

## The real cost of childcare: The impact of childcare costs on child poverty

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### The cost of childcare

Recent research has shown the pressure that childcare costs puts parents under. Over the past decade, state support and wages have not kept pace with the soaring costs of childcare. Nursery costs for a two year old have risen by 33 per cent over the past five years.<sup>1</sup> Furthermore, particularly high costs in areas like London and the South East mean the value of state support with childcare costs is limited.

Childcare is now the most expensive item purchased by many families with young children.<sup>2</sup> Unsurprisingly, many are struggling to cope. Half of single parents surveyed said they had to borrow money from friends, family or banks to pay for childcare in the past two years.<sup>3</sup>

### The impact of childcare costs on child poverty

New research now also shows that families are not just struggling to pay for childcare – many are being pushed into poverty as a result of childcare costs.

The analysis, commissioned by Gingerbread and Child Poverty Action Group (CPAG) from Loughborough University, looks at child poverty after housing and childcare costs are taken into account,<sup>4</sup> and finds that:

- Paying for childcare pushes 133,000 children below the poverty line (after housing and childcare costs are taken into account) – the poverty risk for children in families paying for childcare increases by a third once childcare costs are taken into account (from 14.9 to 19.6 per cent)
- The majority of those pushed into poverty by childcare costs have high childcare costs (over £50 a week) – the poverty risk for children in these families triples once these costs are taken into account (from 8.6 to 23.2 per cent; see Figure 1)
- These figures are likely to underestimate the impact of childcare costs – the analysis suggests childcare has become prohibitively expensive for some families, as families were more likely to use unpaid informal childcare than previously (55.4 per cent of families used only informal/free childcare in 2008/09, compared with 58.5 per cent in 2012/13).

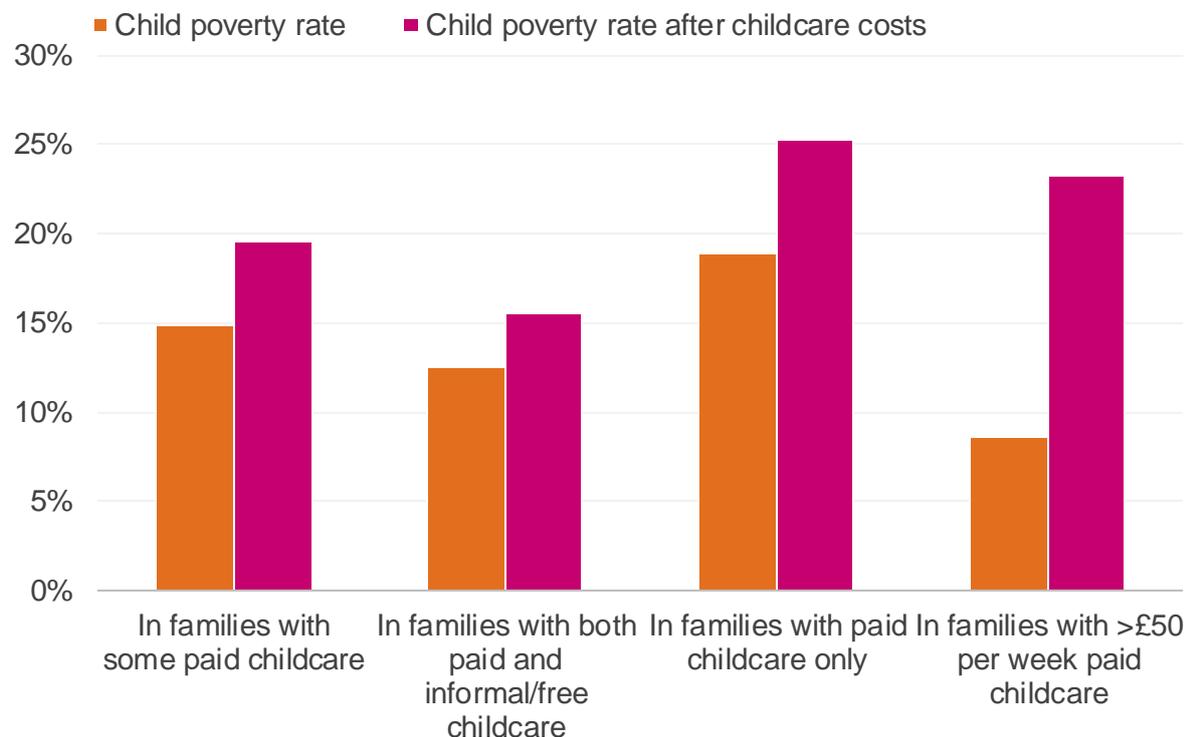
<sup>1</sup> Rutter, J. (2015) *Childcare costs survey 2015*. London: Family and Childcare Trust.

<sup>2</sup> Hirsch, D. (2014) *The cost of a child 2014*. London: CPAG.

<sup>3</sup> Rabindrakumar, S. (2015) *Paying the Price: The childcare challenge*. London: Gingerbread.

<sup>4</sup> Poverty is measured as having household income below 60 per cent of the median. Income is measured after taxes and benefits, and can also be measured net of certain costs. 'After housing costs' refers to disposable household income after deducting rent, mortgage payments, buildings insurance, ground rent and service charges. 'After childcare costs' also deducts the cost of childcare. All data based on the Family Resources Survey

**Figure 1 The impact of childcare costs on child poverty risks**



Source: Hirsch, D. and Valdez, L. (2015) [How much does the official measure of child poverty underestimate its extent by failing to take account of childcare costs?](#) Loughborough: Centre for Research in Social Policy.

### Helping low income families with childcare

The government has committed to increase support targeted at low income families by raising support from 70 to 85 per cent of childcare costs under universal credit, from 2016. This is a welcome move, reversing the cut in support in 2011 from 80 to 70 per cent of childcare costs under working tax credits.

Increasing childcare support to 85 per cent of costs will lead to urgently needed improvement in terms of income gains and better work incentives for many parents. For example, for single parents – at the acute end of childcare affordability, being disproportionately at risk of poverty and particularly reliant on childcare due to not being able to ‘shift parent’ as couples do – a move from a 70 to 85 per cent childcare support rate would mean:

- A single parent with a child aged one, paying average UK childcare fees (working full-time on an average wage) gains just over £26 per week; this is enough to reach a decent income, as determined by the minimum income standard
- A single parent with two pre-school children, who moves from part- to full-time work on the minimum wage, goes from losing £3 a week to gaining £20 a week.<sup>5</sup>

<sup>5</sup> The income needed to reach a living standard considered to be a minimum by the public.

There are concerns that the upper limit on childcare support provided by the state has not kept pace with the increase in costs; this means the full benefit of increased support will not be felt for those paying particularly high childcare costs (eg in London). Nevertheless, it is clear that there are real gains to be had from an increase to an 85 per cent support rate – both in terms of family income and making work pay. Ensuring childcare is more affordable will also enable greater access to formal childcare for those who find informal childcare unsustainable or unreliable<sup>6</sup>, making work more feasible.

This additional support will therefore play a critical part to ensuring that low income families seeking to balance work and family are not at further risk of poverty by escalating childcare costs.

## Recommendations

The commitment to increase support for childcare costs under universal credit is a positive step towards ensuring the affordability of childcare for low income families. However, few families will see this additional much-needed support for a number of years. The roll-out of universal credit to new claimants is on hold for at least a year for families.<sup>7</sup> Most parents on low incomes (ie those currently on tax credits) will be transferred onto universal credit last; the current estimate by the Secretary of State is for these claimants to have moved onto universal credit only by 2020.<sup>8</sup>

Furthermore, the proposal to increase the free hours' entitlement from 15 to 30 hours has no clear timetable for roll-out, with the government confirming it will take time to get the policy right. The hours as they are currently planned will also not help with holiday childcare, and still leaves childcare gaps for some age groups.

We are calling for the **urgent introduction of support for 85 per cent of childcare costs under tax credits:**

- Parents on low incomes cannot afford to wait a further five years before they access increased support – with some parents being forced to borrow to cover high childcare costs, they need additional support now to cover childcare costs and lift their families out of poverty
- Without this support, work is still unlikely to pay, particularly for low-paid parents and parents with very young children – raising childcare support through tax credits ensures additional support reaches children of all ages, and is targeted on those most in need and most likely to increase working hours as a result
- Without this support, an unfair two-tier system of childcare support for low income families will be introduced – those families who are in universal credit will receive support for 85 per cent of costs while those yet to be transferred will only receive support 70 per cent of costs.

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<sup>6</sup> Rabindrakumar, 2015.

<sup>7</sup> DWP (2015) [Housing benefit direct issue 157](#). Universal credit is open to new claimants with children in 96 out of 764 Jobcentre Plus offices.

<sup>8</sup> <http://www.ft.com/cms/s/0/d4e1dfa4-5a02-11e4-8771-00144feab7de.html>.

To ensure childcare support for low income families is fair and effective, we would also like to see:

- The cap on the maximum support provided raised to reflect the increase in average childcare costs in recent years
- A comprehensive review of childcare support, to ensure the system is fit-for-purpose in delivering affordable and good quality childcare.