

NEWS RELEASE



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New research reveals extent of future childcare funding crisis

The impact of growing childcare costs and reduced public support means that low income families in 2015 will have to find over 60% more of their own cash for childcare compared with 2006, new research published today by the Social Market Foundation finds.

The SMF's report, *The Parent Trap*, is the first time all the different forms of childcare support have been analysed together with a projection of the future costs of childcare. It looks at the changing level of financial support and the rising cost of formal childcare between 2006 - the peak of public financial support for childcare - and 2015, to show how much of their own money families will have to find to fill the growing gap.

"Our analysis shows that for the same amount of childcare a low-income family in 2015 can expect to pay 62% more in today's money – almost £600 per year - from their own pockets, compared to 2006," said Ian Mulheirn, Director of the SMF and co-author of the report.

"For a family on £20,000 per year with typical childcare costs, this will take the proportion of their income spent on childcare to almost 8%, up from just 4.8% in 2006. Put in context, this means that the extra expenditure on childcare would wipe out the amount of money the average family currently spends on Christmas."

The research also finds that:

- A middle-income family in 2015 is likely to pay 25% more, or £900 per year, for their childcare in today's money compared to in 2006.
- A higher-income family in 2015 is likely to pay 42% more, or £1,400 per year, for their childcare in today's money compared to in 2006.
- If underlying childcare costs continue to rise as they have done in recent years, the cost of a typical amount of childcare will be £104.16 per week in today's money, which is a 13.5% rise from 2006.

"Paying for high quality formal childcare is already a struggle for many parents, and affordability has been declining since 2006," continued Ian Mulheirn. "But the triple whammy of the ever increasing 'ticket price' for childcare, cuts to childcare support in the tax credit system, and the freeze in the value of childcare vouchers risks making formal childcare a luxury that many families will no longer be able to afford.

"This will put parents in an impossible position, forcing many to choose between going to work and incurring a large childcare bill, or staying at home. As well as having a detrimental impact on family budgets and on the labour market, these trends will price the poorest children out of the considerable social and educational benefits offered by quality formal childcare."

The analysis calculates that to return the generosity of childcare support to its 2006 level, the

proportion of childcare costs covered in the new Universal Credit would have to increase to 82.4% (from the current 70%) and the value of vouchers would need to rise to £83 per week for basic rate tax payers (from the current £55). The SMF says this means the Government will have to find savings elsewhere or find other creative solutions to help parents negotiate the childcare funding trap.

Notes to Editors

- The SMF uses the DayCare Trust's annual survey of childcare costs to establish an average childcare inflation rate since 2006/7, which is 4.4% (CPI averaged at 2.7%). This is then applied to the typical costs for childcare, derived from tax credit administrative data, and projected forward to estimate likely costs for the same amount of care in 2015/6.
- The SMF combines this projected cost increase with in-depth analysis of the changes to public support available between 2006/7 and 2015/16 to calculate a figure for the total private contribution typical families in low, medium and high income brackets will need to find to make up the shortfall. This figure is presented in today's money to give a realistic picture of the private contributions parents will be left to make. 2006/7 is chosen as it represents the 'high water mark' of public support for childcare.
- For the purposes of the analysis, a 'typical family' is defined as a two-parent family with two children requiring childcare support, where the main earner works full time and the second earner works part time. For simplicity it is assumed that the second earner's income is always half of that of the main earner.
- The low-income group encompasses those households entitled to childcare support through the tax credits system, and the high-income group encompasses those households where at least one parent earns the higher rate of income tax. The middle-income group are those that fall between these two.
- Using the definition of a 'typical family' above, a low-income household would have an annual income of between around £15,000 and £37,000 this year, a middle-income household would have an annual income of between about £42,000 and £63,000 and a high-income household would have an income of more than £63,000. These approximate income bands are indicative and vary according to family size, circumstances and changes in the tax and benefit system.
- A family where the main earner earns the median full-time salary (£499 per week in 2010) and the other adult earns the median part-time salary (£154 per week) would be near the top of the lower-income group.
- According to Moneysavingexpert.com the average family spends £600 on Christmas.
- The SMF's report, *The Parent Trap: Illustrating the growing costs of childcare*, by Ian Mulheirn and Ryan Shorthouse is kindly supported by the Childcare Voucher Provider's Association. www.cvpa.org.uk.
- **The Social Market Foundation** (SMF) is a leading UK think tank, developing innovative ideas across a broad range of economic and social policy. It champions policy ideas which marry markets with social justice and takes a pro-market rather than free-market approach. www.smf.co.uk.

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