

MAKING WORK PAY – THE CHILDCARE TRAP

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

Parents in Scotland face some of the highest childcare costs in the UK, which are already amongst the highest in the world. This affects their ability to work, train or study as well as forcing families to make difficult financial choices.

Save the Children believes that affordable, accessible and high-quality childcare has a vital role to play in tackling child poverty.

We are calling on the Scottish and UK governments to take steps to make childcare more affordable to parents in Scotland.

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.

KEY FINDINGS¹

The survey findings suggest that parents living in severe poverty² are struggling to access childcare more than other parents, particularly due to the high cost. This is undermining the Scottish government's laudable aim to maximise household resources by supporting parents into good quality employment and making 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 from accessing childcare

- Eight out of ten parents living in severe poverty 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 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 significant 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 provided 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.

Save the Children is calling on the Scottish government to support increased access to affordable, quality childcare and early education. We are asking them to:

- introduce an entitlement to 15 hours a week of early childhood education and care for two-year-olds, starting with low income households
- meet the commitment to 15 hours a week of nursery education for three- and four-year-olds at the earliest opportunity and enable flexibility in how parents can take up their free entitlement
- introduce an entitlement to publicly funded out-of-school care for five- to fourteen-year-olds (including during school holidays) for children living in low income households
- support local authorities to mainstream Working for Families services
- introduce an entitlement to support with the costs of childcare for student parents
- make representations to the UK government to increase support to parents to pay for childcare under Universal Credit.

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 THAT MAKES IT DIFFICULT FOR PARENTS IN SEVERE POVERTY TO ACCESS CHILDCARE

“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 nearly a third of parents on higher incomes (37%).
- A large number of respondents (41%) said that their childcare costs were similar to their mortgage or rent costs.

The childcare costs a parent faces depends 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.

Parents in Scotland are paying relatively high childcare costs and these are increasing. Average costs are higher in Scotland than in other parts of the UK. Daycare Trust’s 2011 survey shows that childcare costs parents in Scotland an average of £100 per week for 25 hours of care for a child under two, £98 per week for a three- or four-year-old and £50 for 15 hours of out of school care. Average costs have risen significantly since 2010. The cost of a childminder for a child aged two or over increased by 8.3% between 2010 and 2011 in Scotland – almost four times as much as the average wage.³

In our view, providing financial help with childcare costs is vital if moving into and progressing in employment is to be a realistic option for many parents.

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 Scotland 200,000 children are living in relative income poverty before housing costs are taken into account, and 250,000 children are living in relative income poverty after housing costs.⁴ Save the Children’s research shows that 90,000 children in Scotland are living in severe poverty.⁵ Many family budgets are already stretched; high childcare costs can tip family finances into crisis.

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 higher incomes.
- 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 higher incomes.
- Parents in severe poverty were more than twice as likely to cut back on after-school activities (such as swimming) as parents on higher incomes.

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

- 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 on higher incomes.

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. 80% of parents in severe poverty said that the cost of childcare was an issue in finding suitable 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.

Facilitating work is very often the main reason parents cite for using childcare. Therefore employment patterns and childcare use are closely linked. 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 than families with incomes over £30,000, and twice as likely not to be able to take up education or training opportunities in the first place.
- Almost one in ten families living in severe poverty said they had moved home as a result of difficulties finding suitable childcare, twice as many as those with incomes over £30,000.

These findings reiterate conclusions from other studies. Of all the barriers to employment, childcare emerges from research as the most significant, particularly for families on lower incomes.⁶ The Growing Up in Scotland study⁷ found that amongst unemployed parents, 55% reported that they would prefer to work or study if they were able to afford good quality, reliable and convenient childcare.

Appropriate, good quality and sustainable work is the best way for families to escape poverty. The availability of affordable and accessible childcare plays a very significant role in parents' choices and ability to work. Therefore, to tackle child poverty, it is crucial that governments address the barriers, above all the cost of childcare, 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 can act as a disincentive to take up work, training or study.

- 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.

Analysis by the Organisation for Economic Co-operation and Development (OECD) shows that the UK has some of the most expensive childcare in the world and that this causes significant disincentives to work for parents on low and middle incomes.

- Childcare costs in the UK account for 33% of net family income – a higher figure than the average (13%) and more than any of the other 26 countries analysed in the study.⁸
- 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.⁹
- In Scotland, average childcare costs £84 (for 25 hours per week) are more than half the gross average part-time weekly earnings of £160.¹⁰

SUPPORTING PARENTS TO ACCESS AFFORDABLE CHILDCARE

The Scottish government, local authorities in Scotland and the UK government all have a role to play in supporting parents to access affordable childcare. The Scottish government and local authorities are responsible for the provision of childcare in Scotland, while the UK government holds responsibility for providing financial support for families with the costs of childcare through benefits and tax credits.

The Scottish government seeks to ensure access to high quality, affordable childcare services which

match children's needs and parents' working patterns. The Early Years Framework makes a strong commitment to the importance of affordable, flexible and accessible childcare and states that affordability is a priority. The Scottish government's Child Poverty Strategy¹¹ aims to maximise household resources by increasing the number of parents in good quality employment and making work pay. The Strategy acknowledges that accessing affordable childcare plays a significant role in parents' choices and chances in the labour market, particularly for lone parents. It sets out a number of actions that the Scottish government will take to help make childcare more affordable to families on the lowest incomes including:

- pressing the UK government to introduce a single, accessible and progressive means of supporting parents with the costs of childcare
- promoting uptake of the UK government's childcare vouchers scheme by employers and employees
- providing discretionary funds to support student parents with the cost of childcare while in further or higher education
- providing entitlements to free part-time pre-school education for three- and four-year-olds.

The Scottish government currently provides 12.5 hours of free early education for all three- and four-year-olds. A commitment was made to increase entitlement to 15 hours a week by 2010 but this has not yet been delivered across the whole of Scotland.

Providing or subsidising childcare and early education in an integrated way is an effective way of making childcare affordable to families living on the lowest incomes.

- This policy has demonstrated that when parents are offered free, good quality early years education for their children, almost all will take it up (96% in 2010).¹²
- The UK government has gone further than the Scottish government and recently announced plans to introduce an entitlement of 15 hours early education for the most disadvantaged 20% of two-year-olds (gradually extending to all two-year-olds). In addition they will introduce flexibility

around how the free entitlement to pre-school education is taken up so that parents can fit it around their needs.

- Other EU countries provide or subsidise childcare for children of different ages. In Finland every child below primary school age (seven) has a right to publicly funded daycare, regardless of their parents' income or employment status.¹³

There are also examples of successful approaches that tackle barriers to accessing childcare as part of a broader aim to support parental employability, for example the Working for Families programme that ran from 2004–08. The programme successfully improved the employability of parents and a key element was that parents received help in accessing and paying for childcare.

SUPPORTING PARENTS TO PAY FOR CHILDCARE

The UK government holds responsibility for supporting families on low incomes with the costs of childcare through the tax and benefits system. Childcare subsidies for families on low incomes have been an integral part of the tax and benefits system for many years.

In 2004, the then UK government introduced the childcare element of Working Tax Credit. This allowed parents on the lowest incomes to claim up to 80% of the cost of formal childcare, with weekly limits of £300 per week for two or more children and £175 for one child. In 2011, 44,500 families in Scotland were benefiting from the childcare element of Working Tax Credit, receiving an average of £68.95 a week.¹⁴

In April 2011 the UK Coalition government reduced the amount that could be claimed through Working Tax Credit so parents could only claim 70% of childcare costs. This will mean an average loss of over £500 per year for the families who receive this support – including 44,500 families in Scotland – 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 significant 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.

Even factoring in these existing measures from the Scottish and UK governments, the high costs of childcare still place a substantial financial burden on families.

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 needs to put the help back up to 80% and stop making the lowest paid any more worse off.”

Save the Children is concerned about the negative impact of the reduction in support with childcare costs through Working Tax Credit. Even finding 20% of the cost of childcare can be difficult for parents on a very low income. A 10% reduction is a significant amount for families coping on very limited budgets.

The UK 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 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.¹⁵ Department for Work and Pensions modelling shows that more than a quarter of a million families across the UK will see their entitlement reduced under these options.¹⁶ This includes many families who can currently receive up to 95.5% of childcare costs through housing benefit and council tax benefit.

The success of the Universal Credit in relation to providing financial help with childcare costs to support parental employment will depend on the level of childcare support available. We believe that 80% of costs is the minimum amount needed to ensure positive work incentives for parents (based on calculations by Family Action).¹⁷

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, increasing the number of parents in good quality employment, making work pay and in turn tackling child poverty, childcare must become more affordable to parents on the lowest incomes. Further improvements in childcare policy can continue to

play a key role in reducing child poverty today and preventing it in the future.

The cost of childcare is an issue for all parents living in poverty, not just those on the very lowest incomes. Many of the trends reported for parents on the very lowest incomes are consistent with the wider population of families living in poverty. We believe that all parents living in poverty should be supported to access more affordable childcare, starting with those on the very lowest incomes.

The Scottish government has pledged to put 'childcare for all' at the centre of its ambition for families in Scotland. This is a laudable aim and perhaps signals a strengthening of ambitions in this area. A commitment has been made to set out clear and well understood steps towards achieving childcare for all, to match the best in Europe, initially focusing on families from the most deprived backgrounds. Reducing costs has been stated as a key goal in achieving this. Save the Children welcomes these commitments.

Save the Children believes that the Scottish government should prioritise measures to help parents living on the lowest incomes to meet the cost of childcare, as a first step in addressing the wider issues in relation to childcare.

The Child Poverty Strategy for Scotland states that: "It is unlikely that the Scottish government or local partners will be able to devote significant new resources to supporting the costs of childcare in the immediate future". We recognise that some of the options we are putting forward will incur additional expenditure and that political choices will need to be made about what kind of public spending will have the most impact. Cost benefit analyses of investing in these options are needed to ensure limited funds are spent most advantageously.

However, we believe there is clear justification for prioritising measures related to childcare costs. They would support parents to enter and remain in employment and training and would go some way to making work pay for families living on low incomes.

Higher levels of parental employment should lead to reduced reliance on public services and a reduction in the number of children living in poverty in Scotland. High quality childcare could also support efforts to improve outcomes for children.

Our survey focused on the impact of childcare costs on families but it is also important to consider the quality and availability of childcare. Alongside measures to maximise household resources, quality of childcare and support in the home learning environment are critical factors in addressing child poverty. Parents want the best quality care for their children. Quality childcare can benefit children's learning and development and improve their life chances. Our recommendations are based on the principle of providing quality care settings and experiences at all times.

Parents also need an adequate supply of childcare options that are convenient and fit with their busy lives and frequently atypical working hours. Atypical hours are much more likely to affect lower paid workers due to the nature of employment opportunities available to them. Local authorities have a key role to play in ensuring that there is enough childcare available locally and that it is high quality. Unlike in England, there is no statutory duty on national or local government in Scotland to support childcare. Scottish government resources to support childcare are included in the overall local government settlement – local authorities work with local childcare partnerships to plan and support childcare in the local area. 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.

RECOMMENDATIONS

These recommendations provide some suggestions for addressing this complex issue. They are focused on what the Scottish and UK governments can do to help parents access more affordable childcare. However it should be recognised that employers

also have a key role to play and more needs to be done to engage employers in this debate.

We are calling on the Scottish government to support increased access to affordable, quality childcare and early education. We are asking them to:

- introduce an entitlement to 15 hours a week of early childhood education and care for two-year-olds, starting with low income households
- meet the commitment to 15 hours a week of nursery education for three- and four-year-olds at the earliest opportunity and enable flexibility in how parents can take up their free entitlement
- introduce an entitlement to publicly funded out-of-school care for five- to fourteen- year-olds (including during school holidays) for children living in low income households
- support local authorities to mainstream Working for Families services
- introduce an entitlement to support with the costs of childcare for student parents
- make representations to the UK government to increase support to parents to pay for childcare under Universal Credit.

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 a week.¹⁸
- 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.

REFERENCES

- ¹ 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. 14% of responses were from parents in Scotland. The sample size for parents on the lowest incomes in Scotland was small, therefore UK-wide results are reported. Although the sample size is smaller, Scottish trends are consistent with UK-wide trends.
- ² Severe poverty refers to parents living on a yearly income of less than £12,000. Higher income families refers to parents living on a yearly income of more than £30,000.
- ³ Daycare Trust (2011) *Childcare costs survey 2011*, Daycare Trust
- ⁴ Brewer, M and Joyce, R (2010) *Child and Working-Age Poverty from 2010 to 2013*, IFS Briefing Note 115, Institute for Fiscal Studies, Table 3.1, p 24
- ⁵ New Policy Institute and Save the Children (2011) *Severe Child Poverty Nationally and Locally*, Save the Children
- ⁶ Sinclair, S and McKendrick, J H (2009) *Child Poverty In Scotland – Taking The Next Steps*, Joseph Rowntree Foundation
- ⁷ Bradshaw, P and Wasoff, F (2009) *Growing Up in Scotland: Multiple Childcare Provision and its Effect on Child Outcomes*, Scottish Government
- ⁸ OECD (2010) *Gender Brief*, OECD
- ⁹ OECD (2011) *Doing Better for Families*, OECD
- ¹⁰ Children in Scotland (2011) *The cost of childcare in Scotland: a special report*, Children in Scotland
- ¹¹ Scottish Government (2011) *Child Poverty Strategy for Scotland*, Scottish Government
- ¹² Scottish Government (2011) *Pre-school and Childcare Statistics*, Scottish Government
- ¹³ Sinclair, S and McKendrick, J H (2009) *Child Poverty In Scotland – Taking The Next Steps*, Joseph Rowntree Foundation
- ¹⁴ HMRC (2011) *Child and Working Tax Credit Statistics*, HMRC
- ¹⁵ Centre for Economic and Social Inclusion and Save the Children (2011) *The Full Benefits of Universal Credit*, Save the Children
- ¹⁶ Department for Work and Pensions (2011) *The impact of Universal Credit*, Department for Work and Pensions
- ¹⁷ Family Action (2011) *Universal Credit: Marginal Returns? Investigation into the impact of the Universal Credit on Marginal Deduction Rates Shows it could hit Working Families*, Family Action
- ¹⁸ Centre for Economic and Social Inclusion and Save the Children (2011) *Full Benefits of Universal Credit*, 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.**

Claire Telfer
Policy and Advocacy Manager (Scotland)
c.telfer@savethechildren.org.uk
0131 527 8210

savethechildren.org.uk/scotland

Save the Children – Scotland
Prospect House
5 Thistle Street
Edinburgh EH2 1DF
Tel: +44 (0)131 527 8200
Fax: +44 (0)131 527 8201

September 2011

The Save the Children Fund is a charity registered in England and Wales (213890)
and Scotland (SC039570). Registered Company No. 178159



Save the Children