

# MAKING WORK PAY – THE CHILDCARE TRAP

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

Maximising family incomes through making work pay forms a key part of the UK government's approach to tackling child poverty. Evidence shows that the less work a household does, the higher the risk of poverty. It also shows that for those who can do it, work offers the best route out of poverty.

Adequate childcare plays a critical role in supporting parents into work, study and training as well as enhancing child development. This is acknowledged in the 2010 Child Poverty Act which highlights childcare, alongside education, health, family support, financial assistance, employment, skills and housing, as crucial elements in the battle to end child poverty.

In spring 2011, Save the Children and Daycare Trust surveyed parents in Great Britain.<sup>1</sup> This briefing uses findings from the survey and from the 2010 Employers For Childcare report<sup>2</sup> to examine how the cost of childcare impacts on parents' employment, family budgets and in turn child poverty.

## KEY MESSAGES

The survey findings suggest that parents living in severe poverty are struggling more than other parents to access childcare, particularly due to the high cost. The cost of childcare is undermining the government's laudable aim to make work pay, and thus preventing families living on the lowest incomes from escaping poverty.

1. Cost is a major barrier preventing parents on the lowest incomes 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.
3. Difficulties accessing childcare are significantly affecting the ability of parents in severe poverty to work, train or study.
4. The high cost of childcare means that work is not paying for the poorest families.

## RECOMMENDATIONS

The survey results 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.

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.

In addition, we are calling for the Northern Ireland Executive to:

- make the provision of affordable quality childcare a priority in the child poverty delivery plan and Programme for Government

- prioritise a campaign to improve uptake of the childcare element of Working Tax Credit – it reaches a relatively small proportion of low income families (less than 26% in 2008) and the additional income, direct from HM Treasury, would provide a stimulus to the NI economy
- provide childcare support for the earnings disregard pilot study
- develop childcare legislation and a strategy and delivery plan to ensure an integrated approach to early years, education and childcare
- improve childcare support within enhanced education and training programmes for low income mothers.
- adapt the requirements for lone parents in the forthcoming welfare legislation in NI to reflect the different circumstances while an enhanced childcare infrastructure is put in place.

## CHILD POVERTY AND CHILDCARE COSTS IN NORTHERN IRELAND

Through the UN Convention on the Rights of the Child (UNCRC) governments recognise the rights of all children to an adequate standard of living and their own obligation to assist with childcare services.<sup>3</sup>

However, in Northern Ireland a challenging situation appears to be getting worse. Rather than prioritising the battle against child poverty as a violation of child rights, Northern Ireland is moving in the opposite direction. Government statistics show that NI is the only part of the UK where the level of child poverty has increased – by 2% to 26% in 2009/10.<sup>4</sup> Over a fifth of children (21%) live in persistent poverty<sup>5</sup> and almost 10% (40,000 children) in severe poverty.<sup>6</sup>

Whilst the NI Executive should be prioritising the provision of adequate childcare to support parents into work to help lift children out of poverty, more low income parents are struggling to access affordable childcare. In 2010 Employers for Childcare analysed the cost of childcare in NI for the first time<sup>7</sup> and showed that parents here allocate on average 45% of their net weekly earnings towards childcare costs.<sup>8</sup>

**“The biggest difficulty with childcare is the cost. Last year 46% of my take-home pay went on childcare. This makes it hard to justify working.”**

Meanwhile, the NI child poverty strategy barely mentions childcare and while £12 million is earmarked for childcare in the NI budget 2011, the NI childcare strategy has yet to be published.

## SUPPORT FOR CHILDCARE COSTS

Childcare subsidies for families on low incomes have been an integral part of the tax and benefits system for many years. However, since April 2011, the government has cut the proportion of childcare costs that can be claimed through the childcare element of Working Tax Credit from 80% to 70%. The 10% reduction is a significant amount for families coping on very limited budgets.

Moreover, under Universal Credit, 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. However more parents being supported by the same funding pot will inevitably mean even less help for some families.

The government's decision on how to structure and fund childcare support under Universal Credit is therefore vital. Given the aim to maintain spending at current levels while benefiting more families, two options have been put forward – 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 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).<sup>9</sup>

This confirms the findings of recent research by the Joseph Rowntree Foundation which found that the amount families need to earn to make ends meet has risen much faster than living costs due to the freezing of child benefit, reduction of tax credits and the cut to tax credits which help cover childcare costs. Typically families requiring childcare would have to earn over 20% more in 2011 than 2010 to meet the shortfall.<sup>10</sup> If an average family needs to earn 20% more to make up the shortfall, the burden will be prohibitive for low income families.

## NORTHERN IRELAND CIRCUMSTANCES

### Childcare provision in Northern Ireland

**“In Northern Ireland, policy seems to be where England and Wales were in 1997.”<sup>11</sup>**

The childcare situation can be summarised as ‘woefully inadequate’.<sup>12</sup>

The Committee for the Office of the First Minister and Deputy First Minister’s two-volume child poverty report made six recommendations about childcare, including several on affordability.<sup>13</sup>

This and other studies confirm the findings of the 2009 Joseph Rowntree Foundation Viewpoint<sup>14</sup> about loss of provision, the lack of funding for Sure Start and Extended Schools (which in England could provide ‘wrap around’ childcare aimed at supporting parents to enter and remain in the labour market) and the lack of any progress towards integrated early childhood education and care.

NI has no equivalent of the 2006 Childcare Act in England and Wales which defines childcare as ‘(a) education for a child; and (b) any other supervised activity for a child’<sup>15</sup> and includes the duty to secure adequate childcare to allow parents to take up or remain in work and to undertake education or training that assists in obtaining work.

The NI Executive Ministerial Sub Committee on Children and Young People commissioned an economic appraisal of childcare in June 2009 that informed a scoping report into childcare provision. According to the Finance Minister, it revealed significant challenges with provision and affordability and will form the basis of a childcare strategy on a cross departmental basis.<sup>16</sup> After much lobbying, £12 million was allocated for childcare in the final four-year budget. At the time of writing, there is no sign of a childcare strategy and, by the time it is drafted, it will require updated budget lines to reflect the impact of budget cuts, notwithstanding the £12m allocation.

### Historic under-investment

In its concluding observations about the UK in 2008, the UNCRC Committee expressed concerns about children’s funding, saying, ‘the increases are not sufficient to eradicate poverty and tackle inequalities and the lack of budgetary analysis and child rights impact assessment makes it difficult to identify how much expenditure is allocated to children across the state party.’

In the absence of government action, Save the Children commissioned research into public spending on key children’s services. The findings confirmed the stark under-investment in Northern Ireland’s children’s services, including childcare. Overall spending in 2007/08 on Early Years amounted to £630 per child in NI compared with around £2,000 per child in GB. Spending on Sure Start was much lower in Northern Ireland, at £80 per child compared to nearly £600 per child in England.<sup>17</sup>

### Impact of cuts

It is accepted that Northern Ireland will be hardest hit by the impact of welfare and budget cuts, job losses and rising prices. The June 2010 budget and October 2010 Comprehensive Spending Review reduced the block grant by almost £4 billion, with anticipated job losses in the public sector. Since significantly more women are employed in low-paid public sector jobs, they will bear

the brunt of these public spending cuts, with potentially devastating impact on the life chances of their children.

The 2010 budget and Comprehensive Spending Review also made a number of changes to welfare benefits, adding to those already announced by the previous government. By 2014/15, spending on benefits across the UK will be £18 billion less than it is now (in cash terms). The loss to benefit recipients in Northern Ireland will be more than £600 million per year by 2014/15.<sup>18</sup>

In a report commissioned by the Law Centre (NI), the Institute of Fiscal Studies established that the tax and benefits changes planned up to 2014/15 will have a disproportionate impact on NI, second only to London. This is for two reasons: the high numbers of those in receipt of Disability Living Allowance, especially for mental health disorders, and the high number of families with children who will be adversely affected by cuts to social security.<sup>19</sup>

An additional £12 million in the final budget pales in comparison to the impact of the £4 billion cut in the block grant and £600 million per year in lost welfare. It compares unfavourably with the Welsh Assembly Government's investment of more than £120 million in the expansion of affordable childcare from 2011–2014.<sup>20</sup> It pales in comparison with the £4 billion over three years invested in early years, Sure Start and childcare by the previous government in London.<sup>21</sup>

## HOLISTIC APPROACH TO AFFORDABLE CHILDCARE

Affordable quality childcare plays a major part in several key policy areas and the links need to be made to child development, tackling child poverty and the education gap, early intervention, mothers' education and economic growth.

### Children's development

Much research, including the Effective Pre School and Primary Education (EPPE) and Effective Preschool

Provision in Northern Ireland (EPPNI) studies, led by Professor Edward Melhuish, demonstrates how equitable and high quality early childhood education and care provide the best return in human capital development and a foundation for later success. The reports also highlight the importance of the home learning environment and the mother's level of education.<sup>22</sup>

### Mothers' education

Child poverty research by the Joseph Rowntree Foundation concluded that working patterns among mothers are very strongly linked to qualifications and hence the ability to command higher earnings. Over 80% of highly qualified (degree and NVQ level 4) couples and lone mothers are working, falling to 55% of lone mothers with qualifications equivalent to NVQ level 2 and 27% of lone mothers without qualifications.<sup>23</sup> This underscores the importance of affordable childcare to allow mothers to study and train for work and lift their children out of poverty.

Professor Liddell of the University of Ulster used the developmental systems approach to gauge where reform would have the greatest impact on supporting the most disadvantaged mothers' participation in the labour force. The analysis found that the principal driver was the mother's education and the report recommended retaining the variety of provision in NI, locating children's centres in schools, further education colleges and universities, and establishing highly funded centres of excellence in disadvantaged areas as hubs for innovation, best practice and training.<sup>24</sup>

The Department for Employment and Learning's programme, Steps to Work,<sup>25</sup> provides welcome childcare support but only for people taking qualifications up to NVQ level 2. In light of the findings cited above it would make sense to offer more opportunities for progression.

### Early intervention

In the run-up to the Stormont elections in May 2011, most party manifestos endorsed the imperatives of early intervention and prevention. Westminster

MP Graham Allen has suggested that the next comprehensive spending review should be themed around early intervention because, “We need to change our default public expenditure culture, which is one of late intervention, to one of early intervention.”<sup>26</sup>

The evidence paper for the Northern Ireland Department of Education’s draft early years strategy (for children from birth to six years) provides an excellent rationale for integrated early childhood care and education as an example of early intervention, beginning in pregnancy.<sup>27</sup>

A recent communication from the European Commission reiterates findings that investments in early childhood care and education have the highest return, particularly when targeted at children from a disadvantaged background.<sup>28</sup>

### **Budget analysis**

Save the Children has long called for a human rights approach to ending child poverty, including making children visible in budgets. Therefore it is interesting to note Graham Allen MP’s proposals for research into departmental spending, for an incremental migration of funding within existing budgets from late to early intervention, for a task and finish group to drive the work forward and ways to incentivise new sources of funding. The Economic Secretary to the Treasury, Justine Greening, has acknowledged the importance of better accounting data to enable easier analysis of spend on areas such as early years, the need for sustained investment beyond early years and “the need to consider (community) budgets from the perspective of the individual who receives the service rather than constantly considering them in silos.”<sup>29</sup>

### **Links between affordable childcare, ending child poverty and prosperity**

Recent research into the impact of the financial crisis on women in NI highlights the importance of affordable quality childcare. *Women on the Edge*<sup>30</sup> pays tribute to the Welsh Assembly Government’s approach, which makes important linkages between

the right to appropriate childcare, its benefit for learning and employment and its contribution to ending child poverty and to economic growth.

Save the Children welcomes the Finance Minister’s budget statement which acknowledged the links between affordable childcare and prosperity: “Over the course of the next administration, in recognition of the critical role this issues plays to the economy it is intended that a childcare strategy will be developed on a cross departmental basis. During its development there are a number of key immediate actions that have emerged that can help support existing provision and help support childminders, childcare and the creation of increased and affordable provision such as start-up packages for childminders. The budget provision of £3 million per annum will help support a range of new measures therefore reducing barriers to employment and encouraging and supporting economic activity in line with the priorities of growing the economy and reducing deprivation and poverty.”<sup>31</sup>

### **Free entitlement works best**

The 1998 pre-school education expansion programme is designed to provide one year of high quality funded pre-school education for every child whose parents wish it.<sup>32</sup> This may be part-time provision, but as Horgan and Monteith highlight, the almost universal uptake of this free provision “supports proposals by Waldfogel and Garnham to extend the universal element of childcare to younger ages and the idea from Kenway of a system of free, universal childcare.”<sup>33</sup>

This argument gains support from findings that the childcare element of the Working Tax Credits fails to reach many of the poorest families. *A Child’s Portion*<sup>34</sup> highlighted the low uptake by the poorest families, with only a third of low-income working families and about half of lone parents with pre-school children receiving this benefit. This concurs with the findings that it reached only 26% of families claiming Working Tax Credit in 2008, suggesting the need for an uptake campaign.<sup>35</sup> However, the almost universal uptake of free entitlement to pre-school provision may also suggest the need to question why parents

should pay for certain parts of the education and care system and not others, especially when we factor in what we know about the merits of early intervention and prevention.

## RECOMMENDATIONS

At UK level:

Every effort should be made to lobby Westminster to ensure that a minimum of 80% of childcare costs are covered under Universal Credit up to current weekly maximums. Covering this level of support for those working more than 16 hours per week would cost £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.<sup>36</sup>

Over time, as the economic situation improves, the NI Executive should lobby for increased support for the childcare element of tax credits so that it covers 100% of costs, increased maximum limits in line with inflation and introduction of an additional higher band for families with three or more children.

At Northern Ireland level:

The NI Executive must provide leadership by prioritising the fight against child poverty as a duty under the UN Convention on the Rights of the Child and the Child Poverty Act. It must take the provision of affordable quality childcare seriously as a public spending priority to reflect its role in ending child poverty and economic development.

In the short term, the low uptake of the childcare element of Working Tax Credit should encourage a comprehensive uptake campaign. The extra income would come directly from HM Treasury rather than the block grant and would provide a much needed stimulus to the Northern Ireland economy. The annual amount of additional money delivered by

the advice sector amounts to millions of pounds already, for example Gingerbread NI raised nearly £850,000 for lone parents and their children last year. This money was generated, inter alia, by identifying unclaimed and under-claimed benefits and tax credits.<sup>37</sup>

Childcare support should also be provided for the NI earnings disregard pilot with the evaluation informing policy on the Universal Credit.

The NI Executive should establish a task and finish group to develop childcare legislation and a strategy and delivery plan to ensure an integrated approach to early years, education and childcare, including out-of-school and holiday provision for teenagers.

In view of the increasing number of job losses and the merits of improving mothers' qualifications, it would seem wise to enhance education and training opportunities within a future NI childcare strategy.

We would suggest that implementation structures for an integrated approach are crucial. The Regional Children and Young People's Strategic Partnership offers a model for integrated planning, commissioning and provision of information, but a duty to cooperate at ministerial and departmental levels would provide the necessary political leadership. Learning from Graham Allen MP's comprehensive spending review proposals and the rural childcare programme would support the development of sustainable and transparent funding.

The childcare strategy, in turn, must inform the child poverty action plan and align to the Programme for Government and related strategies including economic, employment, early years, children's, Investing for Health, education, early intervention, the rural White Paper and Rural Anti-Poverty and Social Inclusion Framework.

For the longer term, the NI Executive should commit to the goal of universal, quality and free childcare up to the age of 14. As a starting point, the pre-school free entitlement should be extended to 15 hours a week.

It is hard to understand how welfare ‘reform’ requiring lone parents to actively seek work when their child reaches five years (from October 2011), reducing to when their youngest child is aged one (by a yet unspecified date), will operate in Northern Ireland without a proper childcare strategy. We would urge the need for a differentiated approach in the forthcoming welfare legislation to reflect different circumstances. A precedent was set by the Welfare Reform Act (NI) 2010 which requires the well-being of the child to be taken into account when making a jobseeker’s agreement.

## REFERENCES

- <sup>1</sup> Save the Children and Daycare Trust (2011) *Making Work Pay – the Childcare Trap*, Save the Children. 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.
- <sup>2</sup> Dennison, R and Smith, N (2010) *Northern Ireland Childcare Cost Survey 2010*, Employers for Childcare
- <sup>3</sup> Article 18.2 For the purpose of guaranteeing and promoting the rights set forth in the present Convention, States Parties shall render appropriate assistance to parents and legal guardians in the performance of their child-rearing responsibilities and shall ensure the development of institutions, facilities and services for the care of children. Article 18.3 States Parties shall take all appropriate measures to ensure that children of working parents have the right to benefit from child-care services and facilities for which they are eligible.
- Article 27.1 States Parties recognise the right of every child to a standard of living adequate for the child’s physical, mental, spiritual, moral and social development.
- <sup>4</sup> Department for Work and Pensions (2011) *Households Below Average Income* <http://statistics.dwp.gov.uk/asd/index.php?page=hbai>
- <sup>5</sup> Monteith, M, Lloyd, K and McKee, P (2008) *Persistent Child Poverty in Northern Ireland*, Save the Children, ARK and Economic and Social Research Council
- <sup>6</sup> Save the Children (2011) *Severe Child Poverty in Northern Ireland*, Save the Children. Severe poverty means a couple with two children living on less than £12,000 a year or a lone parent with one child surviving on less than £7,000. 29% of children in workless families are in severe poverty compared to around 4% of children in families where at least one parent works. However, 36% of children in severe poverty are in households where at least one parent works.
- <sup>7</sup> Dennison, R and Smith, N (2010) *Northern Ireland Childcare Cost Survey 2010*, Employers for Childcare
- <sup>8</sup> *Ibid.* p39
- <sup>9</sup> Centre for Economic and Social Inclusion and Save the Children (2011), *The Full Benefits of Universal Credit, Save the Children*
- <sup>10</sup> Hirsh, D (2011) *A Minimum Income Standard for the UK in 2011*, Joseph Rowntree Foundation
- <sup>11</sup> Garnham, A (2010) ‘A Better Future for Children’, *Frontline* magazine, Law Centre (NI) p 12
- <sup>12</sup> Early Years Alliance 2007, *Early Years Manifesto*, Children in NI and Women’s Support Network p 8
- <sup>13</sup> Committee for the Office of the First Minister and Deputy First Minister (2008) *Final Report on the Committee’s Inquiry into child poverty*, Session 2007–08 para 34–40. Committee for the OFMDFM [http://archive.niassembly.gov.uk/centre/2007mandate/reports/Report08\\_07\\_08r\\_vol1.htm](http://archive.niassembly.gov.uk/centre/2007mandate/reports/Report08_07_08r_vol1.htm)
- <sup>14</sup> Horgan, G and Monteith, M (2009) *What can we do to tackle child poverty in Northern Ireland?*, Joseph Rowntree Foundation, p 8
- <sup>15</sup> The Childcare Act 2006, paragraph 18
- <sup>16</sup> Final Budget 2011–2015 Statement to the Assembly by Sammy Wilson MP MLA, Minister for Finance and Personnel, 4 March 2011
- <sup>17</sup> Save the Children (2009) *A Child’s Portion, An analysis of public spending on children in the UK*, NI Briefing, Save the Children
- <sup>18</sup> Tomlinson, M and Kelly, G (2011) *Response to Northern Ireland’s draft budget*, Poverty and Social Exclusion in the UK Project, p 1
- <sup>19</sup> Browne, J (2010) *The Impact of tax and benefit reforms to be introduced between 2010–11 and 2014–15 in Northern Ireland*, IFS Briefing Note 114, Institute for Fiscal Studies
- <sup>20</sup> Hinds, B (2011) *The Northern Ireland Economy: Women on the Edge*, Women’s Resource and Development Agency, p 50
- <sup>21</sup> McLaughlin, H (2009) *Women Living in Disadvantaged Communities: Barriers to Participation*, Women’s Centres Regional Partnership, p 55
- <sup>22</sup> Queen’s University Belfast (2011) *Understanding Children’s Lives; Longitudinal research in Northern Ireland, intervention and policy relevance*, Conference programme, Queen’s University Belfast

<sup>23</sup> Simmonds, D and Bivand, P (2008) *Can Work Eradicate Child Poverty?*, Joseph Rowntree Foundation, p 4 <http://www.jrf.org.uk/sites/files/jrf/2272-employment-parenthood-poverty.pdf>

<sup>24</sup> Liddell, C (2010) *The Caring Jigsaw*, University of Ulster and Save the Children

<sup>25</sup> <http://www.delni.gov.uk/stepstowork> – accessed 1 August 2011

<sup>26</sup> Graham Allen MP, Early Intervention Debate, House of Commons Hansard Debates for 14 July 2011 Column 586

<sup>27</sup> Department of Education (2010) *Early Years Strategy (0–6)*, Evidence based paper, Department of Education

<sup>28</sup> European Commission (2011) *Early Childhood Education and Care: Providing all our children with the best start for the world of tomorrow*, European Commission

<sup>29</sup> Early Intervention Adjournment Debate, House of Commons Hansard Debates for 14 July 2011, Columns 587–592

<sup>30</sup> Hinds, B, op. cit.

<sup>31</sup> Final Budget 2011–2015 Statement to the Assembly by Sammy Wilson MP MLA, Minister for Finance and Personnel, 4 March 2011

<sup>32</sup> Committee for Education, Official Report (Hansard) 15 June 2011

<sup>33</sup> Horgan, G and Monteith, M, op. cit., p8

<sup>34</sup> Save the Children (2009), op. cit.

<sup>35</sup> Waldfogel, J and Garnham, A (2008), *Childcare and Child Poverty*, Joseph Rowntree Foundation, p12

<sup>36</sup> Costs from Centre for Economic and Social Inclusion and Save the Children (2011) *The Full Benefits of Universal Credit*, Save the Children

<sup>37</sup> Save the Children (2011) *No child born without a chance*, NI briefing, Save the Children

## 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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