

MAKING WORK PAY – THE CHILDCARE TRAP

High childcare costs are affecting parents' ability to work, train and study in London

Parents in London face some of the highest childcare costs in the world, with costs in London 23% higher than the national average¹ and so support with childcare costs is essential if they are to work, train or study and in turn escape poverty.

Save the Children, Daycare Trust and 4in10 believe that affordable, accessible and high-quality childcare has a vital role to play in tackling child poverty.

Together we are calling on the UK government and London decision-makers to ensure that childcare becomes more affordable for parents in London.

In spring 2011 Save the Children and Daycare Trust surveyed more than 4,000 parents to explore their views on access to childcare and the impact of childcare costs on family incomes and work prospects. This briefing uses findings from the survey to examine how the cost of childcare impacts on parents' employment, family budgets and in turn child poverty.

KEY FINDINGS²

The survey findings suggest that parents living in severe poverty³ are struggling to access childcare more than other parents, particularly due to the high cost. In London, 18% of children live in severe poverty.⁴ The cost of childcare is undermining the UK government's laudable aim to make work pay, and thus preventing families living on the lowest incomes

from escaping poverty. In London, where four in ten children live in poverty after housing costs,⁵ and 22% of children live in workless households,⁶ a staggering 44% of working age women are economically inactive due to caring obligations – the highest percentage in the UK.⁷

1. Cost is a major barrier preventing parents on the lowest incomes from accessing childcare

- Eight out of ten parents living in severe poverty in the UK said that cost was a barrier to accessing childcare.

2. The high cost of childcare has a significant impact on most families, but for families in severe poverty the impact is particularly extreme

- Parents in severe poverty have cut back on key essentials, such as food and household bills, simply to pay for childcare.
- Parents in severe poverty have made very difficult financial choices simply to pay for childcare, such as moving home or getting into debt.

3. Difficulties accessing childcare are significantly affecting the ability of parents in severe poverty to work, train or study

- A quarter of the parents in severe poverty who responded had given up work, a third had turned down a job, and a quarter had not been able to take up education or training, all because of difficulties in accessing childcare.

4. The high cost of childcare means that work is not paying for the poorest families

- The majority of parents in severe poverty (58%) said they were no better off working and paying for childcare, compared with just 19% of those with incomes over £30,000.
- A large number (41%) of parents in severe poverty said they would consider giving up work and 25% said they would consider reducing their hours due to the recent cut in the level of support through the childcare element of Working Tax Credit.

RECOMMENDATIONS

The survey results suggest that in order to maximise family incomes, make work pay and in turn tackle child poverty, childcare must become more affordable to parents on the lowest incomes.

We are calling for decision-makers in London to support increased access to affordable childcare.

We are calling for:

Local authorities in London to recognise the unique childcare challenges facing families in London and take a greater role in ensuring sufficient affordable childcare is available in their area.

The Mayor of London

- to work with community organisations to publicise tax credits entitlement among eligible groups who do not take up this support for childcare
- to establish a brokerage service for the provision of out-of-hours childcare across London
- to work with London business leaders to increase employer support for childcare costs, promote employer-based childcare vouchers, and signpost information on financial support for childcare and the free early education entitlement to employees
- to establish a grant scheme to assist parents returning to work with the up-front costs of childcare, such as nursery deposits and advance fees, which many parents cannot pay in advance of taking up employment.

All London decision makers to make representations to the UK government to increase support to parents to pay for childcare under Universal Credit (as set out below) as part of the longer term goal to press for a single, progressive and more accessible means of supporting childcare costs.

We are calling on the **UK government** to:

- ensure a minimum of 80% of childcare costs are covered under Universal Credit up to current weekly limits
- over time, as the economic situation improves, increase this support so that it covers 100% of costs, increase the maximum limits in line with inflation and introduce an additional higher band for families with three or more children.

THE COST OF CHILDCARE IS A MAJOR BARRIER FOR PARENTS

“I’m currently not looking to go back to work as my children are still young, but in the future I would hope to be able to. However, if the cost of childcare keeps rising and as costs stand now, there would be no financial benefit to my going back to work.”

Of those who responded to our survey:

- Eight out of ten parents in severe poverty said cost was a barrier to accessing childcare.
- Parents living in severe poverty were twice as likely to cite cost as a barrier to accessing childcare as any other barrier.
- The majority of parents (61%) in severe poverty said they had struggled to pay for childcare, compared to over a third of parents on incomes over £30,000 (37%).
- A large number of respondents (41%) said that their childcare costs were similar to their mortgage or rent costs. In London, this proportion was even higher, at 45%.

The childcare costs a parent faces depend on the number of children they have, the age of the children, household income, the number of hours

care they need, and where they live. Daycare Trust's annual survey of childcare costs shows that in 2011 childcare in London costs on average £119 per week for 25 hours of care for a child under two and £113 per week for a three- or four-year-old.⁸ These averages are substantially higher than average UK costs, themselves some of the most expensive in the world according to the Organisation for Economic Cooperation and Development (OECD).

Save the Children, Daycare Trust and 4 in 10 believe that providing financial help with childcare costs is vital to make moving into and progressing in employment a realistic option for many working parents.

SUPPORTING PARENTS WITH THE COST OF CHILDCARE

Childcare subsidies for families on low incomes have been an integral part of the tax and benefits system for many years.

When Working Families' Tax Credit was introduced in October 1999, the existing childcare disregard (within Family Credit) was replaced with a childcare tax credit. This reimbursed low income working families up to 70% of their formal childcare costs.

In 2004, the Labour government published a ten-year childcare strategy, which included replacing the childcare tax credit with the childcare element of Working Tax Credit. This increased weekly limits to £300 for two or more children (£175 for one child) and increased the percentage of childcare costs that could be claimed from 70% to 80%.

In April 2011, the Coalition government reduced the amount of childcare costs that could be claimed through the childcare element of Working Tax Credit, so parents could again only claim 70% of childcare costs. This will mean an average loss of over £500 per year for the half million families who receive this support, and up to £1,500 for families receiving the maximum help. The parents who responded to our survey indicated that the reduction in support would have a negative impact on their ability to work.

- A large number (41%) of parents in severe poverty said they would consider giving up work and 25% said they would consider reducing their hours due to the reduction in support for childcare costs through Working Tax Credit.

Under Universal Credit, which will replace many benefits and tax credits from 2013, funding for childcare will be maintained (at a fixed budget of £2 billion per annum by 2014/15) but eligibility will be extended to include parents working fewer than 16 hours per week. The inclusion of those engaged in mini-jobs is welcome, but it means that less help will be available to support parents working longer hours.

Another way the government supports parents with childcare is by subsidising the cost of pre-school education. The Coalition government elected in May 2010 retained the free 15 hours of early education for all three- and four-year-olds and introduced 15 free hours of pre-school for the 20% most disadvantaged two-year-olds.

Save the Children, Daycare Trust and 4 in 10 welcome these decisions. Yet despite these measures, the high costs of childcare still place a substantial financial burden on families.

THE HIGH COST OF CHILDCARE HAS A SIGNIFICANT IMPACT ON MOST FAMILIES, BUT FOR FAMILIES IN SEVERE POVERTY THE IMPACT IS PARTICULARLY EXTREME

“I would love to go into full time work but I just don't see it happening any time soon. I can't afford to...I don't think I'd be able to find a job that would cover my rent and childcare, plus be able to pay the bills and buy the basics.”

Across the UK 2.5 million children are living in poverty before housing costs are taken into account and 3.5 million children are living in poverty after housing costs.⁹ Save the Children research shows that 1.6 million children are living in severe poverty.¹⁰

In London, 650,000 children live in poverty after housing costs – that is nearly one in five of the total number in the UK.¹¹ Many family budgets are already stretched; high childcare costs can tip family finances into crisis, and tackling this in London is a crucial step in tackling the problem facing the UK as a whole.

Parents in severe poverty are cutting back on key essentials simply to pay for childcare

- Nearly half of families living in severe poverty have cut back on food to afford childcare compared to one third of families on incomes over £30,000.
- Families living in severe poverty were more than twice as likely to have cut back on household bills just to afford childcare costs as families on incomes over £30,000.
- Parents in severe poverty were more than twice as likely to cut back on after-school activities such as swimming for their children as parents on incomes over £30,000.

Parents in severe poverty are making very difficult financial choices simply to pay for childcare

- Almost one in ten families living in severe poverty said they have moved home as a result of difficulties finding suitable childcare, twice as many as those on incomes over £30,000.
- The cost of childcare has caused a third of parents living in severe poverty to get into debt compared to less than a quarter of parents living on incomes over £30,000.

DIFFICULTIES ACCESSING CHILDCARE ARE SIGNIFICANTLY AFFECTING THE ABILITY OF PARENTS IN SEVERE POVERTY TO WORK, TRAIN OR STUDY

“Trying to find suitable childcare is like running into brick walls all the time.”

Findings from the survey suggest that parents living in severe poverty were more likely than parents on higher incomes to experience difficulties accessing

childcare. The findings appear to suggest that as a family’s income increases the likelihood of problems accessing childcare decreases.

Parents told us that cost was the most common difficulty preventing them from finding the right childcare. Other barriers included childcare not being available at the time of day or week that it was needed, including during school holidays, and a lack of high quality childcare available in the local area.

In London, recent research also shows that families on average have far less access to informal childcare from relatives compared to the rest of the country – only 27% of parents relied on relatives for care in the last six months, compared to some 68% of parents in Scotland.¹²

Our survey results suggest that the inability of parents to access suitable childcare has a number of negative consequences in relation to supporting parents to work, train or study:

- A quarter of parents in severe poverty had given up work, a third had turned down a job, and a quarter had not been able to take up education or training because of difficulties in accessing childcare.
- Parents living in severe poverty were two and a half times more likely to have had to give up work due to difficulties finding the right childcare.
- Parents living in severe poverty were nearly three times more likely to have turned down a job because of difficulties with childcare than families with incomes over £30,000.
- Parents in severe poverty were four times more likely to have had to give up education or training and twice as likely not to be able to take up education or training opportunities in the first place.

To tackle child poverty, it is crucial that the government addresses the barriers that are preventing parents on the lowest incomes from working, training or studying.

THE HIGH COST OF CHILDCARE MEANS THAT WORK IS NOT PAYING FOR THE POOREST FAMILIES

“Childcare is a vital and essential service that needs to be high quality but also affordable. I couldn’t afford to work and pay childcare if tax credits didn’t help with some of the expensive costs.”

“I would love to work more, I enjoy it. Ridiculous as it may seem, if I worked more hours I would be worse off than now! Not really an incentive for people to go back to work that can’t be bothered or even for those that would love to go back!”

The results of our survey very clearly show that the high costs of childcare – or perceived high costs – can act as a disincentive to take up work, training or study. The majority of parents in severe poverty who responded to our survey believe that the costs of childcare are stopping work from paying:

- The majority of parents in severe poverty (58%) said they were no better off working and paying for childcare.
- Nearly half of those not in paid employment believed they would be financially worse off if they returned to work.
- Parents in severe poverty were twice as likely to say that their financial position when working and paying for childcare was similar to when they were unemployed.

The cost of entering work for an average wage family’s second earner is lower in the UK than the OECD average before accounting for childcare. When childcare is taken into account, over two-thirds of the family’s second wage is effectively taxed away, a rate that is well above the OECD average.¹³

In London, average childcare costs for 25 hours per week for one child under two are £119 – and £113 for a pre-school child over two.¹⁴ For a parent working 25 hours per week on the minimum wage, earning £148 per week, this already represents between 76% and 80% of a parent’s wages, for one child alone. With average housing costs in London at

£199 per week,¹⁵ Londoners again face particularly acute challenges in being able to afford the childcare they need to enable them to work.

MAKING WORK PAY UNDER UNIVERSAL CREDIT

“The government cut from 80% to 70% has made a huge difference to my childcare costs and made me struggle more financially. It makes it difficult each month and the government need to put the help back up to 80% and stop making the lowest paid any more worse off.”

The parents who responded to our survey indicated that the reduction in support for childcare costs would have a negative impact on their ability to work.

In London, the Universal Credit is predicted to leave both lone parents and couple families worse off than in 2011, if in work. This is true for the UK as a whole but the reduction in spending power for London families under Universal Credit is even greater than for families elsewhere in the UK. Childcare is one of the primary reasons for this discrepancy.¹⁶

The government’s decision on how to structure and fund childcare support under Universal Credit is therefore vital. Two options have been put forward with the aim of maintaining spending at current levels whilst benefiting more families – continuing to cover 70% of childcare costs and reducing the maximum weekly limits to £125 for one child and £210 for two or more children; or covering 80% of costs but with lower limits of £100 for one child and £150 for two or more children.

The poorest families would be affected most severely by both these options. Modelling work commissioned by Save the Children shows that a single parent with two children working full-time on £15,000 per year and with childcare costs of £232.40 per week would be £59.49 worse off each week under Universal Credit, largely because of reductions in childcare support.¹⁷ Department for

Work and Pensions modelling shows that more than a quarter of a million families will see their entitlement reduced under these options.¹⁸ This includes many families who can currently receive up to 95.5% of childcare costs through housing benefit and council tax benefit.

Lower levels of childcare support would particularly impact on larger families. Some 59% of families with three or more children that took part in our survey said they had experienced difficulties with childcare costs. This figure drops to 42% for families with just one child. Families with three or more children were also more than twice as likely to have cut back on after-school activities in order to meet childcare costs as those with one child.

PRIORITIES FOR THE FUTURE ON CHILDCARE COSTS

The views of parents in our survey suggest that in order to meet the goals of maximising family incomes, making work pay and in turn tackling child poverty, childcare must become more affordable to parents on the lowest incomes.

Our survey focused on the impact of childcare costs on families but it is also important to consider the quality and availability of childcare. Parents want the best quality care for their children. Quality childcare can benefit children's learning and development and improve their life chances. Parents also need an adequate supply of childcare options that are convenient and fit with their busy lives and frequently atypical working hours. Local authorities have a key role to play in ensuring that there is enough childcare available locally and that it is high quality. Yet our survey found concerns among parents about the impact of wider public spending cuts. Six in ten respondents felt that getting the right childcare would become more difficult over the next year due to public spending cuts.

We are calling for decision-makers in London to support increased access to affordable childcare.

We are calling for:

Local authorities in London to recognise the unique childcare challenges facing families in London and take a greater role in ensuring sufficient affordable childcare is available in their area.

The Mayor of London

- to work with community organisations to publicise tax credits entitlement among eligible groups who do not take up this support for childcare
- to establish a brokerage service for the provision of out-of-hours childcare across London
- to work with London business leaders to increase employer support for childcare costs, promote employer-based childcare vouchers, and signpost information on financial support for childcare and the free early education entitlement to employees
- to establish a grant scheme to assist parents returning to work with the up-front costs of childcare such as nursery deposits and advance fees, which many parents cannot pay in advance of taking up employment.

All London decision makers to make representations to the UK Government to increase support to parents to pay for childcare under Universal Credit (as set out below) as part of the longer term goal to press for a single, progressive and more accessible means of supporting childcare costs

We believe that the **UK government** should prioritise a number of measures to help parents living on the lowest incomes with the cost of childcare, as a first step in addressing the wider issues in relation to childcare. We are calling on the UK government to:

- Ensure a minimum of 80% of childcare costs are covered under Universal Credit up to current weekly limits. Covering this level of support for those working more than 16 hours per week would cost an extra £405 million per annum. This represents a 0.45% increase in the welfare budget but this expenditure is crucial if the government's vital aim to make work pay is to be delivered.

The government must also provide the additional £195 million per annum to provide the same level of support for those working fewer than 16 hours.¹⁹

- Over time, as the economic situation improves, increase this support so that it covers 100% of costs, increase the maximum limits in line with inflation and introduce an additional higher band for families with three or more children.
- Make sure local authorities implement the new enhanced pre-school entitlement – 15 free hours for deprived two-year-olds in addition to 15 free hours for three- and four-year-olds – at the earliest possible opportunity and use effective outreach to ensure that take-up is high.

REFERENCES

¹ Centre for Economic and Social Inclusion (2011), *Making Work Pay in London under Universal Credit*, Centre for Economic and Social Inclusion, p.3 <http://www.londoncouncils.gov.uk/London%20Councils/LondonCouncilsUCReportfinal.pdf>

² The key messages are based on the views of more than 4,000 parents who responded to the survey. It should be noted that the results are indicative of issues and social trends and point to problems that require further research or attention. The results are not based on a representative sample of the population.

³ Severe poverty refers to parents living on a yearly income of less than £12,000. We define higher income families as those reporting incomes of more than £30,000 per year. NB £12,000 is used as a proxy for severe poverty for the purpose of the survey and this briefing, it is not the actual definition of severe poverty. This is set out in Save the Children (2011) *Severe Child Poverty: Nationally and Locally*.

⁴ New Policy Institute and Save the Children (2011) *Severe Child Poverty Nationally and Locally*, Save the Children [http://www.savethechildren.org.uk/en/docs/Severe_Child_Poverty_Nationally_And_Locally_February2011\(1\).pdf](http://www.savethechildren.org.uk/en/docs/Severe_Child_Poverty_Nationally_And_Locally_February2011(1).pdf)

⁵ New Policy Institute and Save the Children op cit., Table 4.16

⁶ Office for National Statistics (2010) *Work and Worklessness amongst Households*, ONS, Table 3(iii) <http://www.statistics.gov.uk/pdfdir/work0910.pdf>

⁷ Office for National Statistics (2010) *Labour Force Survey data Q2 2009 – Q1 2010* aggregated ONS

⁸ Daycare Trust (2011), *Childcare Costs Survey 2011*, Daycare Trust, p.2

⁹ Brewer, M and Joyce, R (2010) *Child and Working-Age Poverty from 2010 to 2013*. IFS Briefing Note 113, Institute for Fiscal Studies, Table 3.1, page 24. <http://www.ifs.org.uk/bns/bn115>

¹⁰ New Policy Institute and Save the Children, op. cit.

¹¹ Department for Work and Pensions (2011) *Households Below Average Income 2010*, Department for Work and Pensions, Table 4.17ts http://statistics.dwp.gov.uk/asd/hbai/hbai2010/pdf_files/full_hbai11.pdf

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¹⁵ Office for National Statistics (2010) *Family Spending – A report on the 2009 Living Costs and Food Survey*, p.17 http://www.statistics.gov.uk/downloads/theme_social/familyspending2010.pdf

¹⁶ Centre for Economic and Social Inclusion, op. cit., p.20

¹⁷ Centre for Economic and Social Inclusion and Save the Children (2011) *The Full Benefits of Universal Credit*, Save the Children http://www.savethechildren.org.uk/en/docs/Benefiting_From_Work_Final.pdf

¹⁸ Department for Work and Pensions, op. cit.

¹⁹ Centre for Economic and Social Inclusion and Save the Children, op. cit.

ABOUT US

Save the Children works in more than 120 countries. We save children's lives. We fight for their rights. We help them fulfil their potential.

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4in10 is a network of London voluntary and statutory organisations tackling child poverty in the capital. 4in10 is based at Save the Children.

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Daycare Trust is the national childcare charity, campaigning for quality, accessible, affordable childcare for all and raising the voices of children, parents and carers.

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