

The childcare support gap: 2014 ^[1]

Author: Jill Rutter, Anna Hope and Duncan Lugton

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AVAILABILITY

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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.

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