

# MAKING WORK PAY – THE CHILDCARE TRAP

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

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

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

Together we are calling on the government to increase the amount of financial support parents can receive to help pay for childcare.

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 FINDINGS<sup>1</sup>

The survey findings suggest that parents living in severe poverty<sup>2</sup> are struggling to access childcare more than other parents, particularly due to the high cost. This is undermining the UK 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 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 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 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 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 around 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. Daycare Trust’s annual survey of childcare costs shows that in 2011 childcare in England costs on average £97 per week for 25 hours of care for a child under two and £94 per week for a three- or four-year-old.

Analysis by the Organisation for Economic Cooperation and Development (OECD) shows that the UK has some of the most expensive childcare in the world. Save the Children and Daycare Trust 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 per week 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 and Daycare Trust strongly 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... 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.<sup>3</sup> Save the Children research shows that 1.6 million children are living in severe poverty.<sup>4</sup> 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:**

- 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 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. 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.

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 than families with incomes over £30,000.

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.<sup>5</sup>

## 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.

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).<sup>6</sup> Department for Work and Pensions modelling shows that more than a quarter of a million families will see their entitlement reduced under these options.<sup>7</sup> 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

The views of parents who responded to 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 focussed 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.

Save the Children and Daycare Trust believe that the 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 a week.<sup>8</sup>
- Over time, as the economic situation improves, increase this support so that it covers 100 per cent 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 per week for deprived two-year-olds in addition to 15 free hours per week for three- and four-year-olds – at the earliest possible opportunity and use effective outreach to ensure take-up is high.

## ENDNOTES

<sup>1</sup> The key findings 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> 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.

<sup>3</sup> 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.

<sup>4</sup> New Policy Institute and Save the Children (2011) *Severe Child Poverty Nationally and Locally*, Save the Children

<sup>5</sup> OECD (2011) *Doing Better for Families*, OECD

<sup>6</sup> Centre for Economic and Social Inclusion and Save the Children (2011) *The Full Benefits of Universal Credit*, Save the Children

<sup>7</sup> Department for Work and Pensions, 2011

<sup>8</sup> Centre for Economic and Social Inclusion and Save the Children (2011) *The Full Benefits of Universal Credit*, Save the Children

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**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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**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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