

Transforming Childcare, Changing Lives: Making sure that work pays

How to maximise Universal Credit by reforming childcare

A position paper by the Centre for Social Justice

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About the CSJ

The Centre for Social Justice (CSJ) aims to put social justice at the heart of British society.

Our policy development is rooted in the wisdom of those working to tackle Britain's deepest social problems and the experience of those whose lives have been affected by poverty. Our Working Groups are non-partisan, comprising prominent academics, practitioners and policy makers who have expertise in the relevant fields. We consult nationally and internationally, especially with charities and social enterprises, who are the champions of the welfare society.

In addition to policy development, the CSJ has built an alliance of poverty fighting organisations that reverse social breakdown and transform communities.

We believe that the surest way the Government can reverse social breakdown and poverty is to enable such individuals, communities and voluntary groups to help themselves.

The CSJ was founded by Iain Duncan Smith in 2004, as the fulfilment of a promise made to Janice Dobbie, whose son had recently died from a drug overdose just after he was released from prison.

Managing Director: Christian Guy

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Foreword

Childcare has two key objectives: to support child development, and to support parents into employment thereby raising household incomes and building self-reliance. This report focusses on the latter of these two priorities. Universal Credit is an excellent start to removing barriers to work, and will transform many lives. Yet there is a need to tackle our broken childcare system if the full potential of these reforms is to be fulfilled. Childcare costs will hold people back from working unless they are brought under control. As the CSJ's research identifying the five pathways to poverty (family breakdown, educational failure, economic dependency, addiction and serious personal debt) emphasises, work is transformative for individuals, families and wider society. It is the surest route out of poverty.

The benefit system recognises this by placing an obligation on parents to seek employment when their youngest child enters school.¹ As the CSJ has long argued, the value of earned income and self-sufficiency extend beyond raising household income, individual well-being and self-esteem. Children raised in working households find it easier to find work in adult life, which in turn improves their life chances and prevents the damaging cycle of intergenerational worklessness.² Despite this, 1.8 million children live in workless households in the U.K.³

The Government's commendable efforts to make work pay for those on low-incomes cannot be undermined by the high cost of childcare which can act as a major barrier to working. This report calls for the Government to lead a 'supply-side revolution' in childcare provision.⁴ Many disadvantaged families find the cost of childcare provision prohibitive – currently not all parents find it financially worthwhile to get a job and pay for childcare.

In this paper, we make recommendations as to how policy makers could improve the affordability and flexibility of childcare, how they should help families find work in ways and at times that keep childcare costs low, and how they can support parents to find the economic balance between employment and childcare.

Christian Guy

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¹ Department for Work and Pensions, *Universal Credit: welfare that works*, London: HM Government, November 2010, p26

² 'Children growing up in workless households are more likely to experience worklessness themselves' in *ibid*, p37

³ Department for Work and Pensions, *Social Justice: Transforming Lives*, London: HM Government, March 2012, p5

⁴ Centre for Social Justice, *Dynamic Benefits*, London: Centre for Social Justice, 2009, p292

I. Childcare and the Centre for Social Justice

I.1. The childcare crisis

Parents – disadvantaged parents in particular – face a genuine challenge in balancing the desire and obligation to work with that of raising their children. In this paper, the CSJ analyses the economics of childcare, arguing that to counter this challenge, provision in the UK must be made more flexible, affordable and convenient in order to fulfill one of its most important functions – supporting parental employment.

The current crisis is this: childcare in the UK is expensive both for parents and government. Next year, the Government will spend £2.3 billion on childcare subsidy (the second highest in the OECD). Despite this, parents, particularly those on low-incomes, still struggle to find convenient, affordable childcare. While Universal Credit will make childcare more affordable, at current levels of cost and subsidy not all parents will find it financially worthwhile to combine work with paying for childcare because it remains so expensive. For parents to choose work, work must always pay. Without reform, for example, a single parent with three children who needs after-school care in order to take work will be 17p an hour worse off in work than out of it.⁵ The Government must ensure that paying for childcare does not deter parents receiving Universal Credit from working.

Additional spending on childcare subsidy, however, is unlikely to be the best use of public funds. For example, in large families the high cost of childcare may mean that the subsidy the Government is paying is larger than the wage being earned by the parent. In this situation, the Government would find it more economical to pay parents the minimum wage to look after their own children.

Given these challenges, policy makers should consider ways to make it easier for parents to work without needing formal childcare. This paper makes the case for improving access to extended schools and encouraging informal childminder networks in order to improve supply and reduce costs. Taking these steps is essential in order to make work pay for parents in low-wage employment.

These challenges go beyond childcare provision. If the aim is to encourage employment in low income areas, policymakers must tackle worklessness and negative attitudes to education and schools, alongside affordable childcare provision. A lack of demand for childcare is driven by low levels of employment and low levels of pay in deprived communities.

For the many families that depend on formal childcare to support their employment, we present a number of models that could improve the availability and affordability of childcare in the UK.

⁵ See pp24-25

Summary of recommendations

- The affordable childcare commission should aim to lower childcare costs to below the breakeven cost of childcare in order to ensure that work always pays for parents that have to combine work with formal childcare.
- The Government should ask childcare providers for core and consistent information on all forms of provision, including costs, pricing and occupancy in order to better understand demand and gaps in provision in local areas.
- The Government should consider a modest relaxation of childcare ratios during peak hours. This would increase the flexibility of provision for parents and increase incomes for providers without putting children at significantly greater risk.
- Schools should be encouraged and incentivised to offer regular childcare and after-school activities on the basis that extended schools offer low-cost options for childcare while also improving educational outcomes for the children who attend.
- Schools should be encouraged and incentivised to provide extended service by communicating the benefits of improved outcomes for the children who attend; and allowing extended schools access to childcare subsidy where their provision supports parents into employment.
- National and local governments must shorten the process of becoming a childminder to encourage parents to do so.
- The Government should encourage childminding circles in order to raise demand and lower costs for out-of-hours care (before 8 am, after 6 pm) organised in conjunction with the breakfast or afterschool club, or with Jobcentre Plus.
- Jobcentre Plus should discuss the option of becoming a childminder with parents on income support as they approach the point at which their youngest child reaches five years old.

Building on the CSJ's previous work on childcare⁶

Work is the principal route out of poverty. Accordingly, the CSJ's 2009 report *Dynamic Benefits* argued that childcare is a crucial aspect of supporting parents to return work, and that access must be increased for all. We called for a 'supply-side revolution' in childcare and for a review of the delivery and funding mechanisms for childcare support in the context of the proposals made in the report.⁷ We are pleased that the Government has already followed up on a number of our recommendations.

⁶ Centre for Social Justice, *Dynamic Benefits*, London: Centre for Social Justice, 2009, p292; Centre for Social Justice, *The Next Generation*, London: Centre for Social Justice, 2008, p21

⁷ Centre for Social Justice, *Dynamic Benefits*, London: Centre for Social Justice, 2009, p292

The CSJ's previous recommendations on childcare⁸

Increase appropriate access:

1. Allow supported childcare to be accessed by those working under 16 hours.
2. **Ensure supported childcare is economically sensible.** In a world where others are facing 70-80 per cent Marginal Tax Rates, we should not be subsidising some jobs in an economically inefficient way, while not supporting others. Providing a subsidy of £300 per week of childcare to someone who is earning £200 per week (35 hours at the minimum wage) is far from the most efficient investment to support employment.

A supply-side revolution in child-care:

3. We should establish a 'good enough' test for older children, while acknowledging that there is a strong case for more qualified care for younger children. **All Jobcentres should help** people to qualify as childminders – so as many local people as possible can be child minders, providing a service within their own communities.
4. We should **relax restrictions on eligibility to receive childcare payments**, and particularly give consideration to family members who are not part of the household (informal childcare). Other institutions such as community centres and sports clubs should be able to receive childminding payments when providing suitable care.
5. Childminding should be regarded as a form of self-employment. The childminder should not be seen as part of the informal economy. Tax and benefit breaks should be provided to the payer and not the provider of childminding services.

A review of delivery mechanisms:

6. Childcare is a separate discrete benefit paid to cover specific costs of working. It should be handled as such.

Calling for reform

We now re-issue this call to Government. New models of childcare provision exist which would support this revolution by reducing childcare costs both for the disadvantaged parents who depend on childcare and for taxpayers, without compromising on quality or children's outcomes.

These include:

- Giving providers a degree of flexibility over childcare ratios to improve the flexibility and availability of early years care (for example during peak times);
- Promoting the benefits of the extended schools model, to offer high quality and low cost childcare around school hours, while also improving attitudes towards education and work to raise demand in deprived communities;

⁸ Ibid

- Asking after school clubs and employment advisors to encourage lone parents to consider childminding as a career (where appropriate) to help lower their own costs and help with their own childcare needs, and helping to pool demand and lower cost by organising childminding circles in atypical hours.

Accordingly, this report is primarily focused upon how childcare can support families to move into sustained employment and out of poverty by looking at the interaction between the benefit system and parents who require childcare in order to work. It proceeds to explore the recommendations and ideas raised in earlier CSJ reports, supporting them with further evidence and analysis.

We welcome the Government's launch of the Affordable Childcare Commission on 19 June 2012, and its focus on how to reduce childcare costs for working families. We await the Commission's report due this autumn.

1.2. The objectives of childcare

Parents use childcare for an array of socio-economic reasons: to support child development, to encourage interaction with other children, to enable them to work, or, on occasion, to allow them time independent of their children.

From a policy perspective, childcare has two main objectives: to support child development and so improve outcomes in later life; and to support parents into employment and raise household incomes.

The benefit system recognises the importance of work by placing an obligation on parents to seek employment when their youngest child enters school.⁹ As the CSJ has long argued, the value of earned income and self-sufficiency extend beyond raising household income, individual well-being and self-esteem. Children raised in working households find it easier to find work themselves later on in life, which in turn improves their life chances and prevents the damaging cycle of intergenerational worklessness.¹⁰

1.8 million children live in workless households in the U.K.¹¹

Some families – particularly those on lower incomes – can, however, struggle to find the balance of working while paying for formal childcare. Many parents both want to raise their children and work, and often they need to work in order to support their family financially.

⁹ Department for Work and Pensions, *Universal Credit: welfare that works*, London: HM Government, November 2010, p26; Department for Education, *Intergenerational transmission of worklessness: Evidence from the Millennium Cohort and the Longitudinal Study of Young People in England*, Centre for Analysis of Youth Transitions and Institute of Education & National Centre for Social Research, September 2012

¹⁰ 'Children growing up in workless households are more likely to experience worklessness themselves' in *ibid*, p37

¹¹ Department for Work and Pensions, *Social Justice: Transforming Lives*, London: HM Government, March 2012, p5

Types of childcare provision

Early years childcare

Early years childcare has different objectives to the childcare for five to 15 year olds. The evidence highlighting the importance of the early years of a child's life in shaping their life trajectory is abundant and clear, as we highlighted in *The Next Generation*:

'At the point when children are most vulnerable, there is also the greatest opportunity to lay a good foundation for the future. What parents do really matters; the time they spend with their children can transform their lives for the better – they are intimately and intricately involved in shaping them, through their relationships'.¹²

Parents are currently entitled to 15 hours of free childcare support for three to four year olds for 38 weeks of the year, usually provided in a nursery setting. This is to be extended to 40 per cent of the most disadvantaged two year olds by 2014.¹³ The primary purpose of pre-school care is to improve children's long term outcomes through the provision of high quality early years education, while offering support to parents.

Wraparound care

Many parents work outside of school hours, and need childcare before and after school in order to do so. The state supports parents' choice to work by subsidising the cost of formal childcare, and the market provides options for provision. For children of school age (five to 16) this commonly takes the form of a breakfast or after school club.

Society quite rightly expects parents to seek work and earn a living in order to raise their family. Conditionality is applied within the benefit system based on the age of the youngest child. The age at which lone parents on income support are required to work has fallen progressively, from 16 in 2007 to five – the point at which children start school – today. Similarly, the benefit system places greater requirements on a couple household when the youngest child reaches primary school age.

Atypical hours

Childcare provided outside of normal working hours (8 am to 6 pm) may be provided by a childminder. Alternatively, informal care from friends and family may also be an option for parents looking for childcare support outside of school hours. Parents may often choose to combine formal childcare provision with informal support.

¹² Centre for Social Justice, *The Next Generation*, London: Centre for Social Justice, 2008, p24

¹³ Department for Education, 'Free entitlement to early education' [accessed via: www.education.gov.uk (August 2012)]

Case Study: Magic Breakfast¹⁴

Magic Breakfast is a member of the CSJ's Alliance of poverty fighting organisations. It delivers free, healthy breakfast foods through breakfast clubs in UK primary schools with more than 50 per cent of pupils on Free School Meals. Their breakfast clubs ensure no child arriving at school too hungry to learn is financially or socially excluded from accessing a healthy breakfast. Some families also use the breakfast club as affordable 'wraparound' childcare for parents, who otherwise may not be able to afford to go back into work or retraining, as the following story illustrates:

'We have one family, with four children who have struggled in the past to attend school regularly and have not been ready to learn. When mum decided it was time to go back to work after many years as a stay at home mother, she needed support with childcare. She couldn't afford a childminder and she needed somewhere that all four children could attend together. The children joined Breakfast Club and started to attend every day. They loved the food on offer and always came back for seconds. They now attend at least three days a week and their school attendance has improved considerably. Mum is now working and is able to support her family better both financially and emotionally as she is a much more confident person than she was 12 months ago.'

1.3. The regulation of childcare

As children grow older and become more autonomous, the regulation of childcare decreases. This is reflected in Ofsted regulation of childminders, which becomes progressively less onerous when they look after older children.¹⁵

Figure 2: An overview of regulations for childcare providers, by age of child

Age Group	Register	Minimum Staffing Ratios	Formal Childcare Settings
0 - 2 year	Early Years	1 : 3	Nursery; childminders*
1 - 2 years	Early Years	1 : 4	Nursery; childminders*
3 - 4 years	Early Years	1 : 8	Nursery; schools; childminders*
5 - 8 years	Compulsory Childcare Register	1 : 8	After school; childminders*
8 - 18 years	Voluntary Childcare Register	1 : 8**	After school; childminders*

* Childminders operate at typically higher childcare ratios, a maximum of 1:6 for children under 8.
** Staffing ratios for children over eight may be as high as 1:13 where there is a qualifying adult (i.e. a teacher) on site.

¹⁴ Magic Breakfast, *Case Study*

¹⁵ Department for Education, 'Statutory framework for the Early Years Foundation Stage 2012', 2012 [accessed via: www.education.gov.uk]

2. The State of the Nation

2.1. Who is affected by the childcare crisis?¹⁶

Families¹⁷

- 78 per cent of families with children use some form of childcare;
- Parents are as likely to use informal childcare as formal childcare;
- Lone parents are less likely to be in work and childcare is more likely to be a barrier;
- Many mothers want to work after having children, but seek work that lets them combine work and childcare. Many also feel financial pressure to return to work.

At current levels of cost and subsidy, while Universal Credit will make childcare more affordable for parents, not all will find it financially worthwhile to combine work with paying for childcare. The Government must ensure that paying for childcare does not deter parents receiving Universal Credit from working.

The vast majority of parents use or have used childcare¹⁸

78 per cent of all families in England with children aged below 15 years old have used some form of childcare. The type of childcare used varies: couple families, working families and higher income families were all more likely to use formal childcare than lone parents, workless families or low-income families. Importantly, the lower use of formal childcare by lone parents and low-income families is likely to be driven by higher levels of worklessness and the challenges of making work pay.

Family structure affects the childcare and employment choices available to mothers

The CSJ supports a system where families are given a ‘genuine’ choice over whether a parent stays at home in the early years to nurture their children. Part of this choice is enabling those who want to work, to do so. Evidently, family structure affects the childcare and employment choices available to mothers. It is important to recognise that the vast majority (92 per cent) of lone parents in the UK are mothers.¹⁹ 67 per cent of mothers in couples work, compared to 51 per cent of lone parents.²⁰ Only a

¹⁶ Evidence in this section was sourced from the Department for Education, *Childcare and early years survey of parents* (DFE-RR221), 2010

¹⁷ Department for Education, *Childcare and early years survey of parents* (DFE-RR221), 2010

¹⁸ *Ibid*, p8

¹⁹ Office for National Statistics, ‘Lone parents with dependent children’, 19 January 2012 [accessed via: http://www.ons.gov.uk/ons/dcp171780_251303.pdf (25/09/12)]

²⁰ Department for Education, *Childcare and early years survey of parents* (DFE-RR221), 2010, p190

small proportion, seven per cent, of couple families had no one in employment, compared to the 49 per cent of lone parents who were not in work.²¹

Figure 2: Childcare costs for lone parents and couples



The chart above shows that couples are typically entitled to (and do) claim a higher amount in childcare support (£94.47) than lone parents (£86.83). However, couples are also more likely to have higher earnings and are therefore liable to pay back a greater proportion of the childcare element claimed through tax credit / Universal Credit withdrawal. Thus the actual award for couples after tax credit and benefit withdrawal (£56.26) is lower than that for lone parents (£59.48).²²

Couples may use more, and are more able to afford, formal childcare than lone parents because they work more hours or have a higher hourly wage. They are also more likely to be able to share childcare responsibilities with their partner and combine this with formal childcare support.

Case Study: Kids' City²³

Kids' City, a CSJ Alliance member, is based in Lambeth and Wandsworth, London, including wards which are ranked among the ten per cent most deprived in the country. It provides wraparound care in the form of educational and recreational opportunities, for children outside of school hours and during the school holidays.²⁴

'Single mum Joanne has three children and works office hours. Her children are taken to school by a

²¹ Ibid

²² HMRC, Childcare Tax Credit Statistics 2010, Table 4.4: Families benefiting from the childcare element.

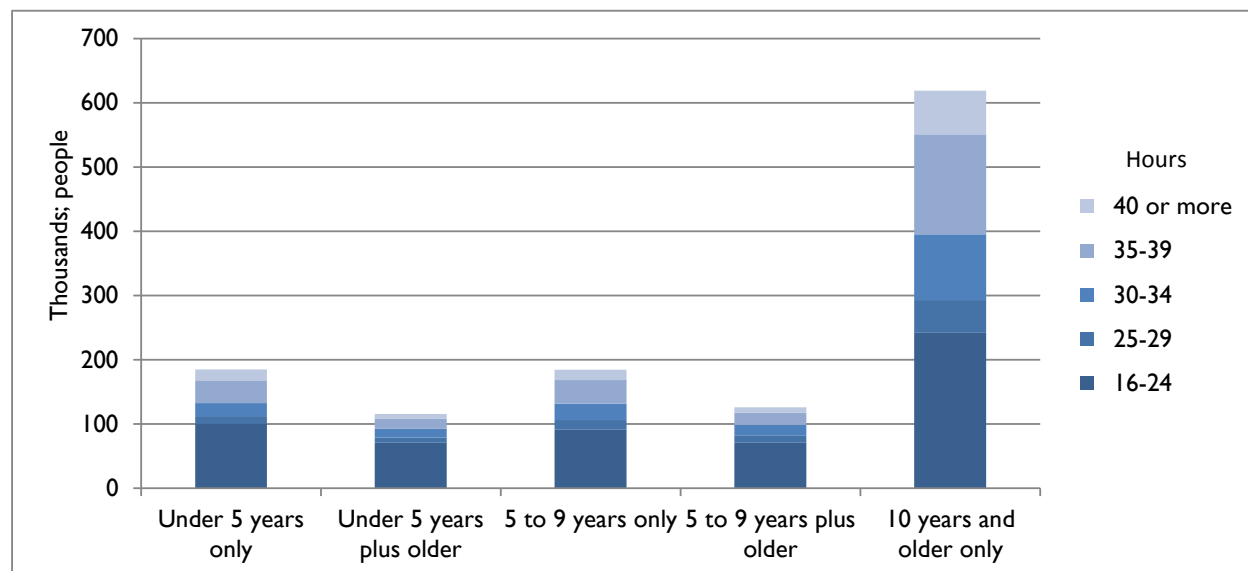
²³ Kids' City, Case Study; for further information see www.kidscity.org.uk

neighbour and stay at Kids' City's after-school scheme four days a week until 6 pm. The charges are £10.70 from end of school until 6pm per child, and Joanne relies on childcare tax credits to be able to pay these fees. Without the childcare and the support to pay the fees, this family would be unable to work and would have to depend on benefits. Joanne's children also attend the holiday play schemes.

She tells us that through the Kids' City services she feels that her children are having wide experiences and a lot of fun. She had felt guilty about having to use childcare, but now she is glad at how it enables her family to live.'

Lone parents are significantly more likely to work (and work more) if their youngest child is over the age of ten.²⁵

Figure 3: Weekly hours worked by in-work single parents, by age of child



This may be because childcare is likely to be less of a barrier to finding work as children get older. For example, older siblings may be able to look after younger siblings, while longer school hours and after school activities reduce the need for wraparound care. Alternatively, childcare may not be affordable for parents with more than one child making it difficult for those with young children to work outside of school hours.

Until recently, lone parents could claim income support if their youngest child was under 16. In 2008 this was reduced to 12, then ten, then seven in October 2010 and age five in 2012. The effects of this tighter conditionality on the ability of parents with children over five to work have yet to work through

²⁵ Ibid, Table 4.5: In-work single parents: hours worked and childcare

the system. Only three per cent of lone parents work fewer than 16 hours (compared to eight percent of mothers in couples) partly due to the '16-hours-rule' within tax credits.

Claimant commitment and conditionality for lone parents under Universal Credit²⁶

In order to claim Universal Credit, the claimant must agree to a 'claimant commitment'. This includes a commitment to 'actively seek', 'be available for' and 'accept' any reasonable offer of work.

For single parent households, the expectation to look for and take work is now applied when their youngest child reaches the age of five. Once their children are in primary school, their opportunities to work increase. They are expected to seek work part time (16 hours per week), in acknowledgment of their caring responsibilities. Under Universal Credit, they will be expected to earn at least 16 hours multiplied by the national minimum wage. This will be £99.04 from October 2012. However, the DWP does not expect single parents with children in primary school to seek work outside school hours.

Informal childcare plays an important role in the lives of parents and children.

38 per cent of parents used informal childcare in the past year, while the Daycare Trust found that in 2012, nearly half of all parents surveyed (47 per cent) used informal childcare, as opposed to under a third (31 per cent) who had used formal childcare.²⁷ The CSJ's research indicated that parents on low incomes, when given the choice between paid for and informal childcare preferred to use informal childcare.

- A Department for Education (DfE) survey found that 63 per cent of parents had used formal childcare and/or early years provision, and 38 per cent had used informal childcare in the past year.²⁸

Mothers enter work because they enjoy working, because of financial pressures and because they find a job that enables them to combine work and childcare.²⁹

- 37 per cent of mothers in work said they moved into work because they found a job that enabled them to combine work and children.
- 15 per cent said it was because of the mother's financial situation (e.g. their partner had lost their job).
- 23 per cent of mothers who increased their working hours did so because of financial pressures. Lone parents were more likely to cite financial pressures than those in a couple.

²⁶ 'Lone parents with children between five and 12, for example, will only be expected to look for work that is compatible with school hours.'; Department for Work and Pensions, Universal Credit Policy Briefing Note 11: Extending conditionality under Universal Credit, 2012, p3 [Accessed via: <http://www.dwp.gov.uk>]

²⁷ Daycare Trust, *Informal Childcare: Choice or Chance?*, 2012

²⁸ Department for Education, Childcare and early years survey of parents (DFE-RR221), 2010, p8

²⁹ Ibid, p195

16 per cent of parents surveyed said they regularly had to work atypical hours.

Of these, 27 per cent of mothers had difficulty finding childcare before 8am and after 6pm, and 20 per cent had difficulty on weekends. This is a particular challenge for lone parents – who do not always have a partner or second set of grandparents to provide informal care.

2.2. The childcare market³⁰

Providers³¹

- Providers tend to be small and local, with low levels of profitability;
- Schools are an underused option for childcare provision;
- Many providers have weak business and financial management capability;
- It is '*unlikely that the market will be able to cater for every need in an affordable manner*';
- Parents want childcare to be flexible and convenient, as well as affordable;
 - Flexibility accommodates variable shift patterns or care at short notice;
 - Convenience can mean proximity to home or work, or availability outside of typical work hours.

The formal childcare market is dominated by small suppliers.

The formal childcare market tends to be highly fragmented and dominated by small suppliers. This has remained the case despite some consolidation in recent years, aimed at reducing overheads and offering quality assurance to parents.

Childcare appears to be a local service with limited barriers to entry, but there is limited incentive for new providers as the sector is both low profit and highly regulated.

There is scope for schools to do more.

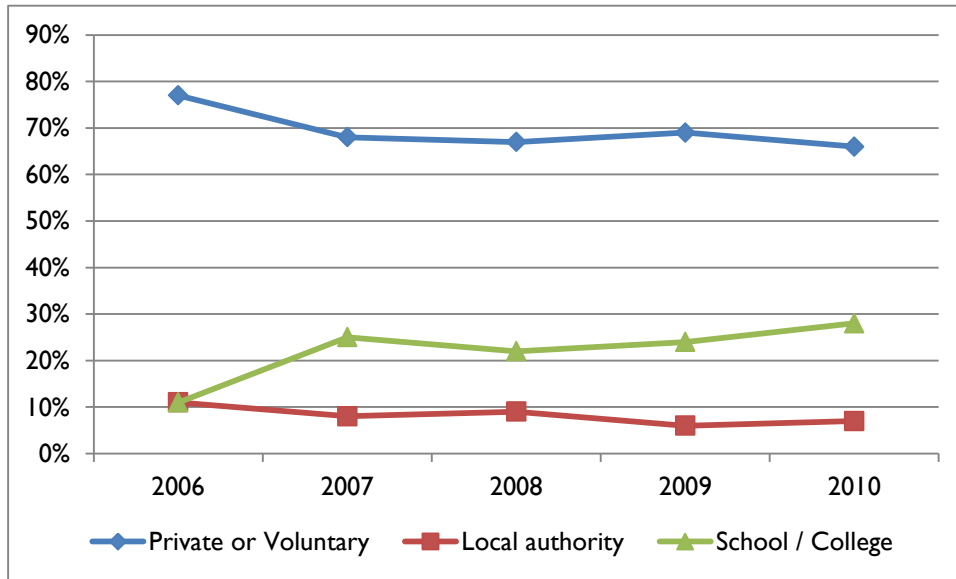
Schools are a growing, but still underused option for the provision of wraparound childcare. This is despite the fact that schools are generally trusted by parents, convenient and engender positive outcomes for young people.³²

³⁰ PWC for the Department for Education's Children's services, *The Childcare Market*, (RW73), 2006; Nottingham City Council (Malcolm Swift), *An introduction to the childcare business*, 2011

³¹ PWC for Department for Education's Children's services, *The Childcare Market*, (RW73), 2006; Nottingham City Council (Malcolm Swift), *An introduction to the childcare business*, 2011

³² Education and Training inspectorate, *An Evaluation of Extended Schools*, July 2010; DCSF / IPSOS MORI; *Extended schools survey of Schools, Pupils and Parents*, (DCSF-RR068), 2009

Figure 4: The provision of after-school clubs



Costs are largely driven by regulation and business models, rather than supply and demand.³³

Childcare costs are largely driven by regulation and business models, as opposed to supply and demand. Accordingly, increased supply will not necessarily lead to lower costs. Parents, however, may benefit from the increased competition and associated increase in choice, convenience, flexibility and availability of childcare locally.

The funding of childcare can be complex.

A headline subsidy figure of 70 per cent (currently paid through tax credits) is the main form of childcare subsidy, with parents paying the remaining 30 per cent of childcare costs. The subsidy is partly reclaimed from higher earners through the withdrawal of tax credits. Three other possible childcare provision subsidies exist:

- Subsidised by the local authority, as indicated by the cost of out-of-school childcare in some parts of London being lower than other parts of the country;³⁴
- Partially grant funded, or cross-subsidised, for example through the use of community premises;
- Employers can also subsidise childcare, through exemptions from tax and national insurance for childcare costs and employer-funded childcare vouchers, this primarily benefits higher earners.

³³ PWC for Department for Education's Children's services, *The Childcare Market*, (RW73), 2006; Nottingham City Council (Malcolm Swift), *An introduction to the childcare business*, 2011

³⁴ Daycare Trust, *2012 London childcare report*, p36

Supply and demand in the childcare market varies by region and locality, and is inconsistently assessed and understood.

Real demand (the number of hours that childcare is used and paid for) has in many cases not risen in proportion to supply – in some areas, supply outstrips demand.³⁵ This has tended to be in affluent areas, increasing choice for some parents and contributing to losses for some providers in the industry.

There remain low levels of formal childcare in deprived areas.³⁶ This is largely because there is less of a demand for childcare; fewer mothers are employed and in-work households tend to work fewer hours at lower wages.

Furthermore, the assessment of the childcare market differs between local authorities. Indeed they are said to have ‘very different approaches to assessing demand’; a number of local authorities find demand assessment unnecessarily onerous.³⁷

It is ‘unlikely that the market will be able to cater for every need in an affordable manner’.³⁸

Latent demand for childcare (the number of hours of childcare that could potentially be paid for) is complex. Parents want childcare to be flexible, convenient and affordable. Many parents, particularly those in entry level roles, need flexibility of provision, care at short notice, or childcare support outside of normal working hours because of varying shift patterns or atypical work hours. Proximity of care to the family home is another key factor in determining childcare choice.³⁹ Where childcare is available, it may be too expensive. Tackling affordability alone does little to tackle these problems of flexibility and convenience.

The direction of future demand is unclear.

The main drivers of demand for childcare remain unclear. The fertility rate, for example, has increased to 2.0 children per female, up from 1.8 in the period from 1975-2005.⁴⁰ A rising pension age may lower the effect of a retiring baby-boomer generation on informal childcare support.

The economy has a mixed impact on the demand for childcare. Rising unemployment in the short term would be expected to lower demand, while longer-term trends point to increasing involvement of mothers in the workforce, either through choice or through necessity as the cost of living rises.

³⁵ Nottingham City Council (Malcolm Swift), *An introduction to the childcare business*, 2011; Nottingham City Council, *Childcare sufficiency assessment 2011*, p6

³⁶ Ibid, p6

³⁷ Ibid; PWC for the Department for Education’s Children’s services, *The Childcare Market*, (RW73), 2006

³⁸ PWC for the Department for Education’s Children’s services, *The Childcare Market*, (RW73), 2006, p14

³⁹ Daycare Trust, *Improving our understanding of informal childcare in the UK*, 2012

⁴⁰ Office of National Statistics, *Births and Deaths in England and Wales*, 2010

3. Childcare Costs

Government⁴¹

- Local authorities do not have a consistent method of assessing local demand;
- Childcare in the UK is expensive by international standards, even after childcare subsidy;
- When childcare subsidy is greater than the parents' earnings from work, it is uneconomic and unlikely to be the best use of scarce public funds;
- Childcare subsidy is higher for families with many children, high childcare costs and low hourly earnings.

3.1. The cost of childcare support to the taxpayer

Childcare is expected to cost £2.3 billion in subsidy next year⁴²

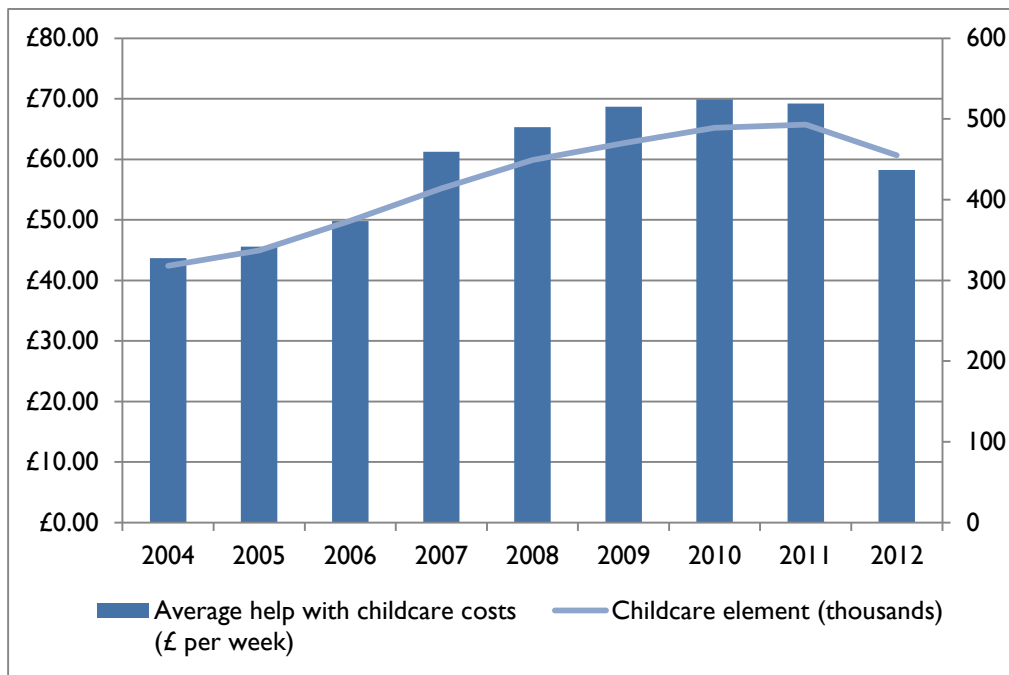
In 2012, 455,000 families were benefiting from the childcare element of working tax credit; they received an average of £58 per week to help with the cost of childcare.⁴³ Childcare costs rose steadily from 2004 to 2010, as more families became eligible and claimed support for childcare. The amount parents were able to claim also increased during this period.

⁴¹ OECD Family Database, *PF3.4 Childcare Support, 2004*; Nottingham City Council, *Childcare sufficiency assessment 2001, 2011*

⁴² Department for Work and Pensions, *Universal Credit Policy Briefing note 10 – Childcare, 2010*

⁴³ HMRC, *Personal Tax Credits: Provisional Statistics - Main Tables*

Figure 5: Help with childcare costs 2004-12



However, as part of the 2010 Spending Review, the Government reduced the subsidy within the childcare element in order to save an expected £320 million per year.⁴⁴

From April 2011, the childcare element of working tax credit fell from 80 per cent to 70 per cent of childcare costs incurred by parents. This drove the fall in the average amount claimed each week and the overall fall in claims.

Childcare support under Universal Credit⁴⁵

- Childcare subsidy will be available for households working any number of hours per week – removing the dangerous cliff edge currently holding parents back;
- It will cover 70 per cent of childcare costs, capped at £760 per month (one child), or £1,300 per month (two or more children);
- Childcare support will be claimed monthly, and most parents will submit childcare receipts online.

A higher level of childcare subsidy is unlikely to be the best use of public funds.

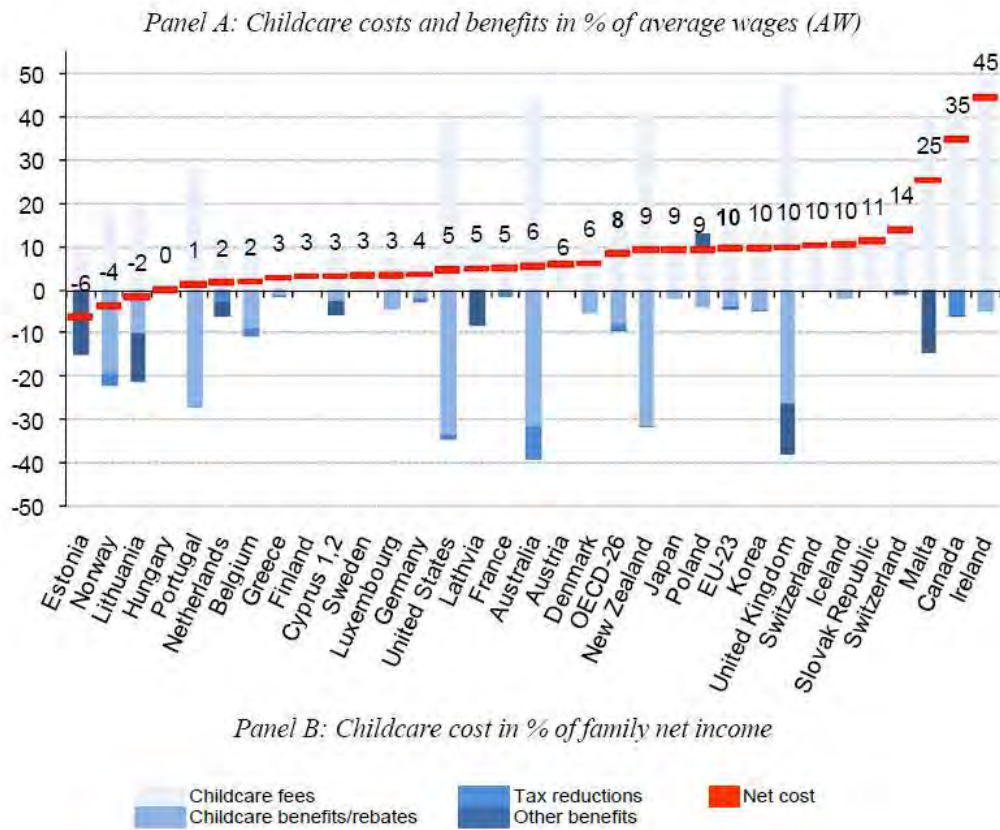
Childcare in the UK is expensive by international standards, which suggests that the UK offers poor value for money to both parents and taxpayers. International comparisons are important, and though

⁴⁴ HM Treasury, Spending Review 2010, November 2010

⁴⁵ Universal Credit Briefing Note

dated, the chart below shows that in 2004 the UK's cost of childcare (47 per cent of lone parent income) was higher than any other country in the OECD except Ireland.⁴⁶

Figure 6: Net childcare costs for a sole-parent family with full-time earnings of 67 per cent of the average wage, 2004



It also shows that despite the UK having the second highest childcare subsidies in the OECD after Australia, the net childcare costs to parents in the UK lie well above the OECD average. If the data holds today, then the Government should aim to reduce costs to the level of Germany (38 per cent) or even the Netherlands (28 per cent), in order to save money for both parents and taxpayers.

3.2. The economics of childcare subsidy

Parents who use formal childcare in order to work face a different set of choices to parents who don't need formal childcare support. Decisions regarding work depend on the childcare options available to parents. Such choices can change within the same family, depending on the hours of work, for example whether they are working within or outside of school hours.

Childcare costs increase the 'opportunity cost' of working

⁴⁶ OECD, OECD Family Database PF3.4: Childcare Support, July 2010

'The cost of working for an hour when your children are out of school is so much higher, because it is time to get the homework done, time to prepare and share meals.'

Parent, in evidence to the CSJ

Parents who have to pay for formal childcare while they are at work find that, in economic terms, they face a higher 'opportunity cost' than when childcare is not needed (during school hours), or provided free of charge (informal childcare).

Opportunity cost

The opportunity cost for a parent working during school hours is low, because they would otherwise be looking after the home.

However, the opportunity cost for a parent working outside of school hours is considered to be higher. It includes the financial cost of paying for formal childcare plus the social cost of not being able to spend time with and raise their child(ren).

The economic and social benefits of work need to be balanced against the economic cost of paying for childcare, and the social cost of not being able to raise your children.

An effective and affordable system of childcare support should recognise that different families face different choices when deciding between work and childcare.

Additional childcare expenditure may be uneconomic

If childcare costs were to rise, they would make entry level roles uneconomic. Indeed in Greater London where childcare costs are over £5.06 per hour, the Universal Credit childcare subsidy is equal to 57 per cent of the national minimum wage.⁴⁷

Figure 7: The cost of childcare and amount of childcare subsidy per hour across the UK

Regional childcare costs	Hourly care costs (£)	Subsidy (£)	Subsidy as % of NMW (%)
Minimum (Staffordshire)	2.25	1.58	25
Median (Somerset)	3.65	2.56	41
Maximum (London)	5.06	3.54	57
Childcare Subsidy > Min. Wage	9.00	6.30	102

If childcare costs rose to £9.00 per hour, it would be cheaper to pay the parent the minimum wage to look after their child

If childcare costs were to rise significantly, and reach £9.00 per hour then the level of childcare subsidy would be greater than the amount earned through working at the national minimum wage.

⁴⁷ Regional cost of Childcare (Family Investments Childcare Affordability Report June 2012)

It is not difficult to imagine that even at current levels of childcare costs, if the parent has two or more children in need of childcare then the level of childcare subsidy would be higher than the amount the parent was going to earn at work.

These short-term costs need first to be fully understood before they can be weighed against the purported longer term economic and social benefits of work. Longer term benefits may include higher household incomes and higher lifetime earnings (through higher female participation in the workforce) and fewer children growing up in workless households. There may also be important impacts on children's outcomes depending on the quality of childcare provision used.

The costs of childcare and the level of subsidy must also be considered in the Government's conditionality regime for Universal Credit. If parents are obliged to seek and take work outside of school hours, then childcare has to be affordable and leave families financially better off.

However, there will be a point at which the Government has to ask whether this is the best use of public money. Additional subsidy may not only be unaffordable, it may also be uneconomic and not constitute value for money.

3.3. Childcare costs under Universal Credit

The CSJ made the case for welfare reform and Universal Credit in our 2009 report *Dynamic Benefits*.⁴⁸ Universal Credit is intended to simplify the benefit system and make work pay, and its introduction is essential to fixing our current over-complicated and broken welfare system.

We also argued in our report *Breakthrough Britain* that 'clear work expectations must be attached to the receipt of benefits for people who can work'.⁴⁹

*'Lone parents should actively seek, or prepare for, work for 20 hours when their youngest child reaches 5, and full-time (30 hours whilst their children are of school age) when their youngest child reaches 11. Whilst their youngest child is below the age of 5 they should spend between 5 and 10 hours a week preparing for work.'*⁵⁰

Lone parents are now expected to look for work when their youngest child reaches the age of five. This section looks at the financial incentives for parents that combine low wage work with formal childcare under the Universal Credit regime.

⁴⁸ Centre for Social Justice, *Dynamic Benefits*, London: Centre for Social Justice, 2009

⁴⁹ Centre for Social Justice, *Breakthrough Britain: Economic Dependency and Worklessness*, London: Centre for Social Justice, 2007, p7

⁵⁰ Centre for Social Justice, *Breakthrough Britain: Economic Dependency and Worklessness*, London: Centre for Social Justice, 2007, Centre for Social Justice, *Breakthrough Britain: Economic Dependency*, p8

Figure 8: The cost of childcare (per hour) to parents and taxpayers⁵¹

Type of provision	Cost of childcare (£)	Taxpayer pays 70% (£)	Parent pays 30% (£)
Early-years care	3.58	2.51	1.07
After school care	2.60	1.82	0.78
Childminders (agency)	4.19	2.93	1.26
Informal childcare	2.00	1.40	0.60

The table above shows what a parent has to pay for the four main types of childcare. As already mentioned, parents cover 30 per cent of the total cost of childcare, while taxpayer subsidy covers the remaining 70 per cent.

The survey notes that informal childcare often also has a financial cost, for example transport costs. These costs are often borne by the carer, who may benefit from and want to take on the childcare role. We model the same 30 per cent share of costs for informal care in order to acknowledge this cost. We also assume that childminders and informal carers are able to look after multiple children at no additional cost.

The table below shows the ‘take home pay’ for parents on the national minimum wage (£6.19) that are claiming Universal Credit, and the ‘breakeven cost of childcare’.

Breakeven cost of childcare: where the parent’s share of childcare costs (30 per cent) is equal to the increase in their take home pay after tax and benefit withdrawal.

Figure 9: Hourly take home pay for parents on Universal Credit, earning the national minimum wage (NMW)

Earnings (NMW=£6.19)	Take home pay (£)	Breakeven cost of childcare (£)
After Universal Credit (65%)	2.17	7.22
After Tax, NI and UC (76%)	1.49	4.95

After an initial period where earnings are disregarded (the parent keeps 100 per cent of their earnings alongside their Universal Credit award) the parent faces an effective tax rate of 65 per cent as Universal Credit is withdrawn. On the minimum wage this means their take home income increases by £2.17 per hour.

Once the parent earns above the personal tax threshold (currently £8,105 per annum) and national insurance threshold (£146 per week) they pay income tax and national insurance, and then have

⁵¹ Department for Education: Childcare and Early Years Survey of Parents (2010), Table 5.4: The amount the family is paid per hour, by provider type.

Universal Credit withdrawn against net earnings. This is equivalent to an effective tax rate of 76 per cent. This means their take home income increases by £1.49 per hour.

Recommendation:

The affordable childcare commission should aim to lower childcare costs to below the breakeven cost of childcare in order to ensure that work always pays for parents that have to combine work with formal childcare.

Under Universal Credit work will always pay. However, the following scenarios show how without reforming childcare and so reducing costs, some families could still lose out.

Scenario A

A lone parent earning the minimum wage of £6.19 an hour may work 25 hours a week and earn below the income tax and national insurance threshold (£8,105 per annum). She would take home £2.17 per hour after her Universal Credit was withdrawn from her earnings.

Figure 10: The impact of work on take home incomes for parents that combine work with childcare (UC withdrawal)

Type of provision at 65% withdrawal	One child (£)	Two children (£)	Three children (£)
National Minimum Wage	6.19	6.19	6.19
No childcare costs (i.e. school hours)	2.17	2.17	2.17
Early-years care	1.09	0.02	-1.06
After school care	1.39	0.61	-0.17
Childminders	0.91	0.91	0.91
Informal childcare	1.57	1.57	1.57

For her, work will always pay when the hours of work mean that she does not need to pay for childcare – when her children are in school, for example. However, at current childcare costs, current level of childcare subsidy (70 per cent) and expected rates of tax and Universal Credit withdrawal, 'work pays' for parents on the minimum wage (£6.19) with one child, but the financial rewards from work become tenuous for parents with two or more children.

Scenario B

The table below illustrates the impact of childcare costs on a higher earning lone parent, earning £10.00 per hour and working 30 hours a week (£15,000 per annum). She would face a higher effective tax rate of 76 per cent on her gross earnings, but would also be better able to afford the additional cost of childcare because of her higher hourly earnings.

Figure 11: The impact of work on take home incomes for parents that combine work with childcare (Tax, NI and UC withdrawal)

Type of provision at 76% withdrawal	One child (£)	Two children (£)	Three children (£)
Lone parent on £10.00 per hour	10.00	10.00	10.00
No childcare costs (i.e. school hours)	2.40	2.40	2.40
Early-years care	1.33	0.25	-0.82
After school care	1.62	0.84	0.06
Childminders	1.14	1.14	1.14
Informal childcare	1.80	1.80	1.80

Note that this analysis does not take into account the additional income from earnings disregards, or any other additional costs of work such as travel.

There are a number of ways that childcare could be made more affordable for parents under Universal Credit:

- Parents may be able to find work during school hours, or use free informal childcare;
- Parents may find higher paying work, or see an increase in the minimum wage;
- The Government could increase the level of childcare subsidy, or lower the tax rate, national insurance rate or the rate of Universal Credit withdrawal;
- Alternatively, the childcare providers could find new, lower cost models of delivery.

Section four of this report goes onto explore lower cost models of childcare provision.

4. The Balance between Work and Raising Children

The CSJ argues that, where possible, people should be helped to become economically self-reliant and that work is the surest way out of poverty. As already mentioned, the Government needs to ensure that childcare provision assists that process rather than obstructs it, and that it helps parents strike a balance between the need to provide for their family and to bring up their children.

Particularly in the very early years of a child's life, most parents prefer to spend more time with their children, but, as children grow up, the balance shifts.

'88 per cent of parents and 82 per cent of adults thought that more should be done to help parents who wish to stay at home and bring up their children in the early years (this was consistent across socioeconomic groups ABC1 and C2DE).'

'97 per cent agree that the Government should do more in this area.'⁵²

There are calls to raise the female labour market participation rate. This is a positive shift – women want and should have the choice to work. However, it is important that this remains (to the extent possible) a choice for families to determine for themselves.

The policy objective of a higher female participation rate needs to take into account the economic and social costs to parents, where work means being unavailable to raise their children. It is concerning when calls to raise female participation in the labour market propose it as a solution to the problem of rising living costs, without taking these social costs into account. The German system of *Betreuungsgeld* (a monthly payment to parents who do not use formal childcare) is designed to take into account the costs (to the parents and the state) of using formal childcare. It has been criticised for lowering female labour market participation rates, though polling indicates that this is what parents want to do when given the choice.⁵³

The UK childcare system should take into account both the economic and social costs of choosing work, namely that parents have to work and pay for another person to look after their child.

Parents who opt for childcare often prefer to use informal childcare. They would much prefer to leave their child with a trusted family member (one-third of all parents rely on the care of a grandparent) or a close friend, and prefer this to all forms of formal childcare support.⁵⁴

Parents want to leave their children with somebody they know and trust. It is important that the childcare system does not undermine parental responsibility for deciding upon who looks after their children. A risk averse and overregulated childcare system would undermine this.

An effective system of childcare regulation and support must recognise and respect that parents see raising their children as a family responsibility, and help families balance this with the responsibility to provide.

⁵² Centre for Social Justice, *The Next Generation*, London: Centre for Social Justice, 2008, p24

⁵³ The Economist, *German Family Policy: Pay to stay at home*, August 2012 [accessed via: <http://www.economist.com/node/21554245>]

⁵⁴ Daycare Trust, Informal Childcare Seminar, verbal evidence to the Centre for Social Justice

5. The Childcare Business⁵⁵

In order to understand the cost and affordability of childcare, it is important to understand cost drivers, and how they vary for different types of childcare provider.

However, the ‘business’ of childcare provision is not always well understood. Financial management within childcare providers was described as ‘relatively unsophisticated’; from a range of sources including national / local reviews of childcare and in primary research.⁵⁶

- There is limited understanding or awareness of the core business drivers within childcare. Very few childcare providers consistently record critical management information on costs and occupancy rates, and do not know their breakeven occupancy levels at different price points.⁵⁷
- Pricing that fails to take the cost of provision combined with a poor understanding of profitability and occupancy rates have led to losses within the industry as grant funding has been withdrawn and profitable ‘clients’ have been lost to other providers.⁵⁸

It is imperative that childcare providers need to understand their costs and cost drivers. Understanding these drivers allows us to understand the minimum price that the childcare provider can charge (per hour) without making a loss.

Blended Wage	The average hourly wage for staff. It is calculated by dividing the wage bill by the total hours worked for a given period (weekly, monthly, annually).
Staff: Other costs	Total staff costs as a proportion of total costs. For a typical nursery, staff costs are between 60 per cent – 85per cent of total costs.
Staffing	A ‘full time equivalent’ of total staff hours worked for all staff for a given period (weekly, monthly annually)
Occupancy	The total number of childcare hours offered at full capacity for a given period (weekly, monthly, annually).

Despite the modelling being relatively simple, very few childcare providers consistently record this critical management information, with managerial and financial skills described as ‘somewhat variable’. Few local authorities request this information, and they tend to have varying approaches to assessing demand.⁵⁹

A further explanation of the modelling is available upon request.

⁵⁵ Further explanation of the modelling is available upon request

⁵⁶ PWC for the Department for Education’s Children’s services, *The Childcare Market*, (RW73), 2006; Nottingham City Council (Malcolm Swift), *An introduction to the childcare business*, 2011

⁵⁷ Nottingham City Council, *An introduction to the Childcare Business*, 2011, p10

⁵⁸ Ibid, Ch3

⁵⁹ PWC, *The Childcare Market*, 2011, p37

Recommendation:

The Government should ask childcare providers for core and consistent information on all forms of provision, including costs, pricing and occupancy in order to better understand demand and gaps in provision in local areas.

However, from the existing data there appears to be inconsistent demand for after school clubs, reflecting earlier comments about parents wanting a flexible childcare option that enables them to combine after school clubs with work, or with formal childcare.

- 86 per cent of parents said that they did not use these after school activities as childcare;
- 74 per cent of pupils attend after school activities only once or twice a week;
- 16 per cent of parents said their child uses before-school activities, one in five parents say their children attend before-school activities five days a week.

5.1. Early years provision

The primary policy objective of early years provision is to improve children’s long term outcomes through the provision of high quality early years education. Parents also use it to help them return to work, with many parents working part time or flexible hours rather than in full time employment. Parents may use paid for childcare alongside the existing free childcare offer and informal childcare to help them to return to work.

However, providers have to operate fixed childcare ratios and maximise occupancy in order to make a profit while keeping prices low.

Figure 12: An overview of regulations for childcare providers, according to the age of the child

Age Group	Register	Minimum Staffing Ratios	Formal Childcare Settings
0 - 2 year	Early Years	1 : 3	Nursery; childminders*
1 - 2 years	Early Years	1 : 4	Nursery; childminders*
3 - 4 years	Early Years	1 : 8	Nursery; schools; childminders*
5 - 8 years	Compulsory Childcare Register	1 : 8	After school; childminders*
8 - 18 years	Voluntary Childcare Register	1 : 8**	After school; childminders*

* Childminders operate at typically higher childcare ratios, a maximum of 1:6 for children under 8.

** Staffing ratios for children over eight may be as high as 1:13 where there is a qualifying adult (i.e. a teacher) on site.

The maximum occupancy for an early years provider is typically 85 per cent, with many running at lower levels overall.⁶⁰ Providers find it difficult to fill gaps in occupancy, for example when children leave early in the day or when a child leaves it can take time to fill the space. Providers may run at 100 per cent during peak hours (and days) but at a lower level the rest of the time.

⁶⁰ Nottingham City Council (Malcolm Swift), *An introduction to the childcare business*, 2011; p11

Case Study: Rosemount⁶¹

Rosemount offers childcare services in Glasgow for children from six months to five years old. It also offers classes for parents including English language courses, employment related training, family support and respite care, and a fathers group.

Figure 13: An overview of Rosemount's cost base

Rosemount	Places	Weekly cost (£)	Hourly cost (£)	Cost to parents (£)
Up to age 2	12	120.00	2.67	0.80
Age 3	15	110.00	2.44	0.73
Age 4+	16	110.00	2.44	0.73

Rosemount reported that very few parents want care five days per week; they prefer to use free informal childcare where possible. This can cause them (and other childcare providers) problems. For example, Wednesdays are a particular problem as three-day working patterns and college courses often clash on Wednesdays. Rosemount do their best to accommodate this, matching up parents that want care on different days but they sometimes struggle to do so.

Recommendation:

The Government should consider a modest relaxation of childcare ratios during peak hours. This would increase the flexibility of provision for parents and increase incomes for providers without putting children at significantly greater risk.

Childcare providers' overhead costs are fixed, therefore any flexibility over allowed childcare ratios during peak times would lead to an increased supply of childcare places. This would offer greater flexibility to parents and higher profitability for the provider.

The table below indicates that childcare provision for three to four year olds subsidises the cost of provision for younger children. The median cost data indicates that providers rarely charge a rate that reflects the cost of provision.

⁶¹ CSJ Poverty Fighting Alliance: Rosemount Lifelong Learning, Interview: August 2012

Figure 14: The modelled costs of nursery childcare provision

Early-years provision	Modelled cost (£)	2010 median cost (£)
60 Place Daycare (Nottingham)	3.58	4.22
CSJ Alliance member	4.05	2.67
Nursery Provision (Under two)	5.97	3.61
Nursery Provision (2 Years old)	4.48	3.61
Nursery Provision (3-4)	2.24	3.61

Source: The CSJ Alliance member’s blended staff costs for a nursery were £7.45 per hour and staff costs were two-thirds of total cost. The same cost data was used to model Nursery provision. The staff : children ratio was adjusted using childcare ratios. The daycare centre used real data obtained from Nottingham City Council with 3.1 children per staff member modelled at 75 per cent occupancy. Ofsted childcare ratios, applied at 75per cent occupancy were used to model Nursery provision. The data for Rosemount was obtained in a telephone interview and indicates that the modelled cost of delivery, £4.05, is higher than the actual cost charged to parents, £2.67.

Many childcare providers have an hourly cost that is higher than the income from the service. One CSJ Alliance member had a cost per hour of £4.05, when the revenue was £2.44 per hour. Frequently, childcare providers can afford this by cross-subsidising childcare options through grants, alternative subsidies and charitable support to help to keep the cost of childcare provision low. Others lower their costs by using low-cost (or free) community premises or funding core costs through alternative funding sources.

5.2. Wraparound provision and extended schools

Before and after school clubs have two objectives: to support parents into work and to improve outcomes for the children that attend. For example, the Extended Schools Initiative was intended to expand the provision of wraparound care and combine it with worthwhile activities that improved outcomes for children. Schools would offer, or signpost parents to a ‘core offer’ of extended school services from 8am to 6pm, 48 weeks of the year.

- 70 per cent of schools offer childcare before school starts (breakfast clubs);
- 86 per cent of schools offer childcare after school, (falling to 12 per cent after 6pm);
- 88 per cent of parents are aware of after school activities and childcare services provided by their child’s school.⁶²

⁶² Education and Training inspectorate, *An Evaluation of Extended Schools*, July 2010; DCSF / IPSOS MORI; *Extended schools survey of Schools, Pupils and Parents*, (DCSF-RR068), 2009

The DfE recently reduced levels of ring fenced funding for schools, which allowed teachers greater control over their budgets. This has effectively ended the ‘prescribed’ Extended School programme, but schools still have the freedom, funding and flexibility to offer extended care and activities if it is considered worthwhile.

Extended schools are a popular and low cost form of wraparound care. Parents and teachers said that they improved the ‘social and inter-personal skills of the pupils’; pupils made positive comments about a range of activities and clubs, including IT, Drama, Science, Technology and Design, Mathematics and Sports.⁶³ Extended schools also have among the lowest hourly cost of provision, and children of lower income parents are often able to attend free of charge.

Figure 15: The modelled costs of ‘wraparound’ childcare provision

Wraparound provision	Modelled cost (£)	Parent pays (£)	2010 median cost (£)
Breakfast Club (Magic Breakfast)	1.29	0.50	2.59
After school provision (BLGC)	2.14	0.50	2.60
Extended Schools (Ephraim)	1.71	0.70	2.33
Extended Schools (Model)	1.57	0.50	2.60

Source: Breakfast club costs were modelled using data from ‘Magic Breakfast’; after school provision from speaking with Ephraim After School Nursery in Peckham and the extended schools model is based on data from the IPSOS MORI report.

A majority of parents and pupils rate the childcare and activities provided by their school positively.

- 67 per cent of pupils rate the activities available outside lesson times as good;
- 60 per cent of parents say the services meet their needs.⁶⁴

The parents of primary school children (22 per cent) are more likely than their secondary school counterparts (eight per cent) to benefit from being able to work while the children were involved in after school activities.⁶⁵

Yet despite the fact that extended schools appear to offer a convenient, high quality and low-cost childcare option for parents, they appear to remain an underused childcare option. The data is unclear as to whether this is because of a lack of demand for services, or undersupply leaving unfulfilled latent demand.

One-third of the schools surveyed said they were providing the core offer. However, the most recent statistical release by the DfE found that the ‘percentage of schools offering access to extended services

⁶³ Education and Training inspectorate, *An Evaluation of Extended Schools*, July 2010

⁶⁴ Ibid, p8

⁶⁵ Ibid

by local authorities ranged from 89 per cent to 100 per cent'.⁶⁶ The proportion of school children that take up the extended schools offer is also unclear. A recent cost benefit analysis commissioned by the DfE failed to record the occupancy levels of the extended schools surveyed.⁶⁷

'Through attending the technology and design booster class, I want to be entered for the higher tier paper at GCSE rather than the foundation tier. This will help me in future career.'

'Through the mathematics booster class I was I was able to raise my grade in GCSE mathematics from a D to a C. I learned a lot useful techniques through completing past papers at the class and you were able to ask the teacher about any aspect you did not understand.'⁶⁸

Demand

There appears to be inconsistent demand for after school clubs, reflecting earlier comments about parents who want a flexible childcare option that enables them to combine an after school club with work, or with formal childcare.

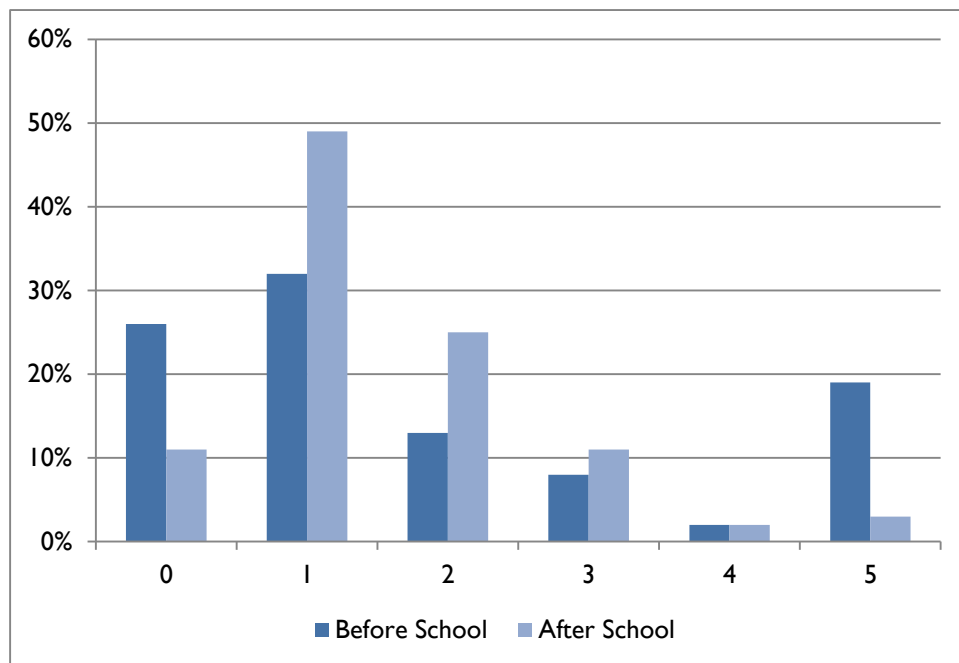
- 86 per cent of parents said that they did not use these after school activities as childcare;
- 74 per cent of pupils attend after school activities only once or twice a week;
- 16 per cent of parents said their child uses before-school activities, one in five parents say their children attend before-school activities five days a week.

⁶⁶ Department for Education, Statistical Release: Percentage of schools providing access to extended services as at June 2010, 2010

⁶⁷ RR582

⁶⁸ Students quoted in Education and Training inspectorate, *An Evaluation of Extended Schools*, July 2010

Figure 16: Before and after school clubs: days attended



Recommendation:

Schools should be encouraged and incentivised to offer regular childcare and after school activities on the basis that extended schools offer low-cost options for childcare while also improving educational outcomes for the children who attend.

Pupils from deprived backgrounds are less likely to use extended services, with a lower proportion of children receiving Free School Meals using the service than the average.⁶⁹ Parents say that their children opt out because they do not want to do the activities, and a similar proportion of pupils say there are no clubs or activities that they like. Cost is the third reason given, but parents on low incomes are often able to attend free of charge.

Case Study: YPAC Manchester⁷⁰

YPAC offer a project-based work and after school club specifically aimed at children from lower income backgrounds. In evidence to the CSJ, they said that the young people they work with were less likely to use extended schools. They mentioned the cost and distance of the school from their home but focused on the fact that many of the young people they worked with did not particularly like school and

⁶⁹ DCSF / IPSOS MORI; *Extended schools survey of Schools, Pupils and Parents*, (DCSF-RR068), 2009, p

⁷⁰ CSJ Poverty Fighting Alliance: YPAC Manchester Youth Project, Interview: August 2012

did not want to go there.

'Estates like ours need a youth club on their doorstep, we deliver aspirational and issue-based work that engages young people who might otherwise be roaming the streets or otherwise disengaged. The young people we work with come from families with three generations of low educational achievement, some of their parents work but not that many, and they cannot see how spending more time in school will help them in life. YPAC engage young people and help them to see beyond their community and learn skills they otherwise wouldn't be able to access.'

Supply

A survey of extended schools found that higher levels of funding and clear information to teachers about the value of extended schools would increase demand. Simpler information for parents about the offer and making it available consistently five days a week, even though few parents need them on all five days, would also help.⁷¹

Case Study: Ephraim after school club

An overview of the service

Ephraim offers care for children from the ages of six months to up to primary school age. They offer wraparound care (breakfast club, after school clubs, Saturdays and holidays) in partnership with a free school in Peckham. They are expanding their services for children up to age 15 as they can see increased demand from local schools, inward migration and through their partnership with Jobcentre Plus.

They believe that the regulation of childcare discourages schools from offering their own provision. They improve their quality care and lower their cost of provision by having a trained teacher on site, which raises the childcare ratio they can operate to 1:13. This helps to compensate for being over-staffed at other times of the day and in their care for younger children. They charge £35 per week (£2.33 per hour) for their after school club which offers 'Movie Monday', sports activities, languages, art, science, dance and homework support for a range of subjects. The users of the club come from both low income and better-off households, but better-off households are more likely to be in work.

They pay to use school premises, but at a reasonable cost as the service is delivered as a partnership. The manager of the centre had a firm grip on the business model and said that she was not in it for the money, rather to make a difference in children's lives.

⁷¹ DCSF / IPSOS MORI; *Extended school: Testing the delivery of the core offer*, (DCSF-RW037), 2008, p10

Recommendation:

Schools should be encouraged and incentivised to provide extended service by communicating the benefits of improved outcomes for the children who attend; and allowing extended schools access to childcare subsidy where their provision supports parents into employment.

5.3. Childminders

Childminding tends to suit people who enjoy working with and caring for children, and want a flexible source of income. They offer a flexible option to parents, with many offering support at short notice, or to parents with atypical working hours. The CSJ is interested to understand why more out of work parents did not register to become childminders, and why there was not greater demand for childminder services. We looked at the path to becoming a childminder, and the returns to the childminder once they were registered.

Becoming a childminder

Childminders can be on either the compulsory childcare register, or the voluntary register. The compulsory childcare register allows the childminder to care for children under the age of eight. The voluntary childcare register offers a more simple registration process for childminders who only want to look after children over the age of eight.

Becoming a childminder, on either register, is a relatively simple and inexpensive process, but can take some time. It takes three months to register through an agency and can take ten months to register through the local authority that we spoke to. Childminders said that this delay was the most frustrating aspect of the registration, more so than cost or complexity, and that others who had applied became distracted by other opportunities in the interim.

Recommendation:

National and local governments must shorten the process of becoming a childminder to encourage parents to do so.

The returns from being a childminder can be relatively low. Childminders typically look after one to three children, with the service becoming more affordable as the number of children increases. A childcare ratio of 1:3 is quite low considering that after school clubs for example run on a 1:8, or even a 1:13 ratio.

Figure 17: The modelled costs of childminder and informal childcare provision

Childminders (5-18)	Modelled cost (£)	Agency cost (£)	2010 median cost (£)
- One Child	6.25	9.25	4.19
- Two Children	3.13	4.63	4.19
- Three Children	2.08	3.08	4.19
- Four Children	1.56	2.31	4.19
- Five Children	1.25	1.85	4.19
- Informal Childcare (1 / 2) Children	1.00	2.00	1.67

Source: Interview with a childminder and a childminding agency. Independent costs assume no marketing, premises or administration costs while the agency costs do take these costs into account (one-third of the total cost).

The higher agency costs shown cover the costs of marketing and administration that the agency has to bear. Independent childminders may bear these costs themselves, for example providing premises or food free of charge, which can effectively lower their income to below the minimum wage.

If there was sufficient demand for formal childcare outside of wraparound provision, then pooling childminder resource in a location would be a simple business (e.g. Jobcentre Plus) if demand were there and stable.

'I would typically look after one to three children, I haven't looked after more, and four would be my limit because I am being paid only a little above the minimum.'

Lorna Achampong, a registered childminder in evidence to the CSJ

Recommendation:

The Government should encourage childminding circles in order to raise demand and lower costs for out-of-hours care (before 8 am, after 6 pm) organised in conjunction with the breakfast or after school club, or with Jobcentre Plus.

The introduction of Universal Credit in October 2013 will introduce higher earnings disregards for lone parents. This means that they will be able to earn a certain amount alongside their benefit. Registering as a childminder may be an appropriate option for some lone parents who are looking to re-enter the labour market. They would be able to supplement their income while helping other lone parents to also work, and combine registered childcare with caring for their own children.

Recommendation:

Jobcentre Plus should discuss the option of becoming a childminder with parents on income support as they approach the point at which their youngest child reaches five years old.

6. Conclusion

The Government has a clear responsibility to help remove barriers to work. Universal Credit is an excellent start and will transform many lives. Yet there is a need to tackle our broken childcare system if the full potential of these welfare reforms is to be reached. Childcare costs will hold people back from working unless they are brought under control. At present, such is the cost of childcare that it is often not economically worthwhile for parents to take jobs at the National Minimum Wage. This is despite the fact that the UK has the second highest level of childcare subsidy in the OECD; indeed, even with this subsidy, the net childcare costs to parents in the UK lie well above the OECD average.

To address this imbalance the Government must set about reforming the supply of childcare to ensure that costs are reduced for both parents and taxpayers – this need is particularly urgent in a time of great public and private debt. Such reform would help make work pay and, vitally, give parents an opportunity to find their own balance between working and raising children.

In 2009, the CSJ called for an urgent ‘supply-side’ revolution in childcare; today the need for that revolution is more urgent still.⁷²

⁷² Centre for Social Justice, *Dynamic Benefits*, London: Centre for Social Justice, 2009, p292