

Childcare Affordability Pilots (CAP09): 100% Costs, Disabled Children and Actual Costs pilots evaluation summary

Marianne Abery

HM Revenue and Customs

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Section 1. Introduction

1. The Childcare Affordability Pilots (CAP09), part of a suite of child poverty pilots announced at Budget 2008, aimed to test the importance of the affordability of childcare in parents' decisions to move into work and take-up childcare. CAP09 consisted of five separate pilots, three of which, **the 100% Costs, the Disabled Children and the Actual Costs Pilots, were delivered and evaluated by HM Revenue and Customs (HMRC)**¹; they, and their evaluation, are summarised here. The three pilots tested the impact of changes to the current tax credits system and were funded by the Child Poverty Unit (CPU).

2. CAP09 involved offering financial support with childcare costs to random samples of low income lone parent and couple families, primarily in London and the South East. Pilot families were offered support which differed from that delivered in the main tax credit system, whereas control group families were offered standard tax credit support. The pilots ran between May 2009 and March 2011. Pilot and control families' claims were processed by a specialist HMRC team in the Tax Credit Office (TCO), rather than the normal tax credits helpline.

3. The **100% Costs Pilot and the Disabled Children Pilot** tested the impact of providing more generous childcare support to parents not already in work or childcare. The key objective of these pilots was to test to what extent the affordability of childcare is a barrier to the take-up of employment and formal childcare. **The evaluation found that affordability was not considered to be the key barrier to the take-up of employment and formal childcare by parents.** Parents considered that the Childcare Element (CCE) of Working Tax Credit (WTC) made childcare affordable for them. The increased generosity of these pilot offers, and the standard support available to the control group, galvanised the employment and childcare searches of parents who were already seeking work and childcare, but did not, on their own, act as a work incentive. They had little or no impact on parents who had prioritised remaining at home to care for their children.

4. **The Actual Costs Pilot** aimed to gauge parents' experiences and behaviour under a different system of payment², but where the total level of financial support was the same. It comprised two cohorts: the first (2009-10) Cohort of parents did not already claim CCE; the second (2010-11) Cohort already claimed CCE and were therefore familiar with the annualised averaging procedure used in the normal system. **A substantial majority of parents, both in receipt of the childcare element and those new to it, declined the pilot offer of the more responsive system of payment. The minority who did opt to take-up the alternative system found its responsiveness beneficial and it easier budgeting.**

5. The evaluation consisted of two strands:

- **Data analysis** of tax credit administrative data and pilot management information;
- **Qualitative research** for each individual pilot with families who took up the pilot and control offers, and those families who declined to take-up the offer³.

6. Following the change of Government in May 2010 a decision was made by ministers to cease the pilots early and to revise and scale back the evaluation. This summary reports on the rescoped objectives and draws together the two evaluation strands for each pilot. It supplements individual data analysis reports and research reports for each pilot; for further discussion of the findings reported here, please refer to the individual reports (see annex).

¹ The London Development Agency undertook the remaining two 'Subsidy' and 'Support' CAP09 pilots.

² Customers called HMRC to report their childcare costs every four weeks; payments were made in arrears. The standard system uses an annualised averaging procedure.

³ A total of 109 interviews were conducted for 100% Costs; 50 interviews for with Disabled Children pilot families; 135 interviews with Actual costs pilot families.

Section 2. 100% Costs and Disabled Child Pilots

7. The 100% Costs Pilot and the Disabled Children Pilot tested the impact of providing more generous childcare support to parents not already in work or formal childcare. The key aim of these pilots was to test to what extent the affordability of childcare is a barrier to the take-up of employment and formal childcare. Objectives are individually addressed below.

8. The **100% Costs Pilot** offered families payment of 100% of their childcare costs, rather than 80%⁴ and up to higher limits than the standard system. The maximum childcare costs that could be claimed were:

- Up to £215 per week for one child (up from £175 per week);
- Up to £350 per week for two or more children (up from £300 per week).

9. A random sample was drawn of out of work lone parents, out of work couples, and single earner couple families in five London boroughs who were not claiming CCE and had an income of up to £16,000 in 2008-9. From May 2009, these families were sent an offer letter asking them to call a contractor helpline to register their interest in moving into work and formal childcare.

10. The **Disabled Children Pilot** offered families payment of 80% of their childcare costs as in the standard system at the time, but up to higher limits. The maximum childcare costs that could be claimed were:

- Up to £250 per week for one disabled child (up from £175 per week in tax credits);
- Up to £300 per week for one severely disabled child (up from £175 per week in tax credits);
- Up to £350 per week for two or more children, at least one of whom is disabled (up from £300 per week).

11. A random sample was drawn of out of work lone parents, out of work couples, and single earner couple families in London for the pilot offer and in Greater Manchester and the West Midlands for the control offer. These families were not claiming CCE and had an income of up to £16,000 in 2008-9. From September 2009, the families were sent an offer letter asking them to call a contractor helpline to register their interest in moving into work and formal childcare.

12. **In both pilots**, parents had to find work and childcare before April 2010; when they did so, they were transferred to the designated TCO team to start claiming CCE. With the exception of the amounts, all other CCE rules remained the same, e.g. claimants had to be in work for 16 hours or more per week to qualify, and the childcare provider must be registered with Ofsted.

13. For the purpose of the evaluation, parents were grouped as follows:

- **Take-up:** those who moved into work and childcare and onto the pilot or control offer;
- **Interested:** those who registered an interest in the offer but subsequently did not move into work and childcare;
- **Not Interested:** those who were in contact with the helpline but did not register an interest.

14. The levels of take-up of the pilot were at similar levels to take-up of the control offer which suggests that the offer of fully paying childcare costs and up to higher limits than the normal tax credit system offers was not a sufficient incentive or enabler for most families to move into work and childcare. Research with these families confirmed the role of attitudinal and practical enablers / barriers to moving into work and childcare; these enablers had to be in place and these barriers overcome before cost was considered.

⁴ At the time of the pilots CCE paid 80% of families' childcare costs. Since April 2011, CCE has paid 70% of costs.

How many families offered the pilot and control moved into work and childcare?

15. **Similar proportions of families moved into work and formal childcare, and joined the 100% Costs Pilot and Control when offered, and extremely low numbers joined the Disabled Children Pilot and control** ⁵.

16. The **100% Pilot** and control offers were each sent to over 18,200 families, and of these, 6% registered their interest in the pilot (4% in the control) and intention to move into work and formal childcare with the CAP09 helpline. Of these interested families 13% successfully moved onto the pilot and 8% onto the control offer⁶. There was a large increase in movements into work and childcare at the start of September 2009 and movement slowed towards the end of February 2010. Lone parents were significantly more likely to take up the offer than couples; there are no clear conclusions on whether the number of children claimed for influenced take up of the offer.

17. The **Disabled Children Pilot** and control offers were sent to over 9,700 families, and of these 2% registered their interest in the pilot (0.6% in the control) and their intention to move into work and formal childcare with the CAP09 helpline. Of these interested families 8% successfully moved onto the pilot and 10% onto the control offer⁷. The very low numbers of families taking up the pilot and control offers limited the data analysis possible for this pilot and the social research findings for this group should be viewed in this context.

To what extent was affordability a barrier to the take-up of employment and formal childcare?

100% Costs Pilot

18. **Affordability was not considered to be the key barrier to the take-up of work and formal childcare by families.** Families interviewed from all groups reported that their decision to work was primarily influenced by pre-existing attitudes to work and to childcare, rather than the cost of formal childcare.

19. A number of practical and attitudinal domestic and employment factors were considered as part of the decision making process before cost. These included whether the family preferred an earner / carer balance, at what age formal care was considered suitable for a child, (dis)trust of formal care, confidence in seeking employment, and the skills to do so, difficulties finding suitable / sufficiently flexible work, and whether suitable childcare could be found.

20. All 100% *Take-up* families interviewed believed childcare to be initially affordable, either because of receiving the more generous offer, through choice of provider, or by using informal care to supplement cover for their working hours. Although control group participants typically found paying childcare costs a struggle they tended to manage through careful budgeting.

21. At the time of the offer, childcare costs were a concern only to the few *Interested* participants with previous experience of paying for childcare. For these few families, weekly childcare payments had been felt to be initially affordable on a low income; parents put the cost into the context of the educational and social benefits they saw in formal childcare and felt it was worthwhile.

22. Pilot *Take-up* families with pre-school age children found the cost of advance payments and deposits a greater obstacle than families with school age children, and typically overcame this only by enduring personal hardship or borrowing from family members; a very few participants

⁵ Similar proportions of families sent the 100% pilot or control offer letter moved into work and childcare outside of the CAP09 process, suggesting that the delivery model may have affected take-up. For example, the offer letter or the closing date was not fully understood by families. These families were excluded from the evaluation.

⁶ 0.8% of *all* families offered the 100% Costs pilot took it up; 0.3% of all families offered the control took it up.

⁷ 0.16% of *all* families offered the Disabled Children pilot took it up; 0.06% of all families offered the control took it up.

obtained emergency loans from Jobcentre Plus. This finding should be interpreted with Actual Costs Pilot transition payment findings (paragraphs 84 and 86).

Disabled Children Pilot

23. **The cost of childcare was not considered by families with a disabled child to be the most significant barrier to work**, but for different reasons to 100% Costs families. These families faced numerous barriers to work and childcare, in many ways similar to those faced by 100% Pilot and Control families, but with many additional complications and considerations arising from the needs of their disabled child. **Attitudes towards the feasibility and viability of combining work and childcare were the most powerful drivers of these parents' behaviour.** The extent to which parents felt ready (emotionally and practically) to work at the point that they received the offer could be an enabler or a barrier to taking up the Pilot or Control offer.

24. Barriers to work and childcare were both perceived and experienced by parents. They were related to the extent to which the parent felt another adult could or would care adequately for their disabled child's complex needs, whether they felt their family would be better off, availability of suitable job opportunities, confidence and skill levels. Of the parents who wished to work, securing suitable childcare became their chief obstacle to doing so. Low levels of trust and confidence in providers, lack of suitable childcare and lastly, cost were reported barriers. Despite the cost being a much lower consideration for parents, those who took up the offer reported they had been asked to pay more for their child's care, because of the level of attention or specialist skills required, but they were accepting of these higher rates as finding the right provider was felt to be more important than cost.

What was the impact of providing more generous childcare support to parents?

100% Costs Pilot

25. **The timing of the offer was particularly a catalyst for pilot group families already seeking work and childcare**, who were keen to take-up the offer by the April 2010 deadline. The offer of more generous support had little or no impact on families who prioritised remaining at home and caring for their children.

26. **Pilot Take-up families reported a difference in their disposable income and budgeting**, enabling different spending choices to be made by them compared to Control group families. They reported benefits of having more money in the household, including having more time with their child, for treats and activities with them and, for some, the ability to replenish savings. It allowed them to improve their household's standard of living and made paying for childcare less pressurised and stressful, and household budgeting less of a challenge. Control group families mirrored this, facing more stressful financial circumstances and finding it difficult to pay for their childcare. Pilot *Take-up* families generally had to make sacrifices once the 100% offer ended and the reduction in household income at that stage was acutely felt, although parents expressed determination to maintain continuity of formal childcare, sometimes by borrowing or making other household savings to do so⁸.

Disabled Children Pilot

27. As with 100% Pilot families, **the offer letter motivated some parents to increase their job search activity** but, as affordability was not the main barrier the offer did not always provide a solution to the obstacles to work and childcare for a parent with a disabled child. Pilot group families reported the additional money made them feel taking up work and childcare would be

⁸ The average number of families utilising the extra money the 100% pilot offered is too small for robust analysis.

more financially worthwhile. Control group take-up participants were already planning to claim CCE, so the arrival of the offer letter had little impact on their behaviour.

28. Parents who believed strongly in their dual parent / carer role responded defensively to the offer, believing they were being pushed into work; others felt it irrational for the government to pay for childcare when they as parents would receive about the same amount for working.

Why were families interested in the offer and why did they take it up?

100% Costs Pilot

29. **A positive attitude to work and formal childcare was the most important driver for 100% Costs Pilot and Control families to take up the offer.** Previously claiming CCE was uncommon amongst interviewed families and so the arrival of the offer letter raised awareness of the government support available.

30. Families who were interested in the offer were typically already looking for work. They strongly felt that work was beneficial for their personal well-being and that of their family, in part as they believed they would be better off financially as a result. They already believed formal childcare held potential benefits for their child and CCE enabled them to access these.

31. *Take-up* families distinguished themselves from *Interested* families (paragraph 42) in that they were able to overcome the barriers to work, childcare and finance at the same time. A tendency of this group was to arrange formal childcare provision as soon as they started their work search, and this meant they were more likely to find both at the same time.

32. *Take-up* families held high levels of aspirations, but typically had low skill levels and an inconsistent work history and were more willing to compromise over the conditions of their employment to move into work than *Interested* families, e.g. by taking unskilled low paid work, giving up study, working hours that did not always fit with their formal childcare arrangements, or in locations that were difficult to get to, than other groups. Very few of these families took up work in skilled occupations.

Disabled Children Pilot

33. **The most important factor for families who were interested in and took up the offer was that they felt ready to work.** They emphasised the non-financial benefits to working, including the social opportunities working offered, increasing their self-confidence, setting a positive example to their children and using work as a form of respite from caring responsibilities.

34. Flexibility, from both their childcare provider and their employer, was crucial to enabling families' take-up of the offer. Access to a childcare provider who was willing and able to be flexible in both the care the child needed, and the parent's needs (e.g. opening times), needed to be combined with work with flexible hours and an employer who understood their caring responsibilities in order to make take-up more feasible.

To what extent were parents able to sustain work and childcare?

35. As the pilot and evaluation ceased earlier than planned, it is not possible to accurately gauge to what extent families were able to sustain work and childcare over the longer term, including once they moved across to the 80% and lower amounts offered by the normal tax credit system. However, research interviews were conducted with 100% Pilot and Control group families in the months immediately after the pilot had ceased.

100% Costs Pilot

36. **Maintaining work and childcare was typically financially and logistically challenging for all *Take-up* families both during and following the end of the pilot.** Pilot group families

reported they were noticeably better off financially during the pilot both in comparison to their circumstances when the pilot period ended, and to the Control group. Having chosen childcare at the start of the pilot which was manageable when they were in receipt of the more generous offer, although determined to maintain continuity of provision for their child, they struggled financially when this extra support ceased. They typically considered reducing their working hours or using more informal care than they would have preferred; a few considered increasing their working hours.

37. Control group families typically struggled throughout the pilot and at the end of the pilot period did not necessarily feel they were financially better off. However, they did feel they were better off for the social benefits of work and the fulfilment of personal aspirations, and so aimed to remain in employment while using informal care more than they would have liked, to help lower costs.

38. While neither Pilot or Control group parents reported initially considering cost, Control group parents made different arrangements at the outset (e.g. cost of provider, supplementing with informal care) to the pilot group. This was in part because the more generous offer allowed *Pilot* participants to make different choices of providers, but also because they tended to have little informal support available, and very young children.

Disabled Children Pilot

39. ***Take-up* parents who said they were able to sustain employment tended to have additional flexibility in their arrangements**, either via a strong relationship with their disabled child's provider or with a network of informal care, rather than for financial reasons.

40. The ability to plan ahead was crucial to parents ensuring they had childcare secured for when they needed it and could manage their working hours around family life. However, problems with both work and childcare could often arise with little notice. This further increased the importance of flexibility from their employer and childcare provider in helping them to sustain their arrangements. The main reasons these *take-up* parents left work within a few months were that they were either not given the 16 hours of work necessary for CCE or because they found balancing the combination of demands on their time too stressful.

Why did families register interest in the offer but subsequently not take it up?

100% Costs Pilot

41. ***Interested* families experienced challenging and interdependent barriers in their efforts to take-up the pilot. The greatest of these was finding suitable work.** These participants were generally without skills and work experience, and many had been out of paid work for several years. These factors were compounded by constraints, primarily around working hours and location, which had to fit around meeting the needs of their children.

42. As with families who took up the offer, *Interested* families tended to hold positive attitudes to taking up employment and the benefits of formal childcare. As with *Take-up* families, they typically believed that they would be financially better off in work, although not always by very much. Few *Interested* participants had experience of paying for childcare. Unlike *Take-up* families, they typically considered securing childcare as a secondary consideration to finding work and therefore deferred their search.

Disabled Children Pilot

43. ***Interested* parents found the number of employment and childcare barriers that they experienced at any one time, and the interplay between them, insurmountable. Their primary barrier was felt to be childcare, rather than employment.** A lack of trust and confidence in the ability of local childcare providers to cater for disabled children was widespread. Availability was also an issue, with parents reporting providers would often refuse

to take on their child, either because of the extra care and attention needed, or because providers were wary of certain disabilities. Participants who were determined to use childcare and had confidence in the provider were not deterred by the cost.

44. Although *Interested* participants viewed the feasibility and viability of combining work and childcare positively, and sometimes had higher skill levels that enabled them to seek information about suitable childcare and work, they did not always have the confidence required to undertake the search. They saw themselves as demanding jobseekers, needing part-time hours that fitted around, and was geographically close to, their child's school or childcare provider.

Why were families not interested in the offer?

100% Costs Pilot

45. ***Not Interested*** families typically reported that their role as a parent was to care for their child at home. They were predominantly in couples who had chosen traditional gender roles within their household of a female primary carer and a male 'breadwinner'.

46. The age of the child was also important to this group; there was a widespread feeling amongst these parents that their child was too young to leave parental care but would be sufficiently independent to do so at three years of age. A less prevalent feeling was a distrust, and lack, of formal care.

Disabled Children Pilot

47. ***Not Interested*** families held traditional values about their role as a parent, believing that caring for their child was their responsibility alone, and were more likely to attribute a greater value to this role, believing that undertaking it was a better use of their time than finding work. Many of these parents felt they had a dual role, both parent and carer, viewing themselves as experts in their child's needs, and held a belief that most childcare providers could not fulfil this as well as they could. This, and the caring demands this placed on them, prevented them from viewing work as a high priority.

48. Parents in this pilot reported that the emotional impact of having a disabled child on themselves and their family was a major barrier to taking up or sustaining work. They felt they had to deal with these issues before even thinking about feeling ready to return to work.

49. A general sense of a lack of available provision that catered specifically to a disabled child's needs was a strong influence on behaviour. This perception was largely held by those with fewer skills and based on a lack of information about available childcare or on word-of-mouth, and contrasted with the views of parents with higher level skills who accessed local authorities' websites for information.

Section 3. Actual Costs Pilot

50. The Actual Costs Pilot tested the impact of a different system of reporting and payment on customers' experiences and behaviour. Objectives are individually addressed below.

51. Participants called a designated team in the Tax Credits Office (TCO) every four weeks to report the costs they had incurred during those four weeks, with payment in arrears. The Actual Costs Pilot thus differed from the standard system which is based around an annual average of costs and where, in theory⁹, parents would need to set aside some of their CCE payments during months when their costs are lower, to pay providers during the months when costs are higher. The pilot offered more responsive payments and removed the need for parents to annually estimate and average their costs and report a change in costs of more than £10 per week for more than four weeks. It also substantially increased the amount of contact between the claimant and HMRC in managing their claim.

52. The pilot offered a 'transition payment', and 'draw forward facility' to assist with up-front and unanticipated costs (see paragraphs 84-90). With the exception of the reporting and payment changes, all other CCE rules remained the same, e.g. claimants had to be in work for 16 hours or more per week to qualify, and the childcare provider must be registered with Ofsted. Families could claim the same maximum childcare payments as in the current system:

- Up to £140 per week for one child, as 80% of a maximum weekly childcare cost of £175;
- Up to £240 for two or more children, as 80% of a maximum weekly childcare cost of £300.

53. The Actual Costs Pilot was offered to two randomly sampled cohorts of parents in London and the South East. Unlike the 100% Costs and Disabled Children Pilots, Actual Costs was not intended as a pilot to test work incentives and so the majority of families were already in work, with notably different income thresholds between cohorts:

- **2009-10 Cohort:**
 - Out of work lone parents and couples where at least one partner was out of work, with a 2008-9 income of up to £16,000. They were offered the pilot or control offer between June and September 2009;
 - In work lone parents and couples where both parents were in work, but not already claiming the CCE, with a 2008-9 income of up to £16,000. They were offered the pilot between October and December 2009;
 - Families had to move into (work and) childcare by April 2010 to join the pilot.
- **2010-11 Cohort 2:**
 - Lone parents with a 2009-10 income of up to £21,000 in work and claiming CCE;
 - Couples with a 2009-10 income of up to £23,000 in work and claiming CCE;
 - Families were offered the pilot between January and February 2010 and had to register their interest in the pilot by April 2010. They were then moved across to pilot systems during May and June 2010.

54. For the purposes of the evaluation, cohorts are identified individually and parents were grouped as follows:

- **Pilot:** those 2009-10 Cohort families who moved into (work and) childcare and took up Actual Costs;
- **Control:** those 2009-10 Cohort families who moved into (work and) childcare and took up the standard system of support;
- **Take-up:** families in *both* cohorts who took up the pilot offer;

⁹ For further detail on how families budget with CCE to pay childcare costs see A Qualitative Investigation of the Childcare Element of Working Tax Credit (WTC), HMRC Research Report No. 84.

- **Non Take-up:** those 2010-11 Cohort families who either did not respond to the offer letter (*Not Interested*), or registered an interest with the DfE Contractor but subsequently failed or declined to move onto the pilot (*Interested*).

55. A significant majority of parents, both in receipt of CCE and those new to it, declined the pilot offer of the more responsive system of payment. The minority who did opt to take up the alternative system found its responsiveness beneficial and it enabled them to budget more easily.

56. Research with *Pilot* families found they viewed the Actual Costs system positively. However, overall take up of the pilot offer was lower than expected, given previous research into families' experiences of the standard estimating and averaging system¹⁰. *Non Take-up* families declined for one or more of three reasons; the primary reason given was that they considered that four weekly reporting would be burdensome without offering them any advantages (paragraph 91).

How many families took up the pilot and control offers?

57. **Take up of the pilot in both cohorts was relatively low.** For 2009-10 Cohort parents this suggests the offer was not sufficient to support, or motivate, them to move into (work and) formal childcare arrangements. For the 2010-11 Cohort, it suggests reluctance to move to a different system, which is explored in paragraph 92.

58. The Actual Costs 2009-10 Cohort Pilot and Control offer were each sent to over 32,500 families, and of these, 3% registered their interest in the pilot and intention to move into (work and) formal childcare with the CAP09 helpline. Of these interested families, 203 families (11%) successfully moved onto the pilot and 140 families (11%) onto the control offer¹¹.

59. The 2010-11 Cohort pilot offer¹² was sent to over 30,000 families, and of these, 17% initially registered their interest in the pilot with the CAP09 helpline. Of these 5,000 interested families, 83% declined to move across when contacted for activation and 868 families (17%) were successfully activated onto the pilot.

60. Almost three quarters of families who joined the pilot remained on it until it ceased.

What was participants' understanding of seasonal variation?

61. **Understanding of the concept of seasonal costs, that costs would rise and fall depending on the level of childcare used across the year for school terms and other reasons, was low** among families. Families who had not claimed CCE or had claimed CCE for less than a year often did not have experience of these fluctuations, and were unlikely to have considered the implications for their costs. Additionally, those with family and friends who provided informal childcare were able to adapt to an increased need for childcare without an effect on their costs.

What degree of seasonal variation in childcare costs was found?

62. **The pilots did not collect a full year of data, but do show a seasonal rise in costs in July, August and September, as might be expected with school holidays.** The data from 2010-11 Cohort families shows that the percentages of claims that were within the maximum weekly limit fell from 78% in June to 62% in September, when most families would have reported

¹⁰ Cognitive Testing to Investigate Customers' Understanding of Processes Relating to the Childcare Element of Working Tax Credit (WTC), HMRC Research Report No. 85

¹¹ 0.7%% of *all* families offered the pilot took it up; 0.4% of *all* families offered the control took it up.

¹² The 2010-11 Cohort did not include a control group as families were already in work and childcare and claiming CCE in the standard system; the only relevant change for these families was whether they opted for or declined to move to the alternative system of reporting and payments.

some or all of their August costs¹³. The data did not suggest that the upper limit for one child families was breached less than the upper limit for those with more than one child.

63. The degree of seasonal fluctuations varied between interviewed families; as might be expected, having school age children was the strongest determinant and for those families who reported using school holiday childcare, this had a huge impact on their costs. Work circumstances, whether parents worked fixed hours or shifts, full or part-time, also affected rises and falls in the level of costs claimed.

What was the impact of the pilot on participants coping with seasonal variation?

64. As discussed in paragraph 61 understanding of seasonal variation was low, although parents were aware of the need to adjust the childcare used, and therefore the cost, within the year. The pilot was considered to be responsive to these fluctuations and this was viewed as beneficial.

65. Once the pilot closed and *Pilot* parents moved to the standard system, and for the *Control* group throughout, parents' ability to cope with fluctuations was influenced by the degree to which they were able to predict when they would be in or out of work, or need extra childcare over the coming months.

What were families' experiences of reporting four weekly costs?

66. In interviews **the majority of *Pilot* participants said they understood their responsibility to call HMRC every four weeks to report the amount they had spent on childcare, and that the process of reporting every four weeks was simple to follow. Nevertheless, many families said they forgot to call to report their costs from time to time, and some participants were confused as to whether it was four weekly or monthly reporting;** believing it was the latter would prompt a reminder call from TCO. The reminder call the TCO team made to them was felt to be a helpful way for them to meet their reporting responsibilities, and a minority reported they regularly relied on it¹⁴.

67. This research finding is corroborated by the data, which shows considerable fluctuations in families reporting costs on time. Telephone data on the number of families calling on time to report their costs is only available for a four month period, but shows in April 2010 that a relatively high percentage of 2009-10 Cohort families (between 78% and 88%), the majority of whom had been on the pilot for some months at that point, called on time. This decreased significantly in May, rose slightly in June and rose again to 82% in July. In contrast, only 16% of 2010-11 Cohort families, moving from the standard system where there is potentially only annual contact with HMRC about their claim, called to report their first four weekly costs on time. This rose to 92% of 2010-11 Cohort in July.

68. *Pilot* families' descriptions of their behaviour on the pilot offers some explanation for these fluctuations. Two types of family were more likely to consider four weekly reporting was burdensome and unnecessary, and more likely to forget to call:

- Those with more stable costs as their childcare payments were not at the forefront of their minds;
- Those who paid for a minimal amount of childcare over the period (e.g. £10) as they did not notice the loss of money to their monthly budget.

¹³ Tax credits uses a weekly maximum amount, rather than yearly. It is important to note that where families on the Actual costs pilot exceeded these limits they did not receive a higher weekly amount than allowed by the standard system. However, the standard system would have paid this to them, if their costs in other months were lower, as the averaging method would balance this out over the year.

¹⁴ Families who did not report their costs on time were prompted by an outbound call from TCO, and if necessary, a letter would be sent. If costs still remained unreported no payment would be made to the family for that period.

69. Although the research was conducted with the 2009-10 Cohort and the data analysis on 2010-11 Cohort families, taken together these findings suggest that although these families opted to take up the alternative system they took some time to adjust to remembering to report costs periodically, and that those who have variable costs or whose budgets were conspicuously affected by the payment were more mindful of the need to report.

How did these pilot experiences compare to calculating an average weekly cost?

70. *Pilot* families who moved onto to the standard system were more satisfied with the pilot system, considering their claim to be transparent and a definite amount¹⁵. *Pilot* families felt the estimating and averaging process involved unclear calculations as well as uncertainty both in predicting usage and in always covering costs.

71. **The Actual costs system piloted worked more effectively for parents with variable costs than the standard system was felt to.** The experience of *Pilot* families moving to the standard system post-pilot largely depended on their individual circumstances. Those with stable work and childcare found predicting their childcare costs across the year relatively straightforward and had few difficulties moving onto the estimating and averaging system. Those with fluctuating circumstances, however, found it much harder to understand and predict seasonal variations, and consequently had difficulties.

72. Linked to this, understanding how the move onto the estimating and averaging system would change their responsibilities for claiming childcare assistance varied considerably among *Pilot* participants. They assumed the amounts they could claim in the standard system would be much lower as their understanding of 'average' was that it did not include one-off or unexpected childcare usage.

73. In contrast, *Control* families felt they understood their obligations to HMRC. However, previous research shows a disparity between claimants' reported understanding and practice of the estimating and averaging system compared to tax credit guidance¹⁶. This disparity was apparent across all groups of families interviewed in that many reported that they under-claimed for their total childcare use:

- *Control* group families appeared to incorrectly calculate their estimated average costs from the outset;
- There was a lack of understanding within *Pilot* families of which types of childcare provider were eligible, and they believed they were only allowed to claim for costs that were definite and known at the time they moved;
- All groups found it difficult to estimate for any one off or unexpected use of formal childcare and were unaware that they could update childcare cost estimates during the year (subject to criteria)¹⁷.

¹⁵ It is important to note that their views were shaped by the fact that many *Pilot* families were new to claiming CCE when they joined the pilot. As the pilot and evaluation ceased early, it was not possible to assess whether families who had moved from the standard system to the *Pilot*, i.e. were familiar with providing an annual average estimate of costs, were also more satisfied with providing actual costs.

¹⁶ Cognitive Testing to Investigate Customers' Understanding of Processes Relating to the Childcare Element of Working Tax Credit (WTC), HMRC Research Report No. 85.

¹⁷ HMRC requires claimants with fixed weekly childcare costs to report changes that result in a weekly increase or decrease of £10 or more for 4 weeks in a row. Claimants whose childcare costs vary each week or month are required to report any changes that result in a weekly increase or decrease of £10 or more than their old weekly average. Therefore the amount of the change in costs must be sufficient to alter the weekly average over the remainder of the year; depending on the size of the claim, a small change in costs over, e.g. six weeks, may not be sufficient to alter weekly average for the remainder of the year by the £10 necessary.

74. Despite declining the pilot, *Non Take-up* families felt the estimating and averaging system was problematic and opaque; they reported they did not understand the factors that determined their level of award and so they could not be certain that the amount they received was correct.

Transparency for parents and impact on their budgeting behaviour

75. **The pilot helped families to budget and cope with seasonal variations. Families on the pilot system found it easier to be accurate in reporting their cost and were broadly, although not all, more confident of providing the right figures.** These parents tended to use childcare bills or make notes of costs in a diary if they were variable; those with static costs had memorised them. They saw the pilot system as being close to ‘the reality’ of the amount of childcare they were using, which was particularly advantageous for parents with varying costs as it avoided any need to predict what these might be.

76. As *Pilot* participants reported their costs every four weeks and received the payment shortly after this, they were paid on a different day each month, but expressed a preference for being paid on the same day of each month instead. They viewed the CCE payment as income, and they felt receiving it monthly would fit more easily with their budgeting processes.

77. Participants in all groups viewed childcare provider costs as one of their most important household bills to pay and prioritised it over other bills; they saw it as unlike their other bills, in that childcare providers would withdraw the place if the parent fell behind with payments. *Pilot* families reported a clear preference for receiving the CCE payments separately to the rest of their WTC as this transparency helped them to manage their childcare costs more effectively.

78. Families were sent a letter at the time of each four weekly payment detailing what costs had been reported and the amount of CCE that would be paid by HMRC. However, while families appreciated the transparency that a separate payment gave them, no research participants mentioned this regular letter. This suggests that it had little impact on families.

What was the impact of the pilot on customer experience?

79. ***Pilot* families had positive experiences of the alternative system and those with fluctuating childcare needs found it particularly helpful as their CCE payment reflected the costs they incurred at the time.**

80. *Take-up* families were required to contact a designated team in the Tax Credits Office (TCO) about their claim, rather than the normal HMRC tax credits helpline due to operational constraints. When *Control* and *Pilot* families joined CAP09 they were informed in advance of the information they would need, e.g. their provider’s Ofsted registration number and the amount of childcare they would be using. They were able to collate these details easily and appreciated being able to open their tax credits claim over the phone, using one phone number as this streamlined the process for them.

81. The TCO team comprised a small number of staff and as the pilot progressed participants often spoke with the same member of staff when reporting their four weekly costs, and developed a good relationship with them. Queries were felt to be answered promptly and efficiently by the team. Participants contrasted this with their experiences of the normal tax credits helpline where they were said they were often put on hold and some members of staff had an impersonal approach.

On reporting their costs, participants described staff as helpful, and they would be given a breakdown of the payments that would be made to them and the percentage of the costs they incurred that this totalled, unlike the standard tax credits helpline. Because of this higher level of service by the TCO staff, *Pilot* participants were able to understand the payment process, and

the extent to which claiming the CCE was helping them meet their childcare costs, thus making the Actual Costs system more attractive to parents.

82. This customer service and extra support from the dedicated TCO team, particularly in making their first CCE claim, may be partly responsible for the extremely low rate of likely¹⁸ error and fraud found in families new to CCE, compared to both the standard system and to 2010-11 Cohort families, who moved from the standard system. The percentage of *Take-up* families incurring an overpayment of CCE on the Actual Costs Pilot was significantly lower than in the standard system, as might be expected. However, the cost benefit analysis undertaken shows delivering this level of support through personal contact, and having contact with the same staff each reporting period, while beneficial, is costly to administer.

What was the impact on families of being paid in arrears on the pilot?

83. **Only a small number of families interviewed reported they had found payment from HMRC in arrears difficult.** Although most providers were rigid about when payments were due, as there were only a few days between reporting costs and their CCE appearing in their bank account most said they never felt 'out of pocket'. This may be due to the fact that CAP09 arrears payments could be viewed in a similar way to payments in the standard system if these did not align well with when providers were due to be paid¹⁹.

What was the take-up and experience of the transition payment?

84. Families were offered a 'transition payment' to enable them to move to the arrears system and to pay any upfront costs or deposits to providers. **Fifty percent of *Take-up* families used this facility, and of these, the majority took less than the full amount available.** The data shows that lone parents were more likely to use the facility than couples.

85. Similarly, about half of *Pilot* families interviewed had taken up the transition payment, and **reported they would not have been able to afford deposit payments to providers without it** and therefore would not have been able to use their chosen childcare; they felt it was often a crucial factor in ensuring taking up work and childcare was feasible.

86. However, **not all of those who were required to pay a deposit took the transition payment.** They feared owing HMRC money, and that they would be worse off in the longer term by having to pay a large sum back. These families either budgeted around the deposit, used savings to pay it or relied on family to help with it.

87. Although the original pilot design planned to use families' final pilot payment to recover the transition payment²⁰ the pilot ceased early and so families were required to pay it back sooner than they had expected. The research revealed some confusion about the process for repayment among *Pilot* participants, although it is not clear whether this was at the time of taking it up, or when the pilot ceased. *Pilot* families reported their ability to pay it back depended on their budgeting skills. Those with reliable budgeting systems were more able to cope than others; solutions for those less adept at budgeting included negotiating payment over more than one month, and simply prioritising it over other expenditure although this had a negative impact on their overall household finances.

¹⁸ The revised timing of the evaluation meant it was not possible to establish actual error and fraud levels, as originally planned.

¹⁹ For example, if a provider required payment on the first of the month, but the standard system CCE payment arrived on the fifth of each month.

²⁰ Broadly, families would receive their last pilot CCE payment, less the transition payment amount.

88. Twenty seven of the 119 families who left the pilot prior to it ceasing incurred an overpayment as a result of taking up the transition payment. These families accepted the transition payment but immediately after this withdrew their CCE claim.

What was the take-up and experience of the draw forward facility?

89. A 'draw forward facility' was also offered, allowing families who anticipated the costs for the next four weeks to exceed the costs they had just reported by £100, to be paid up to £200 of the next period's payment in advance. This was then deducted from the support they received for the next period.

90. **The majority of *Pilot* participants interviewed were unaware of the draw forward facility, but felt that with 80% of costs covered and only a few days between making the call to report costs and receiving the money into their bank account, that there was no need to use this.** Interviews revealed some dislike of the idea for similar reasons to the transition payment; participants were debt averse and did not want to pay back a loan. Administrative data showed nine *Take-up* families used the draw forward facility and 7 of these incurred an overpayment. This may have been because of the timing the facility was used. The pilot ceased August to September 2010; families who used the draw forward immediately prior to it ceasing, i.e. to cover increased costs during the school holiday period, would have incurred an overpayment as a result.

Why did families not take up the pilot offer?

91. Research with *Non Take-up* 2010-11 Cohort families (who were already claiming CCE) found they declined to join the pilot for one or more of the following reasons.

- **The primary reason for families declining to take up the pilot offer was that they could see no advantages for themselves in doing so and felt four weekly reporting would be time-consuming, expensive and ultimately not worth the effort.**
- They preferred the standard system because they felt largely worked for them if only because they were familiar with it and felt they broadly understood what it required of them. They considered it manageable, if un-responsive to their seasonal costs, with the budgeting systems they had in place. They were reluctant to switch to a system they didn't know.
- Some families did not understand the offer letter, interpreting the offer of 'increased support you need, when you need it' as an increase in the amount they would receive, rather than the timing of payments. Once they understood the offer was the same level of support, their interest waned.

92. This corroborates the data TCO collected from over 800 2010-11 Cohort families who initially registered their interest in moving from the standard system to the Actual Costs Pilot but then declined to do so. The largest reason given for not joining the pilot at this stage was because customers did not want the four weekly contact.

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