

# Paying the Price

## The childcare challenge

Executive Summary

March 2015

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## About this report

**This report is the third from Gingerbread's *Paying the Price* project, which runs until December 2015. The project examines single parents' experiences of the 'age of austerity' – the combined impact of a weak economy, public spending cuts and welfare reform on their families.**

**This report focuses on single parents and childcare, looking at access to childcare provision in recent years and the difference that future reform might make to single parents.**

**The report draws on data from online surveys, in-depth interviews with a longitudinal panel of single parents, national datasets and the Minimum Income Standard.**

**Stay up to date with the project:  
[www.gingerbread.org.uk/payingtheprice](http://www.gingerbread.org.uk/payingtheprice)**

## Acknowledgements

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We are also grateful to Donald Hirsch at the Centre for Research in Social Policy, Loughborough University, for producing the analysis of childcare support under universal credit used in this report.

And finally – most importantly – Gingerbread would like to thank single parents again for their continued participation in the *Paying the Price* project. Without their input, it would not be possible to conduct this work.

## About Gingerbread

We're the leading charity working with single parent families. Since 1918 we've been supporting, advising and campaigning with single mums and dads to help them meet their family's needs and achieve their goals.

## The childcare challenge

**Childcare is a vital part of single parents' lives. As the main carers of their children, many single parents rely on childcare to work and study, and deal with emergencies. Successive governments have made a commitment to make work pay, underpinned by a prevailing policy narrative that work is the best route out of poverty. However, the price of childcare means this is far from a reality for many single parents, with costs increasing well above wage and price inflation in recent years.**

While childcare costs have increased sharply in recent years (Rutter, 2015), single parents have been among the hardest hit by benefit cuts (De Agostini, Hills and Sutherland, 2014) and face a significant risk of low-paid and insecure work (Rabindrakumar, 2014). With childcare set to be an important battleground in the 2015 general election, it is imperative that we understand where single parents are still failing to get the childcare help they need to support their families.

The cut in state support from 80 per cent to 70 per cent of childcare costs in April 2011 undermined the government's commitment to make work pay. Parents moving from tax credits to universal credit will also lose additional support for childcare from other benefits such as housing benefit (Royston, 2014). After growing evidence of the detrimental impact these changes have had on incomes and work incentives for both single and couple parents, and increasing pressure for reform, there is now a growing cross-party realisation of the importance of childcare to help parents balance work and care, with each major political party putting forward different proposals to improve the childcare offer in the run-up to the 2015 general election.

The current government's proposal to help low income families is to increase state support to 85 per cent of childcare support – but only for new universal credit claimants, and only from April 2016. Analysis commissioned by Gingerbread for this report shows that while this move is certainly welcome, it still has its limitations<sup>1</sup>:

- The proposed additional support will have a significant impact on single parents' net incomes. And, inevitably, the gains in net income are higher as childcare costs increase (as determined by working hours, the age and number of children and average childcare costs).

**Net income gains:** A move from a 70 to 85 per cent childcare support rate will mean a single parent with average UK childcare fees, working full-time on an average (median) wage will gain:

- Just over £26 per week (£1,370 per year), with a child aged one
- Just over £37 per week (£1,950 per year), with two children aged one and four.

- But many – if not the majority – single parents will still not be able to receive a decent income even with the increased support, as measured by the Minimum Income Standard (the income needed to reach a living standard considered to be a minimum by members of the public). This is particularly the case for single parents with high childcare costs – for example, those in London, with pre-school

<sup>1</sup> In the analysis provided, full-time refers to working 37 hours per week and part-time refers to working 18.75 hours per week. A 'low wage' is defined as the lower quartile wage for all UK workers.

age children, or with several children – who will still struggle to meet a basic living standard even with their income gains. The shortfall in a decent income is particularly marked for those on lower wages.

**Reaching a decent income:** 85 per cent childcare support rate will mean a single parent with average UK childcare fees and working full-time will be:

- Just above the threshold for a decent income (MIS), with a child aged one, at a median wage (compared with over £24 per week short with a 70 per cent support rate)
- Nearly £12 per week short of MIS, with two children aged one and four, at a median wage
- Over £44 per week short of MIS, with two children aged one and four, at a low wage.

- Single parents working part-time use less childcare, therefore additional support has less impact for them in terms of net income or reaching a decent income. However, many will see improved work incentives – those paying average or low childcare fees will gain from moving from part- to full-time work with support for 85 per cent of childcare costs. But these incentives remain modest for those on low wages (largely due to the steep taper for withdrawing state support) – a single parent on the minimum wage paying an average childcare fee will be just over £1 a week better off for each additional hour worked. For those with young children in particular, this may not be a sufficient trade-off against time with children for working nearly 19 hours per week more (the additional hours modelled).
- Furthermore, those with high childcare costs will still not see improved incentives to increase their hours from part- to full-time working. This is principally caused by high childcare costs at full-time hours outstripping the cap on costs eligible for support. These losses are further exacerbated for those working on low wages.

**Work incentives:** A move from a 70 to 85 per cent childcare support rate will mean a single parent moving from part- to full-time work with two children aged one and four will:

- Gain around £37 per week (rather than £14), when working at the median wage, paying average UK childcare costs
- Lose around £36 per week, when working at the median wage, paying London childcare costs
- Lose around £53 per week, when working at the minimum wage, paying London childcare costs.

It is clear, then, that while the additional support is welcome and will solve childcare affordability for some single parents, for many it will still mean a shortfall in decent income or losses from increasing working hours (or both). The importance of meeting these ongoing challenges is further illustrated by new Gingerbread work with single parents and Department for Education childcare survey data, which shows:

- Single parents use a patchwork of formal and informal childcare in order to meet their needs – we found around a third of single parents surveyed used three or more different types of childcare providers during term-time
- With good quality and accessible childcare, 31 per cent of single mothers would work more hours, compared with 20 per cent of couple mothers; however, only 11 per cent of single parents surveyed said that childcare had not been a barrier to taking up work, while only 14 per cent said the same for taking up studying or training

- Single parents are more likely to rely on longer hours of childcare than couple parents, but less likely to be able to afford them: nationally, 38 per cent of single parents found it difficult to pay for childcare, compared with 23 per cent of couples; around half of single parents we surveyed said it had become harder to pay for childcare in the past two years
- Not only have childcare fees increased, but many single parents have also experienced ‘hidden’ increases such as new charges for meals and activities; many single parents are also struggling with up-front costs of childcare
- Single parents have attempted to manage these costs by relying more on informal childcare, reducing other outgoings, using savings and turning to self-employment; but these often carry their own risks and are often short-term solutions to childcare barriers
- The burden of childcare costs has had a significant impact on single parent finances – in the last two years, around two-fifths of single parents surveyed have had to borrow from family or friends to cover childcare costs, and a fifth have turned to formal lenders to manage payments (for example, using overdrafts or loans).

Many single parents are therefore struggling to access childcare; for some, prioritising childcare in order to work has actually meant further debts. For these families, improved support for childcare is urgently needed.

## Recommendations

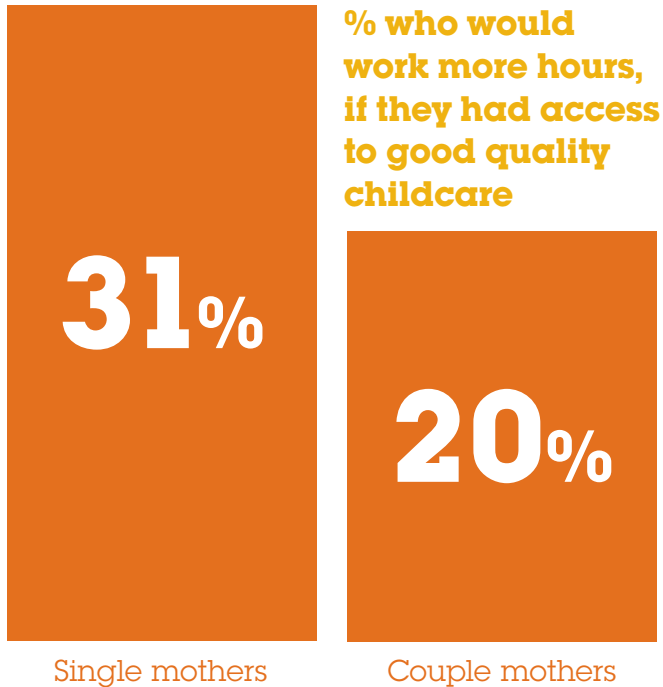
We want to see politicians deliver on the promise to make work pay, ensuring the problems faced by single parents for whom childcare remains a significant barrier to entering and progressing in work are resolved. With a new government in 2015 and a cross-party consensus on the importance of tackling the childcare challenge, now is the time to create a childcare system that works for all.

To this end, we would like to see the government:

- Prioritise childcare support for low income families:
  - The government should ensure low income parents receive additional support for childcare at the same time as higher income families (not on universal credit, in the form of ‘tax-free’ childcare), in autumn 2015
  - The government should ensure that, as universal credit is rolled out gradually, the extra support for childcare is provided simultaneously under both tax credits and universal credit to avoid unfair disparity within the welfare system.
- Revisit the cap: The government should raise the childcare cap, to ensure those who are faced with high childcare costs are not unfairly disadvantaged by the upper limit for state support and maintained at a level that means the value of maximum childcare support is not eroded over time. The cap could be moved to an hourly rate in order to minimise the potential for state support to be used for very expensive childcare covering only a few hours.
- Review childcare affordability and consistency: The government should review how proposed childcare reforms are working by autumn 2016. This review should test whether politicians’ promise to make work pay has been realised for all parents, across incomes, working patterns and childcare costs. It should also assess how the new ‘tax-free’ and universal credit pathways for childcare support interact with each other, and whether they offer a fit-for-purpose solution to the challenge of childcare affordability
- Recognise complexity of childcare payments within universal credit: The phased roll-out of universal credit provides an ideal opportunity to test improved support for up-front or fluctuating childcare costs.

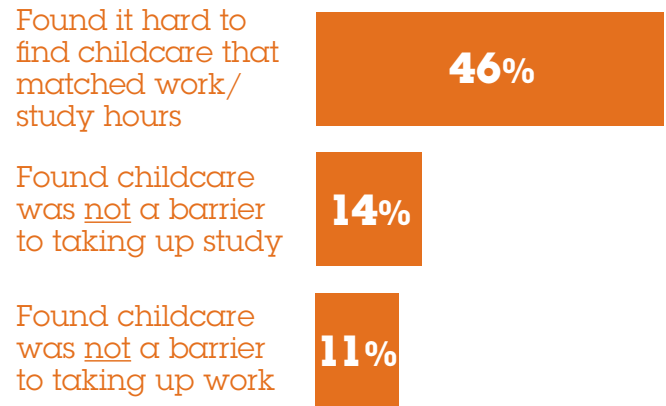
# The single parent childcare challenge

## Making work possible



## The childcare barrier

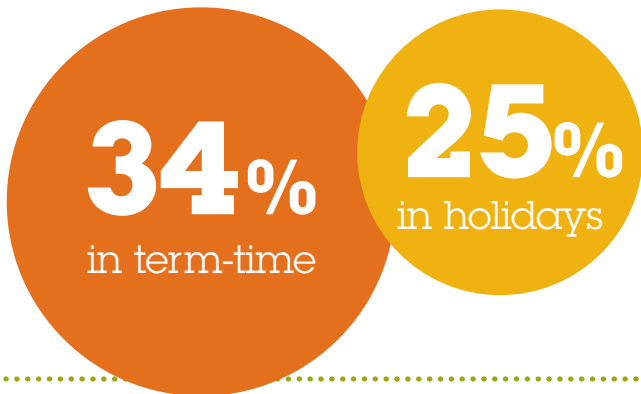
### % of single parents surveyed



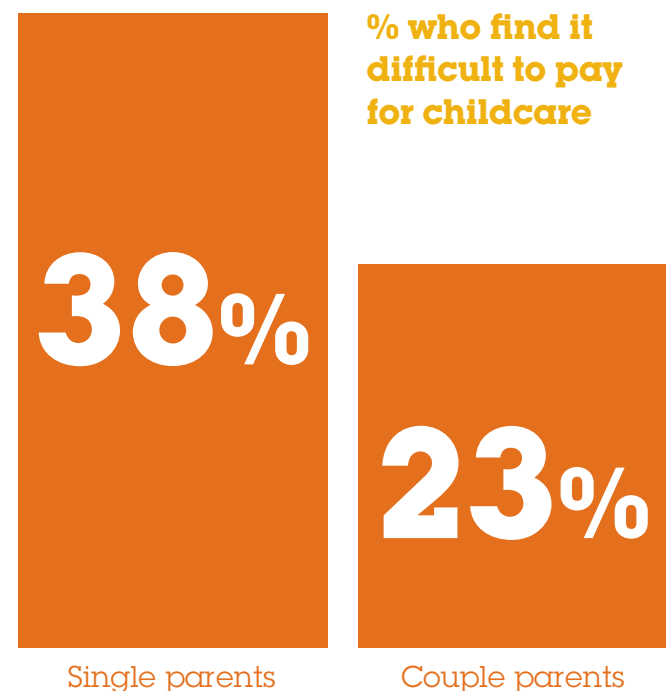
**“There is no way that I can break even, whether I work or not...I can be let go from the job at a week’s notice, but I’ll still be liable for six weeks of nursery payments.”**

## Patchwork of care

### % of single parents using at least three providers



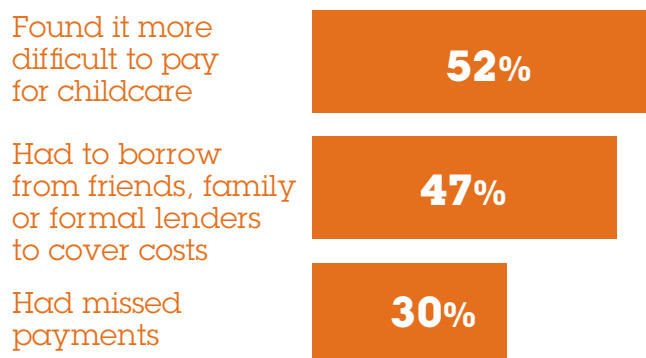
## Childcare affordability



## Childcare debts

### % of single parents surveyed

#### In the past two years:



# **Gingerbread**

Single parents, equal families

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