

Upfront: a childcare deposit guarantee

Introduction

The high cost of childcare in London is locking many single parents out of paid work. On average, a single parent in London will spend about half their income (after housing costs) on a nursery place for a child aged under two.¹ And childcare costs in London remain over a third higher compared to other parts of the country. The pressure persists as children enter school, with only nine per cent of local authorities in England having enough after-school places for children in primary school.² The high cost and lack of provision during school holidays, can create an additional barrier for parents to move into work or remain in work.

There is clear political consensus of the importance of providing affordable and accessible childcare to tackle child poverty, support children's development and support parental – and in particular maternal – employment. And yet despite this consensus, provision remains patchy, quality variable and costs are so high that they often prohibit parents from entering employment and / or increasing their hours.

Access to high quality and affordable childcare is already a prominent issue being addressed by London's Mayoral candidates. Based on new analysis by Gingerbread as well as concerns raised by single parents themselves, the following highlights some of the challenges that single parents face in entering paid work or increasing their hours. In this work, we focus primarily on childcare costs for pre-school aged children. This is the area where single parent employment rates tend to be the lowest and there is scope to increase them if more affordable childcare was accessible.

This briefing will highlight the specific affordability challenge in London for single parents. We present evidence that the high cost of childcare contributes to locking single parents out of the labour market who want to work and / or increase their working hours. Constraining choices for these parents is a loss to families, the economy and society.

To address some of these challenges, we propose that the next mayor takes action by developing *Upfront: a childcare deposit guarantee*.

Designed to support parents about to start a new job or increase their working hours, *Upfront* would help parents arrange care for their children ahead of their first pay cheque, with the Greater London Authority (GLA) directly paying the deposits nurseries and childminders typically require. Many single parents tell us finding the money for the initial upfront cost, often a month's fees in advance, can be hard – especially when they have not yet been paid. For some, it tips them into the red. Others tell us they have been forced to turn down work as they can't afford the deposit needed to line up childcare until they have had their first pay packet through.

¹ Gingerbread analysis based on DWP (2013) [Households Below Average Income, 1994/95-2011/12](#). 7th Edition. Colchester, Essex: UK Data Archive. SN: 5828 and Family and Childcare Trust annual childcare cost surveys. Childcare costs based on part-time nursery costs (25 hours)

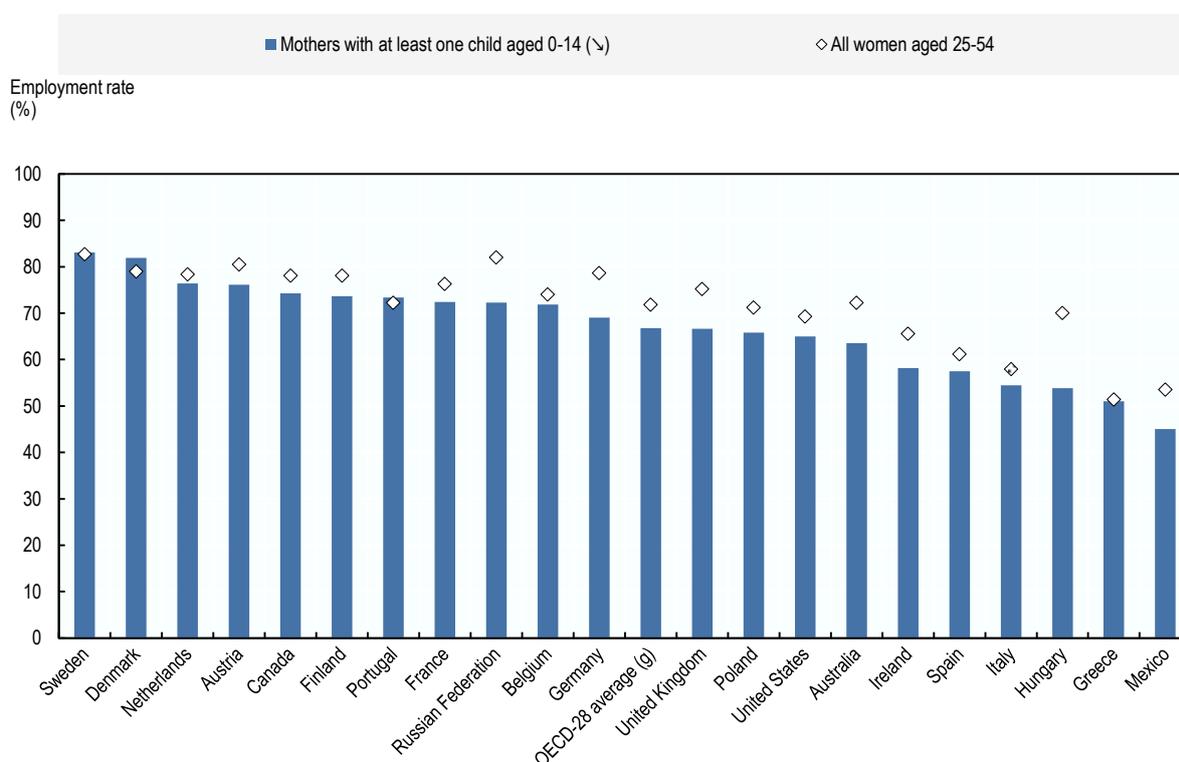
² Rutter, J (2016) [Childcare costs survey 2016](#). London: Family and Childcare Trust

The Mayor could provide direct support to parents to help them fulfil their potential and contribute to London's vibrant economy.

The cost of childcare in London is locking single parents out of paid work

With mothers making up 90 per cent of single parents, ensuring this group can access work is critical. Evidence suggests that maternal employment rates are higher overall when there is more affordable childcare.³ Figure 1 shows that countries generally have higher female employment rates compared to maternal employment rates. In those countries where there is universal childcare provision, the gap between female and maternal rates is a few percentage points, compared to countries like the UK where it is closer to ten percentage points.

Figure 1: Female and maternal employment rates, selected OECD countries 2013.



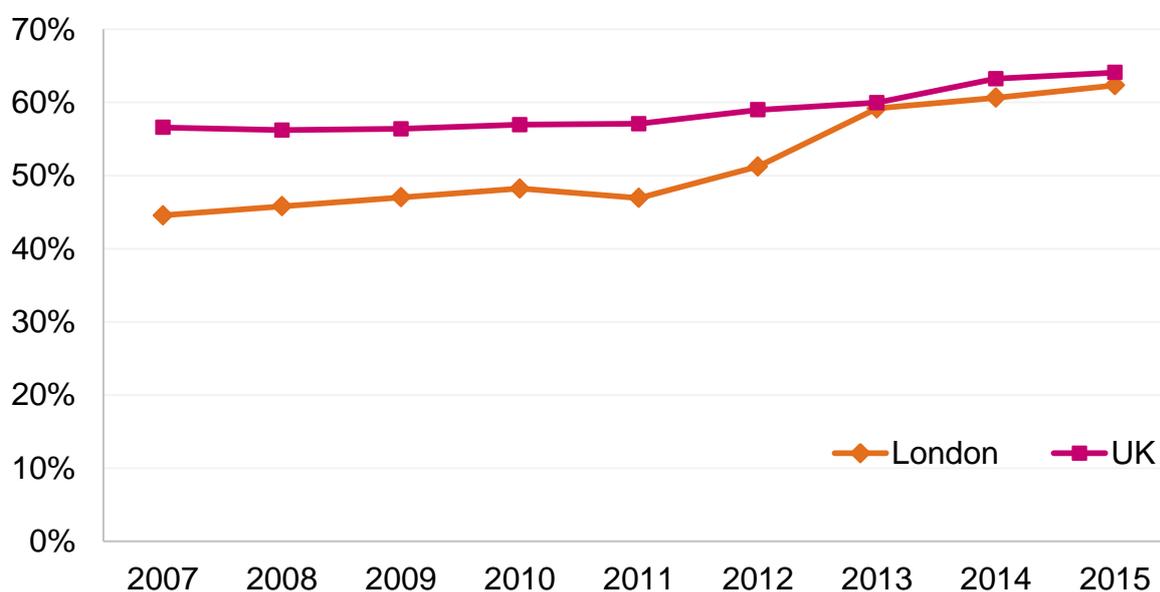
Source: adapted from chart LMF 1.2.A [OECD Family database](#)

Over the last five years, single parent employment rates in London have risen much faster than elsewhere in the UK, from 48 to 63 per cent, and by 18 percentage points since before the recession began in 2007 (Figure 2).⁴

³ From a survey of the international literature, 'affordable childcare' – the price parents pay – is defined as between 10-15% of disposable family income. See Thompson, S. and Ben-Galim, D. (2014) [Childmind the gap: Reforming childcare to support mothers into work](#). London: IPPR.

⁴ Gingerbread analysis ONS (2015) [Quarterly Labour Force Survey Household Dataset, April-June 2015](#). Colchester, Essex: UK Data Archive. SN: 7817

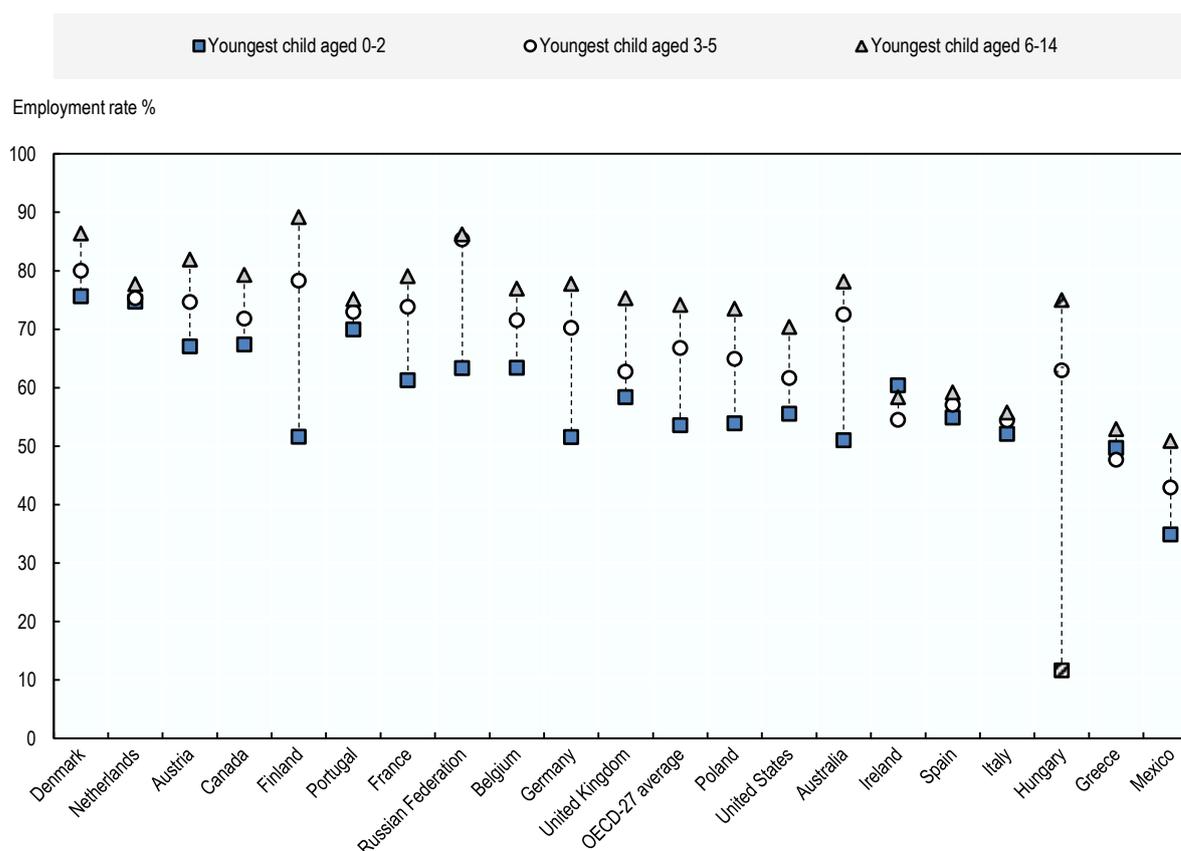
Figure 2: Share of single parents in work, 2007-2012
(aged 16-64 years, April-June)



But similar to the overall trends, the age of youngest child has a significant impact on single parent employment rates (see Figure 3 for comparable figures internationally). The share of single parents in work drops steeply for those with pre-school children in London from 63 to 49 per cent, lagging behind the maternal employment rate for those in couples (58 per cent).⁵ Although full-time single parent employment rates in London are above average compared to the rest of the country, they are still relatively low compared to couple parents and by international comparison, indicating that there is scope to increase them. And London's single parents have the lowest part-time employment rate in England (31 per cent) which in part can be explained by high childcare costs.

⁵ Gingerbread analysis. ONS (2015)

Figure 3: Maternal employment rates by age of youngest child, 2013



Source: adapted from chart LMF 1.2.C [OECD Family database](#)

There are of course a range of factors to consider when exploring this relationship such as parental preferences, the structure of the labour market and access to flexible work. In London there are additional factors such as longer commuting times, less support from extended family available and fewer opportunities to access part-time work. The availability and affordability of childcare has proven to be an important variable in explaining this difference.⁶

Childcare costs in London are higher compared to other area in Britain. The latest data published by the Family and Childcare Trust shows that the cost of a place in London is about a third higher compared to the rest of Britain. For example, the average parent in London will pay £158.73 a week for a part-time nursery place for a child aged under two, compared to £116.77 for the 'average' parent across Britain. Over the course of the year, a London parent will pay a total of £2,182 more.⁷ And this pattern is consistent for other forms of childcare such as childminders.

So it is not a surprise that childcare is the most expensive item purchased by many families with young children.⁸ For single parents the challenge can be more acute. Single parents in London with children aged under two are often spending around half their take home pay on childcare.⁹ Gingerbread research has also shown that half of single parents surveyed said they had to borrow money from friends, family or lenders to pay for childcare in the past two years.¹⁰ When asked about how they managed childcare costs one single parent responded:

⁶ Thompson, S. & Ben-Galim, D. (2014)

⁷ Rutter, J. (2016)

⁸ Hirsch, D. (2014) [The cost of a child in 2014](#). London: Child Poverty Action Group

⁹ Gingerbread analysis based on DWP (2013)

¹⁰ Rabindrakumar, S. (2015) [Paying the Price: The Childcare Challenge](#). London: Gingerbread.

“Credit union loan, go without other things, beg childminder.”

And another said

“Due to heavy nursery costs when my daughter was [in] pre-school I have massive debts which I am in a debt management programme to pay off.”

There is clear demand to increase employment rates for single parents from single parents themselves. Repeated surveys show that many single parents want to work and / or increase their working hours, but that the cost of childcare is a significant barrier alongside the lack of flexible work. Our analysis shows that in 2015, one in six single parents (16 per cent) in London was under-employed – that is, working part-time when they wanted full-time work.¹¹ Government research echoes this: findings for the Department for Education show that 31 per cent of single mothers would work more hours if they had access to good quality and accessible childcare;¹² and the latest report from the Social Mobility and Child Poverty Commission reveals that “57% of working-class parents and 40% of middle-class parents would have liked to work more hours but their perception of the cost of childcare was a deterrent.”¹³

And this is indeed what parents tell Gingerbread.

“I had to give up a really good job because of childcare and have since turned down a job offer a couple of times... Balancing childcare and getting the right job is really quite challenging.” (Liz from Greenwich)

“If I want to go back to work full time I would I have to pay nursery costs but for me it's too expensive. It would cost me £1,580 per month, so I only paid for two days per week, and will only be returning to work part-time. Even then I have had to borrow money from my family for childcare, as it still costs me £700 per month.” (Mila from Enfield)

“I was considered a high-earner on £35,000 but because of London-waiting I missed out on tax credits and other benefits... I've also had to look at other career options because of the fact that I previously worked in hospitality, where there's a complete lack of flexible-hour roles.” (Gwyneth from Wandsworth)

“So I've scaled back my hours to 20 hours per week because I know what financial implications of having to work 9-5 mean in terms of childcare... I also know that come the six-week school summer holidays I'm going to have to give up my job because I will not be able to afford the childcare costs.” (Ife from Southwark)

There are other benefits for individuals, families and society in focusing on increasing maternal employment rates. For example:

- Maternal employment can have a positive impact on maternal well-being which is linked to good child development.¹⁴ Paid employment has been shown to support an improvement in mental well-being of single parents – especially aligned to a supportive policy environment.¹⁵

¹¹ Gingerbread analysis. Source: ONS (2015)

¹² Huskinson, T. et al (2016) [Childcare and early years survey of parents 2014 to 2015](#). Table C9.9. London: DfE.

¹³ Gulc, B. & Silversides, K. (2016) [Parents' experiences of services and information in the early years](#). London: Social Mobility & Child Poverty Commission.

¹⁴ Harkness, S. (2012) *The Influence of Employment on Depression: A Study of British Single and Partnered Mothers*, Bath: University of Bath.

¹⁵ Harkness, S. & Skipp, A. (2013) [Lone Mothers, Depression and Work](#). London: Nuffield Foundation

- Work is still deemed to be the best route out of poverty. In the three years to 2013/14, over half of children in single parent families in London were living in relative poverty.¹⁶ Estimates that relative child poverty in single parents families is likely to almost double and previous gains be wiped out by 2020/2021¹⁷ only add to concerns.
- And there is a significant financial return to the Exchequer in terms of benefit savings and increased tax revenue. Gingerbread analysis shows that a five percentage point rise in single parents' employment rates could generate £436 million a year to the Exchequer with a combination of reduced benefits (£272 million) and increased tax revenue (£164 million).¹⁸

It is clear that the high cost of childcare prohibits many single parents to work the hours they want; better support could lead to better outcomes for individuals, families and wider society.

What could the Mayor do?

As the race to become London's next Mayor gets closer, the cost of living is taking centre stage; and the high cost of childcare is becoming more prominent. The Mayoral candidates have already recognised this as a key election battleground. The challenge is what can be done and where the Mayor can make an impact.

The London Mayor certainly has a role in influencing national government to tackle the high cost of childcare; but there are also measures that could be taken to support parents in London.

Gingerbread is proposing that the London Mayor set up *Upfront: a childcare deposit guarantee*. This could support parents to (re-)enter work and / or increase their hours. *Upfront* could also fill a gap that currently is not being addressed by any level of government. This guarantee scheme could be specifically to support London's parents. The Mayor has the power to make this happen and it tackles one part of the complex picture in supporting single parents into employment.

Upfront costs: tackling a part of the complex childcare funding puzzle

There have been huge gains and significant investment in childcare over the last few decades where there is now a universal entitlement to 15 hours early years education for every three and four year old; 15 hour-a-week provision for the 40 per cent of disadvantaged two-year-olds; a childcare voucher scheme; an early years pupil premium; working tax credits; and measures focused on improving qualifications of the childcare workforce. The current government's policy agenda is generally focused on 'making work pay,' with an extension to 30 hours provision for working parents of three and four year olds, a new tax free childcare scheme and as well as childcare support as part of universal credit rising to 85 per cent from 2016.

But these steps are coupled with concerns, especially from the perspective of single parent families. The tightening up of eligibility criteria for 30 hours of childcare provision will see 20,000 working single parents losing out on essential childcare support¹⁹; Gingerbread's analysis shows that almost a quarter of them (4,500) will be single parents in London.²⁰ And increased

¹⁶ Average for 2011/12 to 2013/14. DWP (2013)

¹⁷ Browne, J. & Hood, J. (2016) [Living Standards, Poverty and Inequality in the UK: 2015-16 to 2020-21](#). London: Institute for Fiscal Studies.

¹⁸ Brewer, M. & DeAgostini, P. (2013) [Credit crunched: Single parents, universal credit and the struggle to make work pay](#). London: Gingerbread.

¹⁹ Gingerbread (2016) [Thousands of single parents will miss out under Childcare Bill](#). Press release, 24 January 2016.

²⁰ Calculations based on the number earning the equivalent of nine to 16 hours per week at the national minimum wage (£6.70 at the time of the analysis). DWP, NatCen, ONS (2016) [Family Resources Survey, 2013-2014, 2nd Edition](#). UK Data Service. SN: 7753 & Estimate based on total expected number of single parents affected by the change (at least 75 per cent of the

conditionality means that parents of pre-school children will, for the first time, be required to look for work or risk having their benefits sanctioned affects 165,000 single parents²¹; Gingerbread's analysis shows that 24,000 of them will be in London.²²

Despite this, high childcare costs in London outstrip the support available through the tax, and benefits system. There are now nine London local authorities where the average cost of part-time childcare for a child under two exceeds the maximum support available through tax credits, the value of which has not been revised in over a decade despite the steep rise in childcare costs.²³ Eligible parents can currently claim 70 per cent of childcare costs up to a maximum of £175 per week for one child; £300 for two or more.²⁴ Universal credit will support up to 85 per cent of costs with the same limits. And yet many single parents struggle to meet the minimum income standard (the income needed to reach a living standard considered to be a minimum by members of the public). Previous Gingerbread analysis shows a shortfall for single parents in London – especially for those on lower wages in the current system; projections show that the shortfall remains for when universal credit is fully rolled out.²⁵

Not only are single parents being hit hard by welfare cuts already in place,²⁶ but estimates are that single parents will continue to bear the brunt of future reforms. The Institute for Fiscal Studies predicts that relative child poverty in single parent families is set to almost double if there is no change to the direction of policy.²⁷ And reductions to in-work support as a result of a lower universal credit work allowance are likely to affect 1 million working single parents, where on average compared to the current system, working single parents will be £800 worse off annually.²⁸ This certainly undermines the government's agenda to 'make work pay' even before childcare costs are taken into consideration.

Bound up within this cost is an additional barrier, the upfront cost of starting a childcare arrangement. Based on a survey of childcare providers, research published by Citizen's Advice suggests that 90 per cent of providers charge upfront costs.²⁹ Often a deposit, administration fee and a month in advance, this fee is usually required to be paid in advance before any wages usually come in creating a gap for parents.

For those on low incomes or entering insecure work, paying this upfront cost is a huge risk; one that some may not want to take from fear of not being able to pay it back.

"I was on maternity leave the full 52 weeks and received statutory pay for the first 39 weeks. I then had to send my child to nursery a month early because of the settling-in period and to guarantee a place at the nursery. This meant my child was attending nursery for one month before I even went back to work. It was so expensive and cost £1,100-a-month, in addition to having to pay £200 in advance to the childcare provider to guarantee a place. This meant that I was forced to rely on my parents for the deposit and the first month of childcare until I was paid." (Thea from Haringey)

220,000 carers to be affected, based on DWP's policy impact assessment) and the regional distribution of single parents with young children (under five years) on income support

²¹ DWP (2015) [Welfare Reform and Work Bill: Impact Assessment of the change in conditionality for responsible carers on Universal Credit](#); London: DWP

²² As above DWP, NatCen, ONS (2016)

²³ Rutter, J. (2016)

²⁴ [Help Paying for childcare](#). Information from www.gov.uk

²⁵ Hirsch, D. (2015) [Paying the price: childcare in Universal Credit and implications for single parents](#). London: Gingerbread

²⁶ De Agostini, P., Hills, J. & Sutherland, H. (2014) [Were we really all in it together? The distributional effects of the UK Coalition government's tax-benefit policy changes](#). London: CASE.

²⁷ Browne, J. & Hood, A. (2016)

²⁸ Gingerbread (2015) [Paying the Price: The impact of the Summer Budget on single parent families](#). London: Gingerbread.

²⁹ Citizens Advice Bureau (2014) [The practicalities of childcare: an overlooked part of the puzzle?](#) CAB.

"I have four children, who currently go to breakfast club, which costs £30 per day. Then there's the additional cost of the after-school club, which costs so much money ... I would require four deposits for my four children if I was to go back to work full-time. Where do I go? I could try and explain my situation to my managers but they wouldn't get it. I'd have to pay £1,500 upfront and when I spoke to my colleague previously he said: "There's nothing I can do". (Ife from Southgate)

London's Mayor could use their authority to respond to this challenge and support parents to overcome this additional upfront hurdle.

How Upfront could work

For many families the decision to move into work is complex. Many will work out their costs based on their potential income. The upfront costs therefore create an additional barrier. Few have savings for an outlay of several hundred pounds, and with single parents more likely to be in insecure and low-paid work this can create additional stress.

Designed to support parents about to start new jobs or increase their working hours, *Upfront* would help people arrange care for their children ahead of their first pay cheque, with the GLA directly paying the deposits nurseries and childminders typically require. This would support parents to be confident in accepting a job or increasing hours before they were paid.

Making childcare more affordable is an area where the Mayor's office has indicated that more needs to be done; for example in 2012, the London Assembly published a report concluding that "*tackling barriers to affordable childcare should become part of the Mayor's programme of work*".³⁰ This proposal provides a simple and practical solution that begins to do that by tackling the high entry costs to employment that parents face.

The proposal rests on the principle that it is a guarantee direct from the GLA to the childcare provider. The GLA would provide the deposit to guarantee the childcare place; the provider would keep it for as long as the child attends and would then return it when the child left. To minimise cost, the GLA could set eligibility criteria, for example those in receipt of universal credit. These parents are at a particular disadvantage given that universal credit will be paid in arrears.

Several pilots have experimented in offering some upfront support. But they have mostly been loan schemes with parents still being liable to pay the money back. For example, a loan scheme was piloted as part of the Childcare Affordability Pilots testing different ways of paying the childcare element of working tax credits (reporting in 2011) with some notable success.³¹ Transition payments of up to £500 were offered by HMRC to parents who needed to pay upfront childcare costs. The majority of participants who were eligible and accepted the payment reported that they would not have been able to afford the cost of the deposit without it. These transitional loans also contributed to parents feeling empowered and more confident to move into work and "eased the extra concern for some parents". Although parents reported that the upfront costs would have been too high without this support, the evaluation also highlighted some challenges in developing a loan scheme. Primarily that to repay HMRC, the money was subtracted from future payments deterring some parents from taking it up. Some were also worried about owing HMRC money, and others weren't clear on the terms and conditions and so didn't want to take it up.

³⁰ Health and Public Services Committee (2012) [Tackling childcare affordability in London](#). London: London Assembly.

³¹ Hall, S. et. Al. (2011) [Qualitative research into families' experiences and behaviours in the Childcare Affordability Pilots \(CAP09\): Actual Costs Pilot](#). DfE Research Report DfE-RR-105. HMRC.

Childcare Advance, a pilot in Hillingdon offered low cost loans to families to support them with the upfront costs, alongside support and advice for parents.³² The pilot was not very successful in supporting parents to take out loans. This may be because it was a loan and parents were reluctant to take on increased debt; or it could be that the offer was not well publicised.

Responding to some of these shortcomings, Gingerbread is proposing a deposit guarantee, rather than a loan, so that the money goes directly to the provider from the GLA and returned when the child leaves that provision. By guaranteeing the deposit, it alleviates some of the additional that parents face.

Upfront fills a gap that is currently not being addressed by any level of government or agency. Jobcentres (JCP) have access to Flexible Support Funds (FSF) to help jobseekers. Payments are discretionary, giving jobcentres and their advisers the ability to direct payments to areas where they determine a need. The funding is quite flexible and JCP can work in partnership with other organisations to deliver support to help people in employment.³³ Anecdotally, FSF does support some parents with childcare costs, but not necessarily the deposit required.

Some local authorities offer additional support to local residents to tackle the high cost of childcare; for example, Islington has a childcare bursary scheme to support parents with the high costs of childcare³⁴; Camden offers local parents of three and four year olds 25 hours of childcare (an additional 10 hours to the government's provision of 15 hours).³⁵ And through Family Information Services (FIS), many local authorities work with partners like JCP, health visitors, local advice services to support parents to move into and stay in work with many providing information and advice on their website on support available and local providers. There have been calls in the GLA from the Liberal Democrats to develop an interest free childcare loan scheme similar to a season loan or cycle to work scheme.³⁶ Although this proposal has been rejected by the current administration, it does show how employers could also be doing more to support their employees.

Conclusion

It is clear that the cost of childcare still prohibits parents – and especially mothers – from entering employment. *Upfront* addresses part of the complex childcare picture for Londoners and tackles one of the many barriers. The Mayor also has a responsibility to address wider questions of affordability, access and quality. The Mayor could commit to review affordability once universal credit had been further implemented and the 30 hours offer for parents of three and four year olds has been rolled out with the view to identifying a longer term solution to the needs of parents in London.

There is scope for the Mayor to take a more active role in supporting London parents to fulfil their potential; to remove a significant barrier to higher employment rates and move towards a more productive economy.

³² DayCare Trust (2012) [Childcare Advance Hillingdon pilot project report 2012](#). London, DayCare Trust.

³³ [Flexible Support Fund](#)

³⁴ [Childcare Bursary](#), Islington Council

³⁵ [Childcare](#), Camden Council

³⁶ Pidgeon, C (2016) [The Balancing Act: Making childcare work for working parents](#). London Assembly, Liberal Democrat Group.