

Daycare Trust response to 21st Century Welfare consultation

October 2010

Introduction

1. Daycare Trust, the national childcare charity, campaigns for quality, accessible, affordable childcare for all and raises the voices of children, parents and carers. We lead the national childcare campaign by producing high quality research, developing credible policy recommendations through publications and the media, and by working with others. Our advice and information on childcare issues assists parents and carers, providers, employers, trade unions and policymakers. Through our research and contact with parents we have been able to develop a comprehensive picture of the impact of the welfare system on families with young children, which we draw on in this submission.
2. Daycare Trust welcomes the opportunity to respond to the consultation paper *21st Century Welfare*. We believe that the availability and affordability of childcare play a crucial role in supporting parents to work, and that they must be seen as essential partners in the welfare reform agenda, along with the need for flexible working. The consultation does not give much detail on the role it sees childcare playing in supporting this agenda, and we would welcome further details from the Government on this area.
3. The issue of lone parent employment in particular has been the focus of intense policy activity over the past decade. Many of these policies have contributed to not only increasing the lone parent employment rate but also reducing child poverty. As a member of the End Child Poverty coalition, Daycare Trust is anxious to see the child poverty target reached as soon as possible. To achieve the child poverty and lone parent employment ambitions, the Government must commit to effective and long-term funding of childcare. Since the first National Childcare Strategy started in 1998, much progress has been made in the supply and funding of childcare but this does not mean that provision is always available when parents need it and at a price they can afford.
4. In order to inform our response to this consultation, Daycare Trust held a seminar on 16 September 2010 to bring together key stakeholders to discuss how parents are supported with the cost of childcare, and in particular to look at the problems with the Childcare Element of Working Tax Credit, and how it might potentially be reformed. The event report from this seminar is included as an appendix to this response, but the key points from the event has also been incorporated here.
5. We particularly welcome the consultation paper's focus on simplification and improving work incentives through ending very high marginal tax rates. Through our research with parents and the calls and emails we receive to our information service, we know

that the complexity of the current system prevents many people from claiming the support to which they are entitled, and leads to errors and incorrect payments.

6. One of the paper's biggest aspirations is to combine the benefits and Tax Credit systems, and in principle we support this proposal in respect of the delivery of support. However in its analysis the consultation does not pay much attention to the role of Tax Credits, the specific problems with the current system, and how the different purposes and practical aspects of Tax Credits and benefits might be combined. We also believe that the different parts of the benefits system have very different purposes, and that the universal and contributory elements should continue to be available for people who may not be eligible for mean-tested benefits in the form of Tax Credits.

Problems with the current system

7. The consultation document outlines two problems with the current welfare system; work incentives for some groups are poor and the system is too complex. Daycare Trust agrees that these are both major problems, which prevent parents from accessing the support they need. The consultation rightly points out that existing in-work support (in the form of Tax Credits) means that most people should get more income when they work, but that for many the gains are marginal and incentives are undermined by the complexity of the system. We endorse this suggestion, but believe that the difference that Tax Credits have made to working parents in supporting them to return to work, and lifting them out of poverty, should not be underestimated. We firmly believe that the Working Tax Credit has contributed a great deal to improving the incomes of low paid employees, making it worth their while to remain in employment, while supporting families with up to 80 per cent of the cost of childcare through the Childcare Element. We therefore wish to see any changes carefully considered, to ensure that they improve the current system without creating further problems for families.
8. The paper suggests that more than 600,000 people could face a participation rate of more than 90 per cent. It notes that this does not include in-work costs such as travel, which can easily wipe out a meagre financial gain. Childcare is another in-work cost, and the level of expense is likely to be significantly more than that for travel. The challenge of reducing marginal tax rates is therefore even more challenging for parents of young children.
9. Other specific problems include:
 - The Tax Credit system requires parents to calculate their average childcare costs – based on expected costs if they are claiming tax credits for the first time – and to report any changes to their income and childcare costs if the change is more than £10 per week and is expected to last more than four weeks. Most families experience changes to their childcare costs throughout the year, and it can be difficult to keep track of the changes. Whilst this four week limit would capture a change for the whole of the school holidays, some families may choose (or only be able to afford) to only use holiday childcare for part of the holidays. Reconciliation at the end of the year can leave parents out of pocket, or owed further payments. Moving to a more predictable and fixed system would be easier

for parents to understand and manage, but would potentially be less responsive to individual needs.

- As the Tax Credit system is tailored to specific family circumstances, it is difficult for advisers to calculate how much a family will be entitled to. This makes it harder for parents to feel confident that they will be better off moving into work.
 - We share the Government's concern about the lack of incentive to enter work at less than 16 hours per week. For parents returning to work after having a child, starting at a smaller number of hours may be preferable. It may also be preferable for parents requiring a phased return to work after illness, for example.
 - It is also inconsistent that the free entitlement to early education for three and four year olds is 15 hours (it increased from 12.5 hours in September 2010). A parent using only this free place, and not paying for additional hours, would not be able to work enough hours to be entitled to Tax Credits, especially if travel time needs to be factored in as well. Allowing for half an hour's travelling to and from work each day, a parent would need childcare to be available for roughly 20 hours if they were to work for 16 hours. The free entitlement is therefore five hours short of parents' needs. For this reason, and because of the proven benefits of high quality early years education, Daycare Trust proposes extending the free entitlement to 20 hours per week for all two to four year olds. The care would also need to be available at the right times. We welcome the new Code of Practice for the free entitlement which increases the flexibility in the ways that parents can take their free place. All parents can now choose to use it for three hours per day over five days, or five hours per day over three days. Local authorities must monitor demand for other patterns of flexibility, and can negotiate with providers to offer other patterns, for example ten hours on one day and 2.5 hours on two further days. The greater flexibility should enable parents to use the free entitlement to support their employment in a way that 2.5 hours per day over five days simply could not. We believe that using five hours per day over three days will be much more useful for parents wishing to use the free place to support a part-time job. However for a parent working two or three full days per week, they would still need to purchase additional hours to enable them to work.
 - One of the historical problems with Tax Credits has been overpayments, which meant that many families did not have confidence in the system. The package of changes introduced in 2005 – including large disregards for income changes – improved the situation considerably. We are concerned about the change to the disregards announced in the emergency budget in June 2010, as this could make overpayments more likely again. The increase in the withdrawal rate from 39 per cent to 41 per cent also means that claimants lose their tax credits at a faster rate when their earnings increase, in contrast to the aspiration set out in this consultation.
10. As well as the financial calculation about whether they will be better off in work, parents face significant practical barriers when moving into work because of the need

to find appropriate childcare and very often to pay up-front costs such as a holding deposit and a month's fees in advance¹. For parents (and the challenge is even greater for lone parents) to make the decision to move into work, a number of things need to be present. They need to find a job that is suitable for their needs (which may include the need for certain flexibilities, a particular location close to home or school, for example), one that pays enough to make them financially better off (which, due to the complexities of the tax credit system can be difficult to know for sure), and if they have very young children they will require suitable childcare. It can be very challenging to meet all of these requirements at the same time. Information about childcare is crucial – and Daycare Trust provides a number of services to support parents – but more practical support at a local level is also needed. There also needs to be continued efforts to encourage employers to offer flexible working.

Principles and options for reform

11. Chapter Three of the consultation sets out the principles for reform. We agree with many of these principles, particularly the objective of supporting those most in need and reducing the numbers of workless households and children in poverty. Another principle we would like to see added is that of certainty of income. Our experience working with parents shows this to be a high priority. If parents know how much money they have to live on, and can be reasonably certain that this will continue, they can have the confidence to accept a job, arrange a childcare place, and believe that it is likely to continue. Allied to this is the need for parental confidence in the system, which, as we have seen with Tax Credits, can be easily undermined by mistakes and complexity.
12. We believe that the benefits system should support people living in poverty, and it is right that the Government also tackles the root causes of poverty. However we believe that the welfare state should also contribute to wider social and economic objectives through supporting people with the additional costs that they may face at certain times of their life. This has long been the case with regard to disability benefits and Child Benefit, for example. Support for the cost of raising children clearly benefits those on lower and middle incomes most, but we believe that the principle for support should be wider than just an income test – i.e. all those who have children should receive some support. Childcare is one of the biggest costs that parents face throughout their child's life, and even for those parents who are in work the costs can make life very difficult indeed.
13. For this reason, and because of the benefits to children of high quality early childhood education and care², we support a move towards greater supply-side funding of childcare through an extension of free places to all two to four year olds for 20 hours per week, for 48 weeks per year. This would provide a platform for all parents to work or study, and would lead to lower costs for parents (and therefore reduced demand for targeted financial support). The benefits of universal, high quality childcare are well

¹ Bartholemeou et al (2009) *Childcare Advance: scoping the need for help with up-front*: Daycare Trust; London

² For example see Sylva K and Roberts F (2009) 'Quality in early childhood education: evidence for long-term effects' in Pugh G and Duffy B (eds) *Contemporary Issues in the Early Years*, London: Sage Publications

documented, and we believe that only by investing early in children's lives can we ensure that all children start school ready to learn. It is also a good way of identifying early behaviour or learning difficulties or additional support needs, since take up of the free places is nearly universal.

14. However, even if the Government did decide to increase the extent of free places, the subsidies for parents that are provided via the Tax Credit and benefits system will remain a vital part of childcare funding for families on a low-income. Consequently, reforms to improve the delivery of childcare support via Tax Credits must not be ignored, and in fact there is a good opportunity for reform with the proposals outlined in this consultation.

Universal Credit

15. The consultation paper sets out the proposal for a Universal Credit which would bring together benefits and Tax Credits into a payment which would be withdrawn at a single, reasonable rate. We welcome this approach in principle as a better way of delivering support, however without more detail we are not able to comment on precisely how it would impact on parents' ability to pay for childcare. In particular, more detail is needed on how childcare costs would be treated, and over what period they would be calculated. Further comments on how childcare costs might be covered within a Universal Credit system are provided in the report of our seminar on Tax Credits, which is attached as an appendix to this response.
16. We also believe that it is important to retain some of the different qualifying arrangements for benefits and tax credits. We believe that the contributory principle for certain benefits is important for maintaining trust and public support in the welfare system, and that is not appropriate for the whole benefits system to be means-tested. Means-testing is also the reason for much of the complexity in the system, and the high marginal tax rates people face as benefits are withdrawn. We therefore recommend maintaining the current universal elements of the system, in particular Child Benefit.
17. We note with some concern that on page 20 of the consultation, in the section on the Universal Credit, the Government describes its intention to assess the impact of the proposals on vulnerable groups 'at the appropriate stage'. We believe the impact on vulnerable groups should be at the heart of any discussion about possible welfare reforms.
18. We welcome the suggestion on page 21 that larger disregards might be allowed for some groups, such as families bringing up children. However we believe that a higher disregard should not replace tailored support for childcare costs. We would therefore welcome further details about how such disregards might operate.

Conditionality

19. The Government has already stated its intention to require lone parents to actively look for work when their child is five. When the previous Government instituted previous

welfare reforms and reduced the age to seven, Daycare Trust, along with other organisations, successfully argued for exemptions so that lone parents could restrict their job search to jobs within school hours or for which they could find appropriate childcare. We would welcome clarification that these exemptions will remain when the age is reduced to five. Daycare Trust also underlines the need to improve out-of-school childcare for primary school children, which remains an underdeveloped area, and is at risk of budget cuts from local authorities. It is already very hard for parents to find reliable, high quality wraparound childcare, and even more difficult for parents of disabled children.

20. We would also welcome clarification on how the lone parent exemptions mentioned above will interact with the proposal to reduce Housing Benefit by 10 per cent if someone is claiming Jobseeker's Allowance for more than 12 months. We believe that given that lone parents have been given this essential and legitimate exemption because of a lack of suitable childcare outside of school hours, they should not be punished for not taking up a job.

Delivery

21. Another of the areas discussed in the consultation paper is increasing the responsiveness of the system through the use of smart automation. Making benefits more responsive to actual income will improve the accuracy of payments, and reduce the possibility of overpayments, which caused so many problems with the Tax Credit system. The problems with the Childcare Element of the Working Tax Credit relate to the need to use past income and past childcare costs (averaged over a year). This is complicated for parents to understand, and can lead to over and underpayments. We therefore welcome the idea of using real-time income information. However, further consideration needs to be given as to how up-to-date information about childcare costs can be gathered most effectively.
22. The most crucial test that must be applied is whether parents can trust the system. Certainty of income is one of the most important considerations, and any technical or communications failure could have dire consequences for people relying on benefits.

Legislation

23. The consultation paper sets out the Government's intention to bring forward legislation early in 2011 to introduce reforms to the benefit and Tax Credits system. Whilst legislation will clearly be needed once a new system has been designed, we urge the Government to bring forward more detailed proposals for consultation prior to legislation, and to conduct a detailed equalities and child poverty impact analysis of more detailed proposals. These proposals should particularly include more detail on how childcare costs will be accounted for in a new system.

For more information please contact:

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