Regulations prevent families receiving help with their childcare costs through tax credits from also getting childcare vouchers. This dual form of support will continue after 2015, when receipt of the new tax free voucher bars a family from receiving help with their childcare costs through Universal Credit or the legacy Working Tax Credit. But the case studies suggested that there may be a number of families for which a decision about the best form of support to use is not clear. The complexity of support systems and a lack of information about different options may mean that families lose out on vital additional childcare support.

Denise is a clear example of where the complexity of the system and a lack of information led her to making the wrong decision. This meant she lost over £500 help with her childcare costs in the last tax year. Her annual childcare bill comes to £9,207 or 31 per cent of her salary. Denise, a single parent, decided not to use tax credits because of the difficulties reporting a variable income and so opted for employer supported childcare vouchers at the maximum level of £55 per week. Although she is a basic rate tax payer and the vouchers save her £933 per year, she would be better off receiving help through the childcare element of Working Tax Credit where she would receive £1,456 help with her childcare costs, separate from any Child Tax settlement. But Denise felt that tax credits were not

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responsive to week-to-week changes in either parental income or childcare costs, so she had decided not to apply for tax credits.

In future, Denise would qualify for the maximum amount of support – £2,000 – when the tax free voucher is introduced in 2015. She would be better off with the voucher in 2015. But after this in 2016, when support with childcare costs is increased to 85 per cent under Universal Credit, Denise might again be better off under this system, rather than the tax free voucher.

Rachel and Robert and Janine and John were also confused about the best sources of help with their childcare costs. Rachel and Robert's gross annual household income took them over the qualification threshold for the childcare element of Working Tax Credit. As Rachel and Robert had three children they still received a small amount of Child Tax Credit, which Rachel confused with the childcare element of Working Tax Credit. Rachel thought she was getting help with her childcare costs, but she was not. This mistake might in future lead her to opt into the wrong support system.

> *I don't understand what's happening now because obviously we've got nothing. I don't really get it.. The forms, you have to ring up and they send one to you, they are so complicated and the form is about that thick. It's absolutely ridiculous.*

Janine also did not understand how tax credits worked and had mistaken her Child Tax Credit for the childcare element of working tax credit. She had also found the system for reporting income or childcare cost changes to be cumbersome, and this had led to a mistaken overpayment.

Tax credit tapers

The case studies also highlight the impact of the taper in tax credit support. Janine and John, with a gross household income of £28,700 spent £10,010 every year on childcare, but only received £2,002 help with childcare costs through the childcare element of Working Tax Credit. This is because Working Tax Credit support tapers off steeply after a family's income exceeds £6,420. If Janine's husband John works more overtime, as he wants to do, they face losing more of their tax credits. When the new tax free voucher is introduced in 2015 it is not clear whether Janine and John would be better off receiving tax credits or the new tax free voucher.

This shows a number of important issues about the interaction between Working Tax Credit/Universal Credit support and vouchers. There is an information gap, meaning that families lack the information to decide which support system is best for them. There is also a financial gap affecting families whose income approaches the maximum threshold for tax credit help. In these circumstances, some families may be better off receiving the new tax free voucher.

3. The information and financial gaps

As noted in the previous section, the case study research highlights an information and financial gap in childcare support. By 2016, parents will be receiving help with their childcare costs through different support systems: tax free voucher/legacy employer-supported voucher or Universal Credit/legacy Working Tax Credit. The complexity and financial over-lap of these system means that a substantial number of families will not know whether they will be better off receiving voucher support or through Universal Credit. Typically these families will be ones whose wages vary from month-to-month, perhaps because they work overtime or are on zero hours contracts. We have termed this issue an information gap - because families will be left to guesswork when it comes to making financial decisions about childcare support.

Our analysis shows that there is a related financial gap in the new support system. Those receiving help with their childcare costs through Working Tax Credit - and in future, through Universal Credit - see the amount of financial assistance tapers off as their income increases. Families in these circumstances may not see any benefit from any extra earnings from overtime or promotion. Although individual circumstances influence the amount of tax credit support, some of these families may be better off opting out of tax credits and opting into the new tax free voucher system. Typically these families are not the poorest. Rather, they are hard-working people who are struggling on modest incomes, a group that is sometimes called the squeezed middle.

To understand these two problems, it is worth examining the operation of tax credit system and the new tax free voucher.

Tax credits

Families receive help with their childcare costs through the tax credit system, although tax credit support is made up of different components (Figure Five). In the financial year 2012-2013 there were an estimated 2,625,000 in-work families (48 per cent of families) with dependent children who received tax credit support (HMRC, 2014a).

Working Tax Credit goes to employed people on the lowest incomes but tapers off after the income threshold of £6,420 is exceeded. In 2012-2013 some 1,849,000 families with dependent children received Working Tax Credit and Child Tax Credit, of which 97 per cent had an annual income of less than £19,999 (ibid). About half of the recipients of this component of Working Tax Credit are single parents on very low incomes.

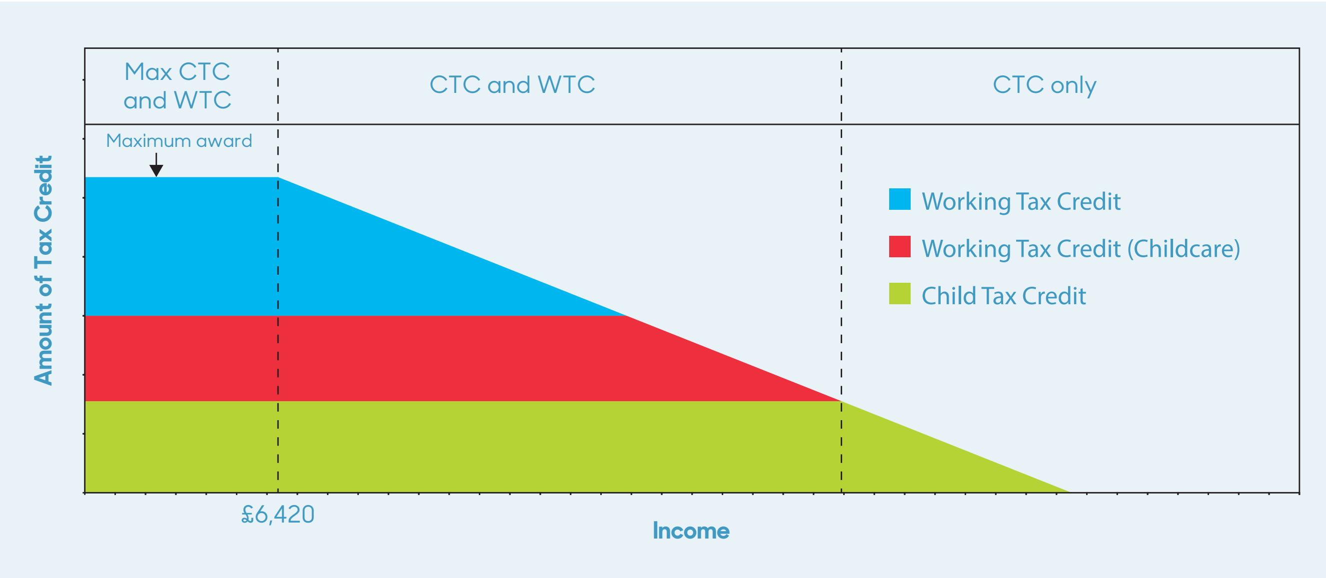
Child Tax Credit goes to a larger number of families, who include both those in-work, but also to out-of-work families. It is made up of different elements to reflect children's circumstances. Although these vary, most families with a gross household income of more than £40,000 will generally not receive Child Tax Credit.

There is also a childcare element of Working Tax Credit. In the year 2012-2013 an estimated 7.5 per cent of UK families with dependent children under 12 –390,000 families in total - received help with their childcare costs in this way (HMRC, 2014a). At present parents can receive up to 70 per cent of their childcare costs through the childcare element of Working Tax Credit, up to a maximum cost of £175 per week for one child in childcare and £300 per week for two or more children. This means that a family can receive up to £122.50 help (70 per cent of £175) with childcare costs for one child and up to £210 for two or more children, although for almost all families the amount of help is much lower. These levels were set in 2005 and have not been uprated since then, despite big increases in childcare costs over this period. Moreover, it is only the most deprived working families that receive this type of help, as the childcare payment starts to taper off steeply if the first earner in a household earns more than £15,910 per year before tax and National Insurance are deducted. After this threshold, the level of tax credit support is reduced by 41 pence for every additional £1 that is earned (Figure Eight).

Although tax credit awards for childcare differ according to household composition, family circumstances, childcare costs and household income, few families with an income over £30,000 receive tax credits - only 137,000 families with an annual income of £30,000-£39,999 received tax credits in 2012-2013, almost all of whom (96 per cent) were receiving small amounts of Child Tax Credit only. In the same year, just 13,000 families in the UK with a gross household income of more than £40,000 were receiving tax credits, almost all of whom are larger families who receive small amounts of Child Tax Credit.

3. The information and financial gaps

Figure Five: In-work Child and Working Tax Credit tapers



For a family of two parents and two children, £30,000 – £39,999 is a modest income. The median annual income in 2014 for a two adult two child household stands at £44,200 per year[1]. There are, therefore, many households whose income is below the median who receive little or no support with their childcare costs through tax credits. The steep taper in tax credits can also disincentivise extra earnings – while parents may take on extra hours of work or secure promotion, they may not necessarily benefit greatly if they lose their tax credits. Among the case study families Janine and John fall into this trap. John, a bus driver would like to take on more overtime, but any significant increase in their earnings will result in them losing their tax credits.

Universal Credit

Tax credits are now being merged into the single Universal Credit, with 2017 being the target date for its full implementation, although there are concerns that this will not be met. Within Universal Credit the overall maximum childcare support levels will remain, although these will be now calculated monthly. There is no longer a minimum hours at work threshold to qualify. Universal Credit will also be administered online and these two changes will enable greater flexibility for parents whose childcare costs fluctuate from week to week. This is particularly important for parents who face fluctuating childcare costs caused by irregular work patterns and school holidays.

Parents who work less than 16 hours per week will qualify for help with childcare costs through Universal Credit, a move that eliminates some of the benefit 'cliff edges' that can disincentivise moving back into work. In March 2013 the Government announced that it intends to increase the level of childcare support through Universal Credit to 85 per cent of costs, up from 70 per cent of costs that parents receive today. This increase is due for implementation in 2016.

These three changes have been welcomed by the Family and Childcare Trust as they will make a real difference to the poorest working families, particularly low income single parents. However, there are a number of caveats. Any substantial delays to the implementation of Universal Credit risk delaying the increase in support to families. Working parents receiving housing benefit or council tax benefit will also lose out when their cases are transferred from Working Tax Credit into Universal Credit. This group presently gets 96 per cent of their childcare costs covered by this housing benefit scheme. A Children's Society (2012) study estimated that 100,000 families would be affected by this change and the average loss would be £23 per week. Disproportionately, families in southern England will be affected by this change.

1 HM Treasury tax and benefit micro-stimulation model.

3. The information and financial gaps

Additionally, those families whose tax credit awards near the maximum level may be affected by the two year freeze on benefit announced in October 2014. (Some 108,000 families out of 390,000 who received the childcare element of Working tax Credit had an award of £100 or more in 2012-13). This means that there will be no uprating of the maximum levels for tax credit support until 2016, at least.

Help through vouchers

At present almost all parents not in receipt of tax credit help with childcare costs are entitled to help with their childcare costs through employer supported vouchers and tax relief on workplace nursery costs. An estimated 540,000 UK parents – about 9 per cent of all families received help in this way, either as an additional benefit on top of their salary or as a salary sacrifice before they pay tax (House of Commons Library, 2014).

The voucher system is complex and major changes introduced in 2011 mean that parents receive different amounts of help depending on their earnings and when they enrolled in the system. Those receiving childcare vouchers can save up to £55 per week if they are basic rate taxpayers or higher rate taxpayers who joined a voucher scheme before 5 April 2011. Childcare vouchers can also be 'banked' and used at a time when childcare costs may be particularly high, for example, during the school holidays. The disadvantages of childcare vouchers are that only five per cent of employers offer them and not all childcare providers, particularly out-of-school clubs, accept them. About 33 per cent of the costs of a scheme are administrative costs (ibid). Vouchers are also poorly-targeted at those families that most need financial support, for example, those just above the threshold for receiving help through Working Tax Credits. (The 2013 Childcare and Early Years Survey of Parents suggested that 79 per cent of families that received help from their employer with childcare costs had an annual income of over £45,000). Costing the Government £800 million a year in 2013, critics have long argued that employer supported vouchers do not represent value for money.

In 2013 the Government announced that it will phase out the present employer-supported childcare voucher scheme and replace it with a tax free 'voucher' of up to £2,000 per year in 2015 (HM Treasury, 2013). This will be an online system where parents bank their payments. For each £8 a parent pays in, the Government will add an additional £2 up to a maximum of £2,000 per year per child. Draft regulations published in 2014 provide more detail about the system's operation. Parents will be granted the voucher for a three month 'entitlement period', after which they will be required to update their details online (HMRC, 2014b).

This support will be available to all families outside the tax credit/Universal Credit system where parents work and whose household income is less than £300,000 per year (or £150,000 for a single parent). Clause 11 of the present Childcare Payments Bill bars recipients of Universal Credit from receiving this form of support, with the details of this fleshed out in draft regulations (HMRC, 2014b).

Outside income criteria there are other significant differences in the qualification criteria between the tax credit/Universal Credit system and the new tax free voucher system, summarised in Figure Six. These differences have the potential to add to parental confusion.

Figure Six: Qualifications criteria for help with childcare costs

	Tax credits and Universal Credit	The new tax free voucher
Family criteria	Will only support childcare costs for 2 children. No additional help for third or subsequent children	No upper limit on number of children for whom parent can get help with childcare costs
Upper age threshold	The first Saturday in September after the child's 15th birthday	Up to 12th birthday
Upper age threshold for disabled children	The first Saturday in September after the child's 16th birthday	Same as tax credits and UC

3. The information and financial gaps

The two gaps

This new help with childcare costs is welcome, in particular, that the new tax free voucher seeks to be universal in its coverage. However, our case study research indicates two problems with these changes which relate to the interaction between Universal Credit and tax free voucher system.

Problem One: The information gap
The families we interviewed gave a clear insight into how parents can lose out because of an over-complex support system and because they do not have sufficient information about which childcare support system – tax credits/Universal Credit and tax free vouchers - would be financially best for them. The difference in the qualifications criteria between the two systems only adds to parental confusion.

Problem Two: The financial gap
Here families lose out because of the tapering of tax credit support. While they receive a small amount of Child Tax Credit support and the childcare element of Working Tax Credit they may receive more money if they chose to opt into the new tax free voucher.

Who is affected?

While individual circumstances differ, families with certain characteristics are most likely to be affected by the information and financial gap, namely:

- Families whose gross household income is between £30,000 - £40,000, where their tax credit support has tapered off, but they still receive some support with their childcare costs and Child Tax Credit, although the financial help they get may be small. They would all lose their tax credit or Universal Credit support if they opted to receive the new tax free voucher or current childcare voucher support.
- Families whose gross household income lies between £30,000 - £40,000, but whose income varies from month-to-month due to overtime, freelancing, self-employment or commission and bonuses. It may be beneficial for this group to receive tax credit support in some months, but the tax free voucher/childcare vouchers in others.
- Families whose childcare costs vary from across the year, in particular those families who have to find extra money for expensive holiday childcare.

The Government acknowledged that there would be overlap between the two systems and in 2013 it estimated that about 50,000 families who will be receiving Universal Credit might be better off with the new tax free voucher (HM Treasury, 2013). Our research has led us to conclude that this figure is an under-estimate. It does not acknowledge that many families' incomes vary from month to month, nor growing numbers of self-employed people and those on zero hours contracts.

Self-employment has grown since the recession and there are now over 4.5 million self-employed adults in the UK, making up about 15 per cent of the overall workforce. The self-employed workforce is diverse and there are some problems in measuring earnings in this group (Resolution Foundation, 2014). But Labour Force Survey data suggest that there may be 260,000 self-employed mothers, of whom 60,000 may fall into the £30,000-£40,000 income bracket.

There are now an estimated 1.4 million workers on zero hours contracts, about 4.5 per cent of the workforce. While many workers on zero hours contracts receive low wages, there are increasing numbers of families whose gross household income is between £30,000 and £40,000 where one or both parents work on zero hours contracts. Labour Force Survey analysis shows that a further 280,000 people are employed as agency workers, another group whose income may vary.

Parents who work overtime may also have a variable income and variable childcare costs. Labour Force Survey in 2013 shows that 36 per cent of employed adults work overtime, although not all of them have children. A Family and Childcare Trust survey of 1,128 parents with dependent children showed that an estimated 22 per cent of them work paid overtime or had a partner who worked paid overtime. If these percentages were scaled up, there would be about 1.2 million families with dependent children where one or both parents work paid overtime of which 275,000 fall into the £30,000-£40,000 annual income bracket.

Families are very diverse in relation to their composition, work and earning patterns, as well as their childcare use. Their diversity poses challenges when trying to calculate how many families might fall into the income and information gaps. Looking at statistics in income, employment and family composition drawn from the Labour Force Survey we think that potentially about 335,000 families could be effected by the information and income gap within the childcare support system.

3. The information and financial gaps

Issues for the Government

As noted above, the Government acknowledged that there would be families in receipt of tax credits who might be better off with the new tax free voucher. It also acknowledged that families' circumstances may change as a result of a new job, unemployment or other changes in work arrangements. The 2013 Treasury consultation for the new tax free voucher proposed to let families switch between Universal Credit and the tax free voucher systems, as needed (HM Treasury, 2013). However, draft regulations attached to the Childcare Payments Bill at the end of 2014 suggested that there would be limits to the number of times that families could switch into the tax free voucher to once in a year (once out of the voucher system to Universal Credit then once back again) and twice in a four-year period:

> *The Bill provides that a person may not receive support under both universal credit or tax credits and the new scheme at the same time. It is, however, inevitable that some individuals will experience genuine changes in their circumstances resulting in a need to apply for tax credit or universal credit. A person can start claiming tax credits or universal credit during an entitlement period [three month entitlement period for tax free voucher support] for which they are entitled to top-up payments, if their personal circumstances do change. ….*
>
> *To prevent constant switching between regimes resulting in short periods of overlap support from both schemes, where a person has not had a change in their personal circumstances, the Bill provides that a person may be disqualified from the scheme. This can happen if they claim tax credits or universal credit during an entitlement period for which they are entitled to top-up payments, and then, within 12 months, return to the new scheme. On the first occasion a person will be given a warning notice. If they continue to move between the schemes in this way, they will then be disqualified (HMRC, 2014b).*

There is an acknowledgment that parents may need to swap systems because of changes in their circumstances. However, the Government has not defined what might be acceptable as such a change. Our concern is that additional or decreased overtime payments may not be interpreted as such and families may be lose out because they are in the wrong system.

Our research findings also suggest that many more than 50,000 families may fall into the information and financial gaps between Universal Credit and the tax free voucher. Moreover, some of them may be penalised if proposals to limit the number of switches is enacted in regulations. These are families on modest incomes who are at real risk of losing out on vital support with their childcare costs. Missing out on financial support with high childcare costs likely to push them into making cuts to the family budgets and can impact on the quality of family life for those that are already feeling the squeeze.

These parents need accessible and clear information so they are empowered to make the right decisions for their family. A note published by the Department for Work and Pensions in December 2014 does not address the information gap and parents' difficulties in understanding which help is best for them. For some, getting the right support will be the difference between being able to stay in work or being forced to give up work. This makes dealing with the need for clear information for parents an urgent issue.

The second issue of tax credit support tapering off sharply will largely affect families whose gross annual household income is between £30,000 – £40,000. Again, it is not the poorest who are affected, rather hard-working families whose additional earning potential faces being eaten up by childcare costs that would have otherwise been subsidised.

3. The information and financial gaps

CASE STUDY – Yasmin

Yasmin is a single mother with one daughter. She is an insurance broker and a large component of her income is made up of commission on the policies she sells. Over the last year her gross monthly salary has varied between £1,500 and £2,500. At the higher salary she is not entitled to any help with her childcare costs through Working Tax Credits, but would receive a small amount Child Tax Credit. On the lower salary and with a monthly salary £1,500 she would receive almost the maximum level of help with childcare costs through tax credits.

Yasmin's childcare costs come to £2,747 per year. If she opted for the tax free voucher in 2015, she would receive £762 help in year, but forfeit her Child Tax Credit. This decision may be the best one for her if her commission earnings are high. But if she does not earn much commission she may be better off receiving help through Universal Credit.

4: Ensuring the best support for all families

It is essential that childcare policy is informed by the real life experiences of parents and an understanding of their work patterns and childcare needs. Our research findings suggest that this is not happening. The interviews highlighted many of the present problems parents face in making the right financial decisions for their family. They did not understand fully how tax credit support operated and they lacked information about benefits of the current employer-supported vouchers. Even at present, before the new tax free voucher is introduced, parents were not making the right decisions.

Our report also highlights the difficulties attached to relying on the different childcare support systems: – tax credits/Universal Credit or vouchers. Families whose income is towards the top end of the income threshold for tax credit support may see little benefit from any extra earnings from overtime or promotion, as their tax credits decrease. Although individual circumstances influence the amount of tax credit support, some of these families may be better off opting out of tax credits and opting into the new tax free voucher system.

Indeed, it is clear that the families hardest hit by the information and financial gap were hard-working families on modest incomes who wanted to do the best for their children.

All of the families that we interviewed had many suggestions for improving childcare provision. They wanted tax credit support to be less cumbersome and for it to be easier to report changes in circumstances. We hope this will be achieved when those receiving tax credit support are moved into Universal Credit where updates can be made online.

Overwhelmingly parents supported extending free early education. If given the choice between increasing provider subsidies or demand-side parent subsidies, all the families favoured money going to providers who would in turn deliver free or low cost childcare. They felt that supply-side funding was simpler to understand and less open to fraud. It could also be linked to improving standards of care.

> *I think that the Government's money should go to providers of the childcare, obviously they've got to meet certain standards to be able to get that money.*

Policy recommendations

In the short-term, the Government needs to look at the information that is available to parents to help them make the right decision. This is urgent, given the new tax free voucher will be introduced in September 2015. At present, parents receive formal information on sources of financial help with their childcare costs through a range of sources which include local authority Family Information Services and national websites such as HMRC and the Money Advice Service (Table Seven). In England and Wales the work of Family Information Services is set out in law – the Childcare Act 2006 and associated regulations and statutory guidance. Despite this, the breadth of financial advice offered by Family Information Services varies between local authorities and some have little information about childcare vouchers, for example (Rutter and Stocker, 2014).

There are presently two online calculators on the Government website to help parents make decisions about childcare and work. One calculator covers personal tax credits, the other covers employers' supported vouchers. When the tax free voucher is introduced in September 2015, there are plans for online information from the Government. However, there is no commitment for a single online calculator that encompasses all forms of support.

Other forms of information, particularly on forum message boards, may not always be accurate. Clearly there is a need for accurate, clearly written information that reaches parents and helps them make the correct decision.

4: Ensuring the best support for all families

Table Seven: Sources of advice on financial help with childcare costs

Type of information on childcare costs	Examples
Word-of-mouth, face-to-face, professional advice	Advice from a health visitor or from a Family Information Services worker at an event
Telephone or face-to-face advice	Tax credit helpline advice
Telephone advice from a Family Information Services	Job Centre Plus
Email advice	Family Information Service email enquiry
Social media advice from official source	Twitter or Facebook enquiry directed at Family Information Services
Message board advice	Netmums or Mumsnet message boards Childcare.co.uk
Printed advice – local	Leaflets from Family Information Services
Printed advice – provider generated	Enrollment packs from nurseries and after-school clubs
Printed advice – national	NHS Birth to Five book Family and Childcare Trust leaflets Money Advice Service
Online – official central government sources	Ofsted, HMRC, Money Advice Service
Online – official local government and other local sources	Family Information Services web pages Family Information Services apps School websites in relation to wrap-around and holiday childcare
Online – third sector	Gingerbread Family and Childcare Trust Families in Foundation Years Contact a Family
Online – private sector	Childcare.co.uk

But high quality information will not solve the income gap experienced by families whose income nears the top of the tax credit threshold and who may be better off in the new voucher scheme. Nor does it help parents whose income varies from month-to-month but cannot move between the different support systems. The Family and Childcare Trust believes that a simple support system is better than the complex and confusing situation that exists now.

Based on the research, we make the following recommendations:

- In the long-term we would like the Government to establish an independent review of childcare funding. This should consider the means for integrating sources of financial help for parents – with the view to creating a simple system that is responsive to families' needs.

In the short-term we recommend:

- The Government should enable families to switch between the different childcare support systems easily, to accommodate the needs of families whose incomes or childcare costs vary from month to month.
- The Government should run a national campaign to inform parents about all types of help with their childcare costs.
- The eligibility criteria for Universal Credit and the tax free voucher should be harmonised – including the ages of children eligible – to help parents make decisions about work and childcare.
- The Government should raise the eligibility age for disabled children to 18 for both the childcare element of Universal Credit and the tax-free childcare scheme to align the schemes with the Childcare Act 2006 and more effectively promote good childcare for disabled children.

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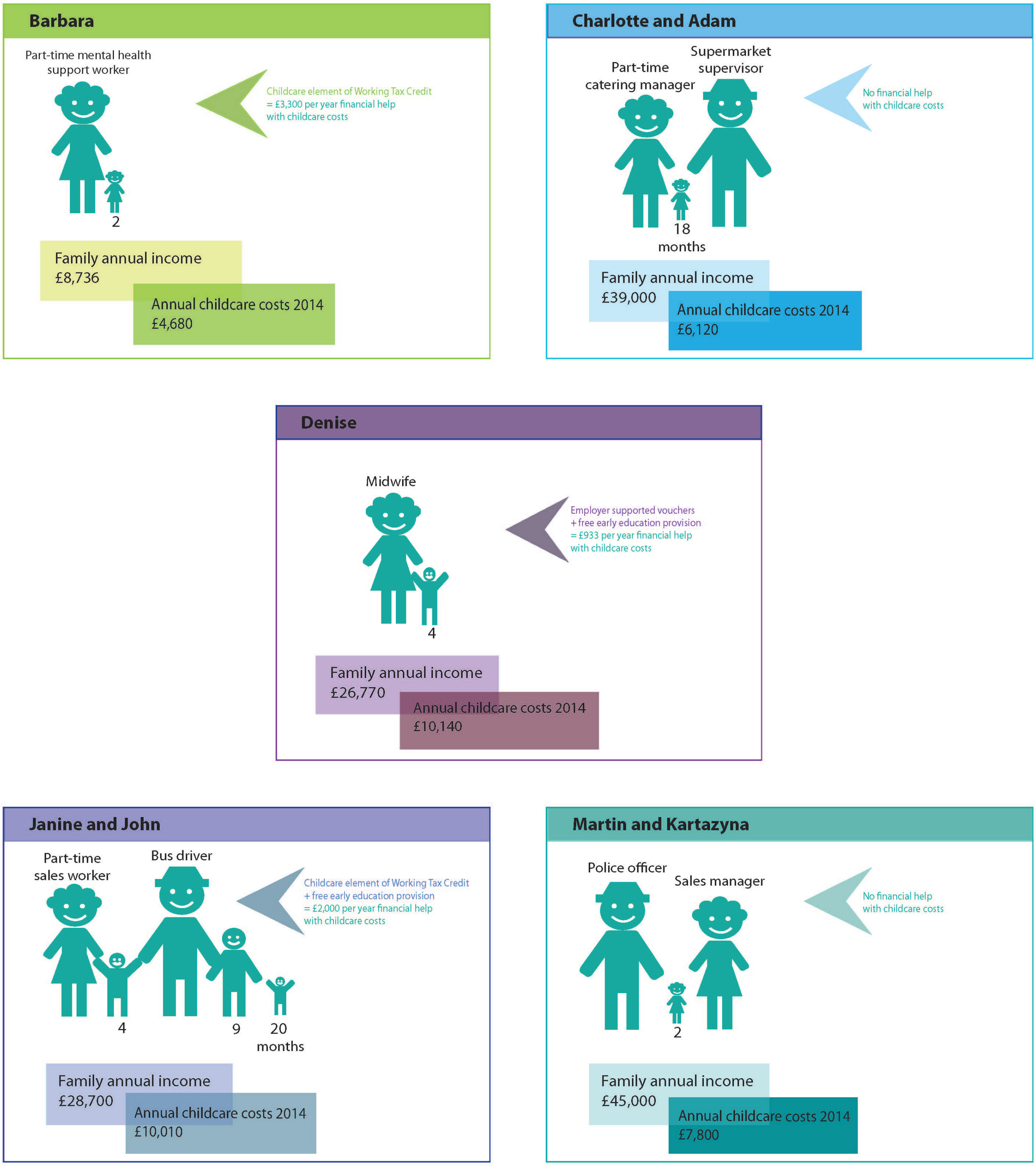
Number of in-work families receiving tax credits, 2012/13

	Under £20,000	£20,000-£29,999	£30,000-£39,999	Total in-work families receiving tax credit support
UK	2,456,000	530,000	137,000	3,136,000
England and Wales	2,170,000	470,000	121,000	2,772,000
East of England	192,000	49,000	13,000	256,000
East Midlands	186,000	45,000	11,000	243,000
London	294,000	49,000	12,000	356,000
North East	116,000	22,000	5,000	143,000
North West	324,000	62,000	16,000	402,000
South East	253,000	63,000	18,000	336,000
South West	195,000	50,000	14,000	261,000
West Midlands	238,000	52,000	13,000	305,000
Yorkshire and Humberside	239,000	49,000	12,000	302,000
Wales	131,000	29,000	7,000	167,000

Source: HMRC (2014a) Child and Working Tax Credit Statistics 2012-2013: Finalised annual awards, London: HMRC

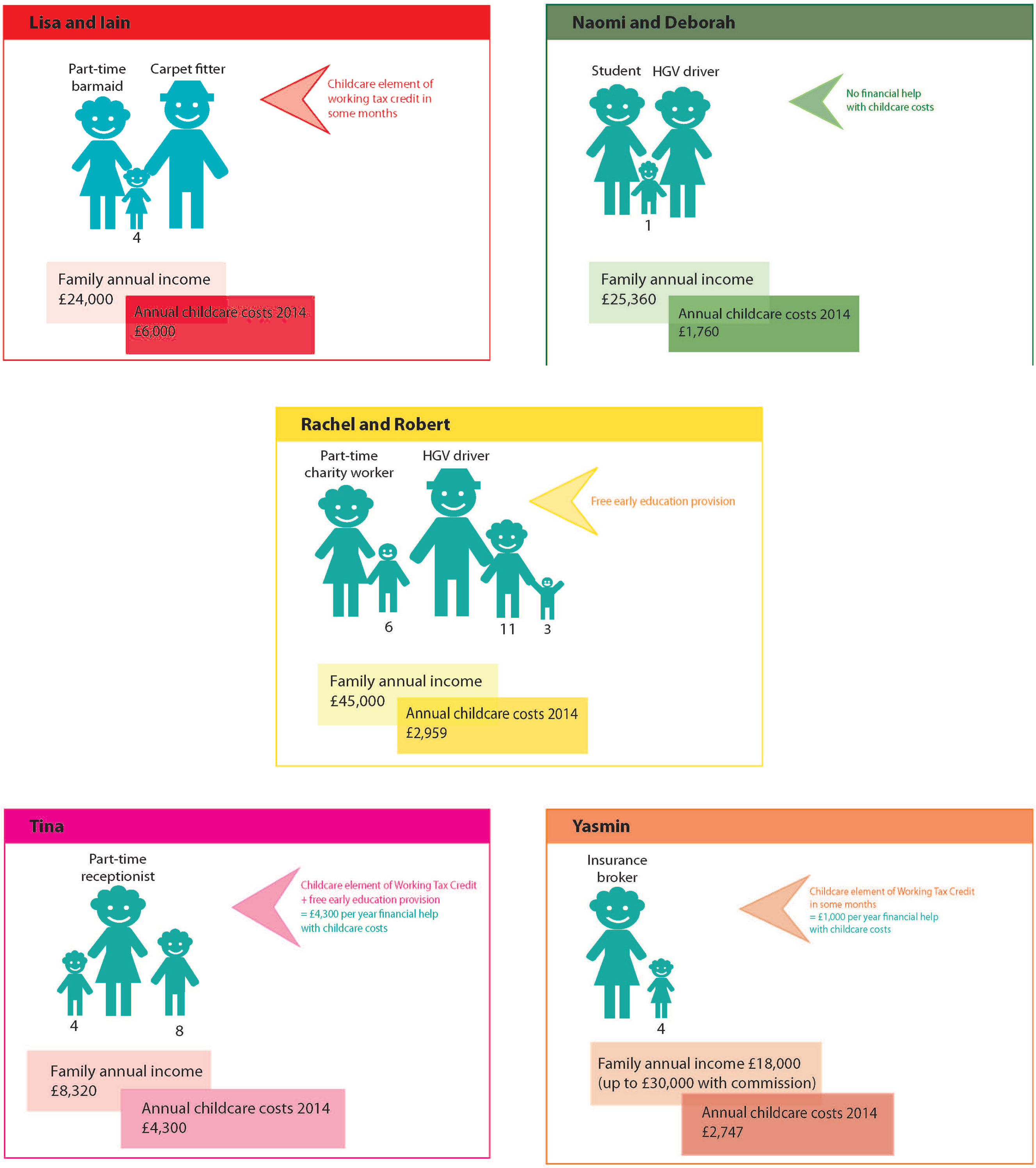
Appendix: case study families

Figure Eight



Appendix: case study families

Figure Eight part 2



About the Family and Childcare Trust

The Family and Childcare Trust works to make the UK a better place for families. Our vision is of a society where government, business and communities do all they can to support every family to thrive. Through our research, campaigning and practical support we are creating a more family friendly UK.

For further information, go to
www.familyandchildcaretrust.org

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