

Childcare Advance: scoping the need for help with up-front costs



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Names have been changed in all case studies and references to research participants.

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Executive summary

What are up-front costs?

When starting with a new childcare provider, many parents are required to pay up-front fees to secure a place – or in some cases, simply to secure a place on the waiting list. These costs can include fees in advance, deposits, retainers and administration fees – either individually or in combination. With typical weekly childcare costs currently £167 per week, four weeks' fees in advance would mean that parents had to pay £668 when they took up a place.

As many people start using childcare when they start work, this money often has to be found by parents who have not had a regular income from work, nor the opportunity to save. Not surprisingly, raising this lump sum creates a barrier to parents returning to work.

To compound these difficulties, the Government's welfare reform agenda promotes the movement of parents from benefits into work – a move that has to be underpinned by sufficient and affordable childcare to succeed. Whilst the longer term issue of affordability of childcare is addressed through measures including free early years education places, tax credits and tax-exempt employer schemes, the shorter term need – or cash flow issue – to pay up-front childcare costs has yet to be successfully tackled.

In the current economic climate, the sustainability of childcare provision is also key and the importance of fees in advance for providers must also be considered.

Current help with up-front childcare costs

Despite reports from the Department for Work and Pensions identifying the need for help with up-front costs, the schemes available through Jobcentre Plus (JCP) are very limited in scope, offering help primarily to lone parents who have been claiming out-of-work benefits for a prolonged period.

There is currently only one scheme that targets the up-front costs of childcare specifically, which is currently being delivered as a pilot scheme in six JCP districts in London to lone parents who are taking part in the New Deal programme. The limited feedback and evaluation of

this scheme currently available indicates that most help is claimed for fees in advance rather than deposits or retainer fees.

Discretionary schemes such as Budgeting Loans and the Adviser Discretionary Fund are limited by the confines of local budgets, which must also take into account the wider needs of the community, or an upper limit to payments that can be made. Use is limited by the regional variance in knowledge of and promotion of the funds to parents.

A very limited number of employers also offer help to their employees, but this help is obviously not open to all, and even within organisations, some schemes only offer help to parents who are returning to work after a period of leave, not to new starters.

Project methodology

The Childcare Advance scoping project adopted a mixed methods approach exploring the extent of the issue of up-front childcare costs and the impact they have on families and childcare providers.

A literature review was carried out to establish previous work in this area and current help and policy initiatives on the issue of up-front childcare costs. Parents, childcare providers, Family Information Services (FIS) and employers were identified as key stakeholders. 202 parents' views were collected through an online and paper survey and follow-up telephone interviews with selected respondents. Providers were interviewed by telephone or in person and in some areas, invited to focus groups. FIS were sent a survey and interviewed by telephone. Findings of the research were then subject to a qualitative analysis.

The research was focused on five geographical areas in England: Barnet; Birmingham; Horsham; King's Lynn; and Liverpool.

Research findings

The findings of the parent survey include:

- Overall 58 per cent of parents who responded to the survey said that they found it difficult to meet up-front childcare costs.

- Families with a household income of less than £40,000 were most likely to report having difficulties meeting the up-front costs of childcare, with most occurrences being reported by those with an income of £12,000–18,000 and £31,000–40,000.
- Median up-front costs reported across all income groups were £300–500, with fees in advance being the most commonly reported cost.
- Families with a household income of less than £18,000 were most likely to seek help to pay these costs.
- Overall, 21 per cent of respondents reported that up-front childcare costs affected their decision to return to work; more parents in couples than lone parents reported this.

Interviews and focus groups with childcare providers revealed that many providers are no longer charging deposits, but many continue to charge fees in advance as this is necessary for the sustainability and security of their business.

FIS reported that enquiries to their service show that parents have difficulty meeting up-front childcare costs and were supportive of a scheme which would help parents with these costs.

Take-up of employer schemes was reported to be low although this could be attributed to advice given to employees about the interaction of a loan with other financial support.

Financial modelling

Three options were costed on a national and local level; direct subsidy, interest-free loan and low interest loan. Costs considered include the administration costs of a scheme (including the risks associated with parents defaulting on a loan) and the capital fund needed to support the scheme.

For the purpose of financial modelling, certain assumptions were made; that the reach of the scheme is taken to be 20 per cent of families with a household income of less than £36,400 per year. This is based on the income groups who reported most difficulties and the proportion of parents whose decision to return to work was affected. It is also assumed that the maximum payment per child is £500.

Based on the assumptions above applied to the 635,600

childcare places available in England (August 2008), a national scheme would need to reach 68,645 families and would cost approximately (excluding set-up costs):

- £39,500,000 annually if offered as a direct subsidy;
- £7,550,000 annual running costs plus a capital fund of £17,150,000 if offered as an interest-free loan; or
- £6,520,000 annual running costs plus a capital fund of £17,150,000 if offered as a low-interest loan.

On a local level, using Birmingham as an example where the above assumptions are applied to 37,600 childcare places (available in 2008) potential reach would be 4,061 families, costing approximately (excluding set-up costs):

- £2,335,000 annually if offered as a direct subsidy;
- £450,000 annual running costs plus a capital fund of £1,015,200 if offered as an interest-free loan; or
- £385,000 annual running costs plus a capital fund of £1,015,200 if offered as a low interest loan.

Whilst the direct subsidy model is perhaps the more appealing – certainly from a parent’s point of view – the sustainability of a scheme is questionable as it would require a substantial capital fund to be replenished every year. The loan options, however, allow for the capital fund to be recycled and as the costs met by the loan would still count as incurred costs, and hence be eligible for tax credits and employer-supported childcare, the loan could be repaid with help from existing support.

Proposed delivery model

The need for help with up-front childcare costs is identified as a cash flow issue rather than the more long term affordability of childcare, so there are certain factors that a scheme offering help with up-front childcare costs must offer, including:

- Reactivity – help will be needed with very little notice and must be in place before the parent starts work.
- Affordability – whilst help is needed in the short term, repayment must be available at a manageable rate and be sensitive and flexible to the different circumstances of families so that debt is not incurred as a consequence of seeking help with these costs.
- Accessibility – a scheme should be available as widely as possible so that the needs of different parents can be met and no stigma is attached to the scheme.

The importance of a wide reach of any scheme is stressed, as is the need for eligibility to extend to parents returning to work, for example, after maternity

leave, couples and lone parents who have not been in receipt of out-of-work benefits for prolonged periods.

On cost grounds, loans seem to be preferable to a direct subsidy to parents as they offer a better fit with current financial support with childcare costs and a more sustainable model. The capital fund would largely be recycled beyond the first year of the scheme.

Potential delivery agents are influenced by financial regulation, so partnership models are recommended to combine the financial credentials of Credit Unions or Community Development Finance Initiatives (CDFI) with the links with families of FIS or Registered Social Landlords (RSL). It is also suggested that employers could develop and deliver schemes for their employees.

The fact that a number of delivery models is suggested is indicative of both a need for pilot testing of a new scheme to determine the effectiveness of the mechanisms and products proposed, but also of the long term need for a range of options to meet the different needs of families rather than a national 'one size fits all' model.

Conclusions and recommendations

This scoping project identified a need for targeted, affordable financial support with up-front childcare costs, but has also identified a varied audience who may be in need of this help.

A pilot stage is being recommended in order to further test some of the issues raised in this research. The aims of pilot delivery are:

- to assess the impact of the scheme options on numbers of parents starting or returning to work;
- to test the options of payment to childcare providers or parents and the impact this may have on the success of a scheme;
- to test the efficiency of the scheme options and their ability to meet the needs of parents for financial support in a timely and secure manner;
- to establish the administration costs of the different scheme options; and
- to ensure the long term affordability of a scheme for parents by testing repayment terms.

To ensure maximum reach, one model to meet all needs is not being recommended. Instead, different models with common eligibility criteria are being recommended both at pilot stage, and beyond this, for national implementation.

The research suggests that the common criteria for a Childcare Advance scheme to help parents meet the costs of up-front childcare should be that it:

- is open to families with a household income (including benefits) of up to £40,000 per year;
- meets the costs of fees in advance, but not deposits;
- can pay up 4 weeks' fees in advance per child; and
- is offered as a low interest/interest-free loan.

It is proposed that a second stage of the project should pilot a Childcare Advance scheme through the following delivery agents:

- Employers (offering an interest-free loan).
- Family Information Service & Credit Union/CDFI (offering a low interest loan).
- RSL & Credit Union/CDFI (offering a low interest loan).

Pilots – or a national scheme – should initially target the 21 per cent of parents for whom up-front childcare costs are most likely to affect their decision to start or return to work. This would be achieved by limiting eligibility according to the criteria above.

1: Policy background and context

Chapter summary

Up-front costs of childcare are defined as being fees in advance, deposits and retainer fees (both returnable and non-returnable) which parents are required to pay to secure a place for their child with a childcare provider. The aim of this project is to address the short-term cash flow issue these costs create for many parents rather than the long-term affordability of childcare.

The current possible sources of financial help available to parents with the up-front costs of childcare from both Government and employers are outlined and the effectiveness of these schemes and grants is discussed. The reach of current help is limited with many sources of help only being available to people who have been getting out-of-work benefits for a sustained period, and in some cases, this is further limited to lone parents only.

Further context is also given with an outline of the current childcare market, funding and Government policy which influences and is influenced by childcare provision, including the importance of sustainability of provision for childcare providers and the pivotal role played by childcare in the welfare reform agenda and the ambition to end child poverty.

1.1 Introduction

There is considerable evidence in the UK and internationally of the benefits of good quality childcare not only on improved outcomes for children but also for the female workforce, the wider community and the national economy. However, the high cost of childcare has been an issue for many years. Despite the introduction of subsidies to parents, for example, through tax credits, it is still the case that many parents are required to pay a number of weeks of childcare fees in advance and/or deposits and retainer fees when they start using a new childcare provider. This means that whilst the longer term issues of affordable childcare are being addressed, parents can face a significant barrier when starting or returning to work when a lump sum is needed to secure a childcare place.

Various Department for Work and Pensions (DWP) reports since 2003 have identified advance childcare fees as being a significant barrier to employment for parents who have been receiving out-of-work benefits. *The Working for Children* paper explains: 'Lone parents returning to work often have to pay childcare costs in advance of getting first pay cheque. We know that this presents a particular problem in London where the level of advance payments can act as a barrier to work' (DWP, 2007: 33).

The 2006 Harker report (Harker 2006:10) also placed increased emphasis on JCP identifying parents who have childcare needs. The report recommended that JCP:

- implements a front-end marker to identify parents;
- systematically records parents' childcare needs and preferences;
- introduces childcare targets; and
- implements measures to improve childcare support for parents.

Despite this, current support offered by JCP to overcome these barriers has limited eligibility – primarily to lone parents – and anecdotally, access to JCP schemes continues to present problems.

The aim of the Childcare Advance scoping project is to investigate the depth of the issue of up-front childcare

fees, whether these costs do create a barrier to employment and what would be an effective and sustainable way to assist parents with paying these fees.

The long-term goal of the Childcare Advance project is to enable more parents to work, more children to access good quality childcare and to address some of the issues associated with child poverty. This will be achieved through a staged approach; an initial scoping stage (reported here), a pilot stage and finally, a national roll-out of a Childcare Advance scheme.

Usma is a married mother of four children from Birmingham. Her husband is self-employed and they earn £8,000–12,000 per year. Usma was claiming Jobseeker's Allowance before being offered a job with hours that suited her and her family. Her up-front costs for nursery and extended school were £580 (£270 for nursery deposit plus approx £100 per child for three children in advance fees).

Usma withdrew £500 on her credit card to pay these fees as she had no other sources of help. In addition to paying some of her on-going childcare costs, she is also paying off her credit card loan (with high interest rates).

1.2 Up-front childcare costs

Through calls to our Parent Information Line, Daycare Trust identified up-front costs as a significant issue for parents when starting a new job or with a new childcare provider. These up-front costs include: fees in advance; deposits; and retainer/administration fees. Parents may be asked to pay one or a combination of these.

Raising a significant amount of money as a lump sum is a barrier for many families, in particular those who have not had a regular income from employment and/or the opportunity to save. Many parents report that the only way they can meet these advance fees is by using high-interest loans or credit cards, with which comes the risk of getting into financial difficulty. Others, with no means of financial support, simply do not use childcare – and as a consequence do not move into work – because the outlay is too much.

'As I am no longer working I do not have the luxury of a lump sum or saving for that deposit.' Louise, Horsham.

The support currently offered by the Government tends

to lean towards lone parents who are starting work after a prolonged period in receipt of out-of-work benefits. However, we know that they are not the only ones to experience difficulties funding the childcare they need in order to work. There are also many families living in poverty where at least one parent is working and half of poor children live in such households (DWP, 2007: 17), consequently, many two-parent households also struggle when the second partner starts or returns to work as they start to use formal childcare for the first time. Difficulties are also faced by parents returning to work after having a baby.

1.3 Current financial help

Although there are a variety of schemes that offer help with childcare costs to working parents, the majority of schemes available target the ongoing costs of childcare rather than the costs parents must pay in advance. The Government is currently piloting a scheme which pays the up-front fees of childcare for lone parents starting or returning to work, but this is the only help available which specifically targets this issue and eligibility for the scheme is limited – more detail is given below.

Current potential sources of help with up-front childcare costs are outlined below. Additional help with ongoing childcare costs is outlined in Appendix 1.

1.3.1 Current Government schemes

Local authority-administered schemes

Childcare Taster sessions: Childcare Taster sessions were piloted in 11 local authority areas between April 2004 and March 2006 and offered up to ten half-day sessions to try out childcare provision. They were developed by the Department for Children, Schools and Families (DCSF) and funded by the Department for Work and Pensions (DWP). Whilst the DWP-funded pilots have finished, some of the areas, for example, Birmingham and Liverpool continue to offer Taster sessions through their Family Information Service.

The aim of the Taster pilots was to explore 'the assertion that lack of affordable childcare is a significant barrier to employment for lone parents on Income Support' (Clegg et al, 2007). The pilot scheme was offered to parents taking part in JCP programmes including New Deal programmes (see Appendix 1). In some areas parents used these free sessions through brokerage with their

childcare advisers to pay for the first week's fees or getting ready for work, for example, Birmingham Family Information Service (who continue to offer this).

Evaluation of the overall effectiveness of these pilots was mixed. Data up to July 2005 shows that there had been 507 Tasters as a result of the pilot but there are no formal figures available detailing the number of participants who have taken up work following involvement with the pilot (DWP, 2006: 18). Feedback from the Taster sessions was not overly encouraging. 'Local authorities are sceptical about the value of Childcare Taster sessions with childcare providers, which have not been that popular with parents' (DWP, 2006: 17).

Childcare Affordability Programme (CAP): Phase Two of this London-only scheme (see Appendix 1) included a 'Starting Work Element' which could cover the cost of the first four weeks of childcare for an eligible parent who was returning to work, if they had been out of work for four weeks or more. Between, April 2007 and March 2009 over 600 parents were able to access employment through the 'Starting Work Element' of CAP Phase Two. This scheme has now ended.

JCP-administered loan schemes and funds

There are a number of UK-wide schemes available through JCP to help parents with some of the costs associated with starting a new job, which may include the up-front costs of childcare.

Unless otherwise stated, the JCP schemes outlined below require parents to have been receiving out-of-work benefits¹ for at least 26 weeks.

Budgeting Loans: The Budgeting Loan is an interest-free loan from JCP, paid to meet certain categories of costs, including 'expenses associated with seeking or re-entering work'. These discretionary loans are calculated according to a set formula and rely on sufficient funds being available in the local budget. For parents returning to work, they must also make sure that they make a claim whilst they are still in receipt of benefits.

Adviser Discretionary Fund (ADF): This is a fund that makes payments of up to £300 to enable parents to get back to work and it can be used for childcare costs. The ADF is paid to enable New Deal (see Appendix 1)

customers of JCP to overcome barriers to work including buying new clothes, uniforms, travel tickets and childcare. However, figures from the DWP state that average awards for ADF in 2008/2009 were £88.01 for lone parents and £88.56 for partners participating in the New Deal. Of the £6 million that has been spent on the ADF, approximately £1.5 million was paid to childcare providers in 2008/2009.

Anecdotal evidence suggests that many parents are unable to access the ADF and it is largely dependent on regional policy.

Childcare Assist: Parents who have been participating in New Deal for Lone Parents (in some areas, other New Deal participants also qualify) can claim up to five days' childcare in the seven days immediately before they start work to allow their child to settle before the parent starts work. They must have a firm offer of a job for at least 8 hours a week and be using registered childcare. The scheme will pay up to £175 for one child and £300 for more than one.

Take up of Childcare Assist has been low (NAO, 2007) which the Harker report cites as being due to it not being suitable for parents needs with many parents not wishing their child to be in childcare the week preceding a job (2006: 32). The numbers of parents accessing Childcare Assist have steadily increased but only 3,000 lone parents have taken up the offer since 2005 (DWP, 2009).

Job Grant: The Job Grant is a one-off payment of £250 made to parents when they start or return to work. To qualify, parents must be starting work of at least 16 hours per week that is expected to last at least five weeks. Payment is made automatically when the parent's out-of-work benefits stop; this means that payment is received once the parent is in work and is therefore not usually a potential source of help with the up-front costs of childcare.

JCP Up-Front Childcare Costs pilot schemes: In April 2008, following on from recommendations of the DWP *Working for Children Paper* (2007), JCP has been running a pilot scheme to help lone parents participating in the New Deal with their up-front childcare costs. The fund can pay for registration and administration fees, advance payments and deposits.

¹ Out-of-work benefits include Income Support, Jobseeker's Allowance and Employment Support Allowance

Participants must be moving into paid employment that is expected to last three months, have a salary that meets the National Minimum Wage and the job must be for at least 16 hours a week.

In December 2008, the initial findings were that the most common type of cost applied for was fees in advance only (but no analysis is available on why this was). Anecdotal evidence from the JCP pilot indicates that up-front fees are increasing both in terms of frequency and the amounts of money required. There has been no analysis as yet to the effect of moving customers into work and no further evaluation will be available until the end of 2009.

1.3.2 Employer-administered schemes

A limited number of employers offer interest-free loans to their employees returning from maternity leave, to cover the cost of their advance childcare fees.

Examples are given here of three organisations who offer childcare loans:

University of Hertfordshire Students' Union – this is a small organisation that introduced a more flexible employee benefits package including childcare loans to parents returning to work after a phase of unavoidable redundancies. They wanted to improve staff morale and retention and acknowledge that employees may have priorities away from the workplace. Take up of the scheme has been small but since introducing the package of flexible working, turnover of staff has gone from 50 per cent to 10 per cent.

IKEA – has a staff of over 10,000 working at its warehouse stores, contact centre and headquarters in the UK. They offer a family friendly package including an interest-free loan for the first month's up-front childcare fees for staff returning from maternity leave. There are conditions to these benefits including being a permanent member of staff, having 12 months' continuous service, good attendance, meeting targets, and so on.

Sutton and Merton NHS Primary Care Trust – this organisation offers parents with a permanent contract an interest-free loan of up to £300 to cover advance/holiday childcare costs. The loan is paid directly to the provider and repayments are made over three months. When applying for the loan, the applicant has

to give specific reasons for needing to apply for the loan and is also offered budgeting advice. Parents are advised that they are unable to apply for childcare vouchers or the childcare element of Working Tax Credit for the three months that they are making repayments, although the reason for this advice is unclear and contradicts advice from HM Treasury, see 4.3.2.

1.4 Childcare market

Since 1997 there has been a substantial increase in the number of childcare places on offer; 635,600 places (one place for every three/four children) in 2008 compared to 193,800 places (one place for every 9 children) in 1997 (Ofsted, 2008: 4).

The UK has opted for a mixed-market approach to childcare, with local authority-funded provision (the maintained sector) operating alongside childcare run by private and voluntary organisations and independent schools (the PVI – private, voluntary and independent – sector).

Full daycare and sessional childcare are predominately owned by the private or voluntary sector. In 2007, 66 per cent of full daycare provision was privately run, with 21 per cent run by a voluntary organisation and 12 per cent maintained. For sessional care, 65 per cent was in the voluntary sector and 29 per cent in the private sector. The balance is different for childcare in children's centres, with half being run by the local authority (Nicholson et al, 2008).

Under the Childcare Act 2006, local authorities have a duty to ensure sufficient childcare for working parents in their area. All local authorities have now completed their Childcare Sufficiency Assessments. A number of these have been published and 93 per cent of authorities report some gaps, including childcare before and after school, holiday care, provision for children with disabilities and special educational needs, and care for under twos (Office for Public Management, 2008). Daycare Trust's own childcare costs survey recently found that 59 per cent of FIS said that there was not currently sufficient childcare for children aged 12 and over, and 27 per cent said there was not sufficient childcare for under fives, which has typically been the area of most supply (Daycare Trust, 2009).

Concerns have been expressed about the sustainability

of childcare provision, especially given the current recession. In 2007, a fifth (18 per cent) of full daycare settings and half (52 per cent) of full daycare providers in children's centres made a loss. Reports of how childcare providers are coping with the recession are mixed, with some providers being forced to close because of reduced occupancy, and others reporting a surge in registrations, attributed to mothers returning to work earlier in order to boost family income.

Despite the increased investment in childcare and early years, childcare costs are very high and continue to rise above the rate of inflation. Daycare Trust's 2009 Childcare Costs Survey found average costs for a full-time nursery place for child under two was £167 per week (for 50 hours childcare), and substantially higher in some parts of the country, for example, £226 a week in Inner London and £199 a week in the South East. Average childminder costs were £156 a week in England, again with higher costs in London and the South East (£196 a week and £173 a week respectively).

1.5 Childcare funding

Childcare funding is provided both through supply-side (directly to childcare providers) and demand-side (through funding to parents). The main supply-side funding is through the free entitlement funding for three and four year olds (see Appendix 1), which is allocated through DCSF to local authorities and then to schools and childcare providers, hence there are variations in the levels of funding that childcare providers receive (both between different local authorities and the maintained and PVI sectors). Each local authority is identifying and implementing a single funding formula by 2010, through which they will pay their childcare providers for the free places. This may still have variations between sectors and authorities, but will be much more transparent.

Other funding streams include the 'Sure Start, Early Years and Childcare Grant' and the 'Graduate Leader Fund', both of which are administered through local authorities.

On the demand-side, parents are able to access a limited number of subsidies to help with their ongoing childcare costs, depending on their level of income and employment situation. The most widely available help comes from the childcare element of Working Tax Credit and employer-supported childcare; see Appendix 1.

1.6 Welfare reform

In 2007, the Government announced changes to welfare benefits for lone parents. Whereas previously lone parents were entitled to receive Income Support (where support with work search was offered but with no requirement to look for or start work) until their youngest child turned 16, from October 2008 this was reduced to age 12, and from October 2009 and 2010 this will reduce to age 10 and 7 respectively. Lone parents will then move onto Jobseeker's Allowance, which requires all claimants to be 'available for and actively seeking work'.

For this to be successful there must be high-quality and affordable childcare and out-of-school activities available for all children, including older children which Childcare Sufficiency Assessments are indicating are not yet in place. JCP services and advisers must also be equipped to advise lone parents about childcare including overcoming the initial barrier of up-front costs.

'I'm a lone parent on Income Support and hope to start an admin apprenticeship very soon. I have not a penny to my name and nurseries in my area require a month advance in fees (approx £600). I cannot afford this!'
Roxanne, by email.

1.7 Child poverty

In 1999, the Government pledged to end child poverty in a generation, by 2020. Since then, 500,000 children have been lifted out of poverty, but in the last two years the numbers of children in poverty have remained largely unchanged (DWP, 2009). A Child Poverty Bill was announced in the 2008 Queen's Speech and, when passed, will make the 2020 target to eradicate child poverty legally binding.

Today, 30 per cent of children are still living in poverty, with 40 per cent of those in one-parent families and 38 per cent in families with three or more children.

Reducing and eliminating child poverty cannot realistically be achieved without the development of high-quality, affordable, early childhood education and care services. This would enable parents, particularly mothers, to engage in paid work and help improve family incomes, and would also enable disadvantaged children to benefit from high-quality early education and care (Sylva et al, 2004).

1.8 Limitations of the scoping work

International comparisons

Due to the small scale of the scoping project, a comprehensive search of international practice and comparisons was not possible and in the limited scoping work carried out no international comparison specifically for up-front costs was identified.

Terminology

It needs to be acknowledged that there may be some confusion over terms used to describe up-front childcare fees. Whilst the distinction between registration fees, deposits and advance fees was made clear on the survey, some parents were confused about what 'up-front costs' mean, what they had paid in advance and what that payment covered.

Similarly, the term 'deposit' causes some confusion as different providers use the term to describe different fees. For some the deposit is a large returnable fee sometimes equivalent to a month's fee but which secures the child's place. This may or may not be included in general 'advance fee' payments. For others it is much smaller (£20–£60) and covers registration and administration charges. Often these registration charges are non-returnable.

2: Evidence of need

Chapter summary

The project adopted a qualitative approach, and parents, childcare providers, FIS and employers were identified as key stakeholders. Due to the small scale of the project the research was focused on five geographical areas in England: Barnet; Birmingham; Horsham; King's Lynn; and Liverpool.

The findings of the parent survey are outlined, including:

- families with a household income of less than £40,000 were most likely to report having difficulties meeting the up-front costs of childcare;
- fees in advance were the most commonly reported cost;
- families with a household income of less than £18,000 were most likely to seek help to pay these costs; and
- overall, 21 per cent of respondents reported that up-front childcare costs affected their decision to return to work; more parents in couples than lone parents reported this.

Interviews and focus groups with childcare providers revealed that many providers are no longer charging deposits, but many continue to charge fees in advance as this is necessary for the sustainability and security of their business.

FIS reported that enquiries to their service show that parents have difficulty meeting up-front childcare costs and were supportive of a scheme, which would help parents with these costs.

A limited number of employers do offer interest-free loans to their staff to pay up-front childcare costs, but low take-up is reported.

The project was initially referred to as the 'Childcare Bonds' project, but the name was changed to Childcare Advance as it became apparent through the research that offering a bond would not be the most effective solution to this issue.

2.1 Methods used in this report

Evidence considered in this report reflects the findings gathered over a five-month period, (November 2008 – March 2009), consisting of a mixed-method approach – unobtrusive, reactive measures and qualitative analysis. These approaches allowed us to interview and survey all the relevant stakeholders identified in our initial scoping meeting and cross-check our findings.

2.1.1 Literature review – the research scope was designed with the childcare strategy, recent welfare reforms and the need for childcare assistance for parents re-entering the job market in mind.

2.1.2 Reactive measures – evidence consisting of statements or judgements in response to questions asked by the researchers.

As this was a small scale research project and a targeted dissemination of surveys across England was not possible, the initial research was focused on five locations across England. These areas were used to survey parents, providers and statutory services.

These locations were chosen to offer a snapshot of up-front costs across the country and the situation faced by families from different geographical and financial backgrounds. The areas were selected using data from Daycare Trust's annual Childcare Costs Survey (2008), The Poverty Site (Joseph Rowntree Foundation, 2008) and Experian Map of Credit Demand². The five locations and reasons for their selection are:

- Barnet (London Borough of Barnet) – London borough with high average income and high childcare costs;
- Horsham (West Sussex County Council) – more affluent area with negligible demand for credit and above average childcare costs;
- Kings Lynn (Norfolk County Council) – rural area, with high levels of poverty and seasonal employment and slightly above average childcare costs;
- Sandwell/Edgbaston (Birmingham City Council) – metropolitan area with below average childcare costs; and
- Vauxhall (Kirkdale) (Liverpool City Council)/Birkenhead (Metropolitan Borough Council of the Wirral) – area of high unemployment and low childcare costs.

² Experian are a consumer credit rating agency who produced a map which illustrates demand for credit across the UK.

Reactive research included:

An online and paper parent survey – a six-page survey was designed and then promoted through Daycare Trust and Netmums (an online platform for parents to discuss various child- and childcare-related issues) websites. A paper survey was also distributed via childcare providers and responsive FIS ensuring that we captured responses from families potentially on lower incomes who may not have ready access to the Internet.

The purpose of our survey was to capture families' use of childcare and measure the associated costs, and how they impacted on the family. Our survey allowed us to explore the following:

- what *some* parents were required to pay in up-front registration costs, deposits, advanced payments;
- whether parents found it difficult to make these costs;
- whether parents sought financial help to make these costs;
- where parents sought financial help from; and
- how far these costs presented a barrier to employment.

We also asked respondents if they would be happy to be interviewed in a later strand of our research.

An online survey was available between January 2009 and March 2009, during this time 156 surveys were completed. In addition over 100 paper surveys were distributed through childcare settings and FIS to ensure that we also reached families with no or limited access to the Internet, 64 surveys were returned. In total, 202 surveys were fully completed and are included in our analysis. The survey can be viewed in Appendix 2.

Telephone semi-structured and in-depth interviews with parents – six telephone interviews were conducted with parents after we had gathered and made preliminary analysis of our survey responses. Interviews took no longer than 30 minutes. We noted a number of survey responses that we wanted to probe further and so contacted a number of parents and requested telephone interviews.

In-depth face-to-face interviews, telephone interviews and focus groups with childcare providers – where possible interviews were conducted in the five regions we identified above. Six interviews were conducted over the telephone with providers in Horsham, King's Lynn

and Barnet and two interviews were conducted face-to-face in Liverpool and two focus groups were held, one in Birmingham and one in Barnet. Interviews and focus groups followed the same discussion guide; see Appendix 3.

We interviewed a small cohort of private, voluntary- and maintained-sector childcare providers. The number of interviewees was not statistically significant, but instead allowed us to explore in-depth what childcare providers charged in terms of advanced fees, registration or deposits. We also wanted to gauge childcare providers' views on a bond or advance loan scheme that guaranteed them payment and who they felt was an appropriate body to administer the scheme.

FIS survey – a 3-page survey was distributed to FIS in the five geographical areas identified above. The purpose of this small-scale survey was to see whether parents had raised the issue of paying for up-front costs with them and to see how well placed they were to administer a childcare bond or loan scheme. The questionnaire can be viewed in Appendix 4.

2.1.3 Qualitative analysis – the above research was collated and analysed to provide a comprehensive overview of stakeholder's views.

2.2 Parent survey analysis

An online and paper survey was distributed to parents, and we received 202 fully completed survey responses.

Our survey lent itself to self-selection, and so unsurprisingly an overwhelming majority of 88 per cent of respondents indicated that they were required to pay up-front costs. This chimes with evidence gathered from the FIS as part of this research who told us that 'most providers charge up-front childcare costs'; see section 2.3.

2.2.1 Breakdown of up-front costs

Many parents indicated that they were required to pay a plethora of up-front childcare costs, including a deposit, fees in advance and a holding or booking fee, one respondent laments that, *'all I know is that the fees are going to cripple us'*.

Fees in advance were the most common form of up-front payment paid by parents – there were 105 counts in total. It was usual for parents to be expected to pay

either a week, month, 6 weeks and in one instance a term in advance, although the latter was atypical among our survey responses. There were a couple of instances where low-income families were required to pay £600 in advance fees. One respondent, who as a lone parent was earning between £12,000–18,000, was expected to pay £658 in advance payments.

Deposits were also cited as a required up-front payment, with 86 responses and deposits ranging from £50 to £450. There were 46 responses for holding or booking fees.

2.2.2 Difficulties paying up-front costs

The evidence gathered from our survey clearly shows that a majority of parents ‘find it difficult to pay up-front costs’; overall 58 per cent of parents agreed with this statement.

Only a minority of respondents were offered the opportunity to pay up-front costs in instalments, while 83 per cent were not offered any flexibility at all to pay for up-front childcare costs.

Other key findings include:

- an overwhelming majority of families earning below

£22,000 indicate difficulties in paying for up-front childcare costs, 37 out of 52 respondents indicate this; and

- lone parents are more likely than couple parents to find it difficult to pay for up-front fees; 80 per cent of parents who had ‘sole responsibility for their children’ find it difficult to pay for these costs.

Figure 1 shows families who indicate that they ‘found it difficult to pay for up-front costs’ and their corresponding annual income. Incidences of difficulty in paying for up-front childcare cost versus no difficulty paying for up-front childcare costs is most common among families earning below £40,000 per annum – beyond this point the pendulum swings and higher income earners are more likely to indicate that they **did not** find it difficult to meet the up-front costs, or are at least evenly spread across the two possible responses.

There are two notable peaks in the data. The first occurs among families earning between £12,000–18,000 who are much more likely to indicate difficulty in paying for up-front childcare costs than not. The second occurs among a cohort who earn between £31,000–40,000, who are just as likely to indicate difficulty in paying for up-front costs as not.

Figure 1: Families who indicate that they found it difficult to pay for up-front childcare costs and those who didn’t according to their income, including benefits (of 202 responses)



There are a number of possible interpretations of why a relatively high-income group indicate difficulty in paying for up-front childcare costs, these include: families on slightly higher annual incomes may seek childcare for longer periods and of higher quality during the working week, and so the corresponding up-front costs are higher and it could possibly be explained by the innate subjectivity in our survey and parents' understanding of the term 'difficulty'. Therefore we were keen to further substantiate the evidence and cross-reference those who indicated a difficulty in paying for up-front childcare costs with families who the up-front costs translated to a 'real' barrier to employment, and whether they sought financial help to meet these cost – see Table 1 which shows that parents on a lower-income are significantly more likely to seek financial help to meet the costs, than those who earn more.

'I have been allocated a place for my child at the local Children's Centre. I was told last week that they need a deposit of 2 weeks' fees payable when my child will start. As it is costing £150 per week I will need a £300 deposit plus 1 week's nursery fees. I am a single mother working full time and was wondering if there is any way I can get help for these sort of deposits.'
Emma, by email.

2.2.3 Help sought to pay up-front costs

Of those respondents who were required to pay up-front fees, 25 per cent of families sought financial help to pay for up-front childcare costs, although the proportion of families who sought financial assistance increased significantly among parents earning lower incomes.

Table 1 shows whether families needed to seek financial help or not to specifically meet up-front childcare costs.

Table 1: Families who sought financial assistance

Annual income	Sought financial assistance to meet up-front childcare costs % of income group (numerically)	
	Yes	No
£5,000–18,000	42% (16)	58% (9)
£18,000–40,000	25% (20)	75% (59)
£40,000–70,000+	15% (9)	85% (53)

It clearly shows that a family earning £18,000 or below are the most likely to seek financial help, although when the cohort includes families earning between £5,000–25,000, this increases to 62 per cent of parents seeking assistance to meet these costs; while a family earning £40,000 or more are the least likely to seek financial help to pay for up-front childcare costs.

Of all the families who indicated that they sought financial help to meet these costs, they were most likely to rely on 'family or friends' for assistance, 50 per cent; while 18 per cent relied on overdrafts; 8 per cent on credit card; 4 per cent on a bank loan and 2 per cent on a hardship fund from a provider and a door-step loan.

Based on data illustrated in Figure 1, which shows that families earning between £12,000–18,000 are the most likely to indicate difficulty in paying for up-front childcare costs than not, we were particularly interested to know whether they sought financial help to meet these costs; (40% did) and, if so, who provided the financial assistance. Within this cohort, 20 per cent relied on family or friends, a credit card or an overdraft in equal numbers, 10 per cent relied on a bank loan, door-step loan, JCP or employer assistance in equal numbers.

2.2.4 The effect of up-front costs

We were also interested to measure any causal relationship between up-front childcare costs and barriers for parents returning to work. Overall, **21% of respondents who indicated that they were required to pay up-front costs reported that this affected their decision to go back to work.** One respondent succinctly describes their predicament as: *'I lose money before I even start'*.

Table 2 only shows the three most likely income groups who say that up-front costs affect their decision to return to work. Families who earn between £31,000–40,000 per annum were the most likely to say that up-front childcare costs affected their decision to go back to work, which may be explained by the fact that most respondents within this cohort rely on one full-time income and a part-time income.

'We're both working full-time and earning between £22,000–25,000 (joint income). Our nursery fees up-front were £630 and although we tried to get help, we didn't, and this really affected my decision to go back to work.' Michelle, Kings Lynn.

Table 2: Shows income groups who were most likely to say that up-front childcare costs affected their decision to go back to work?

Annual income	% of families for which the decision to go back to work was affected
£31,000–40,000	23
£25,000–31,000	11
£12,000–18,000	14

Lone parents were less likely to indicate that up-front costs affected their decision to go back to work, than parents who 'share responsibility [for their children] with someone [they] live with'; 20 per cent and 79 per cent respectively.

2.2.5 Conclusion

Evidence gathered from our parent survey shows that up-front costs, and in particular fees in advance, are a common occurrence, and for some families present a significant cost before they have re-entered the job market. A majority of respondents indicate that up-front payments are difficult to pay, particularly lone parents, which confirms that tentative steps taken by the Government to help lone parents via the New Deal is a positive policy initiative. Although evidence here suggests that parents who share responsibility for their child with someone they live with also find it difficult to pay up-front childcare costs.

There is clearly a need for financial assistance to pay up-front childcare costs for a wider range of parents than can currently receive help, for instance, lone parents. At a time when the Government is encouraging a 'Welfare to Work' agenda, it is still the case that one in five parents say that up-front costs affect their decision to go back to work.

2.3 Involving providers

Harnessing the views of providers has been essential within this scoping project for a number of reasons:

- to establish how much they charge in advance fees, deposits and administration charges and what these up-front fees are for;
- to find out whether they are aware of parents'

financial situations prior to them joining the childcare facility;

- to explore what measures they have taken to reduce the financial burden on parents when they begin using the facility; and
- to find out whether they would be interested in participating in a scheme to help parents with the deposit aspect of up-front fees.

Providers were approached via interview and focus group settings, both to gain access to parents using childcare and to hear their views. This was mainly restricted to nurseries and children's centres, although childminders were included in a focus group and their views were also sought through an online forum. Nurseries and children's centres were contacted in the five geographical areas in the initial phase of the research to enquire whether they would distribute our survey to their parents. Most were willing and were able to provide information about their charges and how parents are meeting these costs.

From these initial conversations, a number of over-riding themes were found:

- Settings in the most deprived areas did not charge a deposit as they found it put parents off as many were unable to meet these costs.
- In the more deprived areas, nurseries offered the most flexible payment plans, for example, not requiring money up-front, allowing payment daily or weekly. However, they would not allow parents to accrue more than one week's arrears.
- At some nurseries, assistance was offered to parents on site to complete tax credit application forms.
- In some areas, many parents only use the free 12.5 hours so up-front charges were not an issue.
- Nurseries in more affluent areas reported that they are not aware of the parent's financial situation or how they raise the money for deposits and up-front fees.
- Providers in all areas were enthusiastic for a scheme that helps parents.

Provider focus groups/interviews

Two focus groups were held; one in Birmingham with nurseries³ and one in Barnet with childminders. Interviews were also held with two nursery providers in Liverpool.

³ This focus group drew 7 people from a range of nursery settings: two represented a large nationwide chain, three from smaller local chains (with at least two sites each), one from an independent day nursery and one from a charitable trust

2.3.1 Up-front fees charged

The fees they charge ranged from:

- £820 (a month's fees in advance) plus £50 registration fee (non-returnable in all cases, and in some cases it doesn't secure a place);
- £150 (a week's fees in advance) plus £25 returnable registration fee;
- daily charges with discounts for those who pay in advance; and
- £142–150 per week depending on the age of children, either a month or a week in advance, with no registration fees.

A couple of providers commented that receiving payment in advance was rare; *'This month I've got six who paid in advance (out of 52 parents)'*.

None of the nurseries charged a deposit. They all said that previous experience of this had worked against them as parents were unwilling to pay it. However, two of the more expensive settings included were reviewing this policy for two reasons; firstly, parents were paying a registration fee in spring and then not taking up the place in September. The managers felt that a greater financial incentive was required to ensure that places were taken up. Secondly, one of the nurseries was so over-subscribed and parents were willing to pay a deposit to secure a place, so they could charge a returnable deposit.

When asked about the registration fee, the larger nurseries all said that they charge a registration fee of up to £50. In some cases this was returnable and secured a place but at one this was neither returnable nor did it secure a place. When asked what this was for, they said it was simply a way of making money.

Up-front costs received by childcare providers were not invested or held separately from their core monies, but instead viewed by providers as a guarantee against non-payment. Within the current market-led approach to childcare development, up-front costs are necessary, and yet they were acutely aware that some families had difficulties making these costs.

2.3.2 Parental difficulty in paying up-front fees

One small chain of nurseries had many parents using statutory funding including free places and the Care to Learn scheme for young parents (see Appendix 1). They had tried to charge a month's fees up-front but the parents were unable to afford it and it backfired. They

felt that up-front fees are an issue for parents who are looking for work, but not for 'professional parents' in established employment.

A chain of nine nurseries we spoke to supported this view; that all their parents were professional couples, usually with two incomes and they have had to close their waiting list due to high demand. They also found that parents were often willing to pay more to secure a place.

Some childcare providers were already feeling the effect of the recession with parents losing their jobs and withdrawing their children from their settings. Parents were finding it difficult to meet childcare costs and one childcare provider we spoke to approximated that they were losing up to 10 per cent a year due to lack of payments, while another provider was owed £1,000 in unpaid fees at the time of our interview.

2.3.3 Flexibility and support

Flexibility and support offered to parents varied from one provider to another. Two of the nurseries in Birmingham offered practical support to parents, including phoning the Care to Learn Helpline and Tax Credit Office to chase up payments as well as more flexibility with up-front payments, including heavy discounts for those who paid a week/month up-front rather than daily. Payment was accepted by providers in Liverpool in either 'cash, cheque or standing order' — providers were mindful that many parents in their area did not have bank accounts.

The set-up of the nursery may be a factor in the support offered to parents to pay their fees; one of the small chains (three sites) said they have a slight problem with parents affording up-front fees but offered no flexibility in payments. They also had a very strict default policy; if fees aren't paid within seven days they charge two per cent interest per day until the invoice is settled up to a maximum of £5,000 in arrears when the child's place is withdrawn.

Another provider issued contracts that stipulate that parents must pay a month in advance although the same provider did allow some flexibility and allowed for weekly payments in advance; *'if they're paying cash they pay on the Monday, or they're supposed to'*. Childcare providers also reported difficulties when it came to demanding that payments be made on time; it was difficult to reconcile the 'care' aspect of their job with trying to manage a sustainable business.

The providers in Liverpool said that the recent recession was pushing them towards a more inflexible and hard-line approach towards non-payment: *'We tell the parents on the contract that if they're late paying then there's a surcharge on the fees'*. The other provider was developing a 'debt policy' and moving towards 'getting tighter' on default payments, yet providers were also keen to get more families 'through the door' – neither provider was running at full capacity.

2.3.4 Experiences of Government schemes

Providers in Liverpool cited *some* difficulties in dealing with tax credits, and felt that payment should go directly to the provider rather than to the parent.

Mixed reviews of the Childcare Taster Sessions were given. In Liverpool one provider thought that they worked well to support parents to find and return to work, *'They have been quite good, depending on the circumstances they either get 5, 15 or 30 days, so that would give the parent enough time to go and look for work, to find work, and get Working Tax Credit payments up and running'*. They also commented that another advantage is that *'we [childcare providers] also know that we've got a guaranteed payment coming from them as well'*.

In Birmingham, two providers who had used the Taster sessions said whilst the concept was great, they felt the scheme hadn't been successful as there had been no requirement on the parent to have employment. They reported that once the 'Taster' had been used, the child was withdrawn from the setting as the parent had no means of continuing with the ongoing costs.

2.3.5 Childcare Advance scheme

The question of whether a 'bond' would be appropriate didn't seem relevant as they didn't charge a deposit as such. But they were very keen for a scheme which helped parents meet their up-front fees to ensure occupancy. There were slight differences as to who should administer such a scheme as the larger more successful nurseries didn't appear to have any working relationship with the local authority and all providers were not keen to take on any more administration.

The possible options that this report is considering were outlined to childcare providers and they were interested in a possible scheme that would ensure payment was received and whereby a broker was involved to oversee the scheme.

2.4 Stakeholders

2.4.1 Family Information Services

The initial point of contact for the research was through FIS in each of the five areas. We also carried out face-to-face interviews with one FIS, telephone interviews with others and paper surveys to all five. They were contacted for several reasons:

- to ask for contacts of providers in the area;
- to research what local schemes were available to help parents with up-front costs;
- to harness their views on the perceived problem of up-front costs in their area; and
- to establish whether they would be in a position to administer a scheme such as Childcare Advance.

The response was mixed, ranging from full co-operation and assistance with all research to no response and non-co-operation. Interestingly in the area where the FIS was the least co-operative, many parents reported that they found the cost of childcare prohibitively high and it had affected their decision to go back to work.

The FIS that did respond had a good idea of parents' needs, were aware of the employment issues affecting use of formal childcare as well as being active in other ways at helping parents with all aspects of finding and paying for childcare.

Case study of Family Information Service: Birmingham

This has a staff of over 40 people including information officers, outreach workers and case workers who offer brokerage to parents trying to access childcare.

From their paper survey Birmingham FIS report that they get at least two enquiries a week from parents requiring assistance with their up-front childcare costs.

During the face-to-face interview they explained that often the parents requesting help with up-front costs are in distress; having been out of work for a long time, they need to overcome other personal barriers to getting back to work; have been misinformed by other agencies about funding available and are threatened with their child's place being withdrawn if the advance fees are not met immediately. Often these are women returning from maternity leave or those coming off benefits.

Providers in the area charge between £200 and £800 when a parent first starts using them. Most often, the FIS reports, there is no flexibility in these payments although through their brokerage service, the FIS has been able to negotiate using the Advisers Discretionary Fund or the Taster sessions as part payment for the advance fees in a few cases.

They also report that JCP advisers are unaware of what parents can claim to help with their childcare costs – despite many sources of help being administered by JCP. Their experience of JCP advisers is that they do not have knowledge of the childcare system and tend to refer parents to the FIS.

They estimate that 'hundreds' of families would benefit from a scheme that helps with up-front costs.

The FIS would like to administer the scheme and as it is already carrying out brokerage between parents, nurseries and often JCP, it is in the best position to undertake this role. They would, however, need an additional post to be funded to undertake this new role.

2.4.2 Employers

See Chapter one for examples of schemes offered.

IKEA cited their reasons for adopting family friendly policies, including an interest-free loan for up-front childcare fees as being to retain experienced people and lower their costs for recruiting and training staff. They reported a 90 per cent staff return rate (from maternity leave) in 2006. Later figures are not available.

Take-up of the Sutton and Merton NHS Trust scheme has been low according to the childcare coordinator although demand and interest has been high. The low take-up has been attributed to the issue of the interaction of the loan with other forms of help with childcare costs. Parents are advised that help from employer-supported childcare schemes or tax credits cannot be claimed at the same time as the loan (see 4.3.2 for HM Treasury advice on this) and, faced with a choice, parents prefer to make the savings on Income Tax and National Insurance Contributions.

3: Financial modelling

Chapter summary

For the purpose of financial modelling, certain assumptions are made; that the reach of the scheme is taken to be 20 per cent of families with a household income of less than £36,400 per year. This is based on the income groups who reported most difficulties and the proportion of parents whose decision to return to work was affected. It is also assumed that the maximum payment per child is £500.

Three options are costed on a national and local level; direct subsidy, interest-free loan and low interest loan. Costs considered include the administration costs of a scheme (including the risks associated with parents defaulting on a loan) and the capital fund needed to support the scheme.

Based on the assumptions above applied to the 635,600 childcare places available in England (August 2008), a national scheme would need to reach 68,645 families and would cost approximately (excluding set-up costs):

- £39,500,000 annually if offered as a direct subsidy;
- £7,550,000 annual running costs plus a capital fund of £17,150,000 if offered as an interest-free loan; or
- £6,520,000 annual running costs plus a capital fund of £17,150,000 if offered as a low interest loan.

On a local level, using Birmingham as an example where the above assumptions are applied to 37,600 childcare places (available in 2008) potential reach would be 4,061 families, costing approximately (excluding set-up costs):

- £2,335,000 annually if offered as a direct subsidy;
- £450,000 annual running costs plus a capital fund of £1,015,200 if offered as an interest-free loan; or
- £385,000 annual running costs plus a capital fund of £1,015,200 if offered as a low interest loan.

3.1 Introduction and background

This section provides outline financial models (and explanatory text) to inform pilot testing of support for up-front childcare costs. It should be viewed in the context of a cost/benefit analysis of the initiative. It is directly informed by the findings of research and surveys undertaken as part of the overall Daycare Trust Childcare Advance project.

In addition, it reflects early findings of the current JCP pilot project – the Up-Front Childcare Fund (UFCF) – see Chapter one.

3.2 Parameters for financial modelling

3.2.1 Childcare providers and financial management

As detailed in Chapter 2, up-front costs are mostly in the form of advance fees (usually a month's fees) although sometimes they are characterised as 'deposits' or 'administration' fees. In practice, childcare providers don't keep up-front payments separate in their financial accounting systems. There is a strong argument made that prudent financial management, and hence greater sustainability of provision, necessitates parents being asked to pay one month's childcare fees up-front. This prevents cash flow problems and provides a cushion against non-payment of fees.

As revealed in the research interviews, current losses to providers from unpaid fees can be up to £10,000 per annum and up to 5 per cent of overall fees income due. This puts the childcare provision at risk, including payments of staff salaries. It is a particular issue for small owner-manager nurseries in poorer areas who do not have access to funds as part of larger organisations.

3.3 Findings from Daycare Trust survey: informing options

3.3.1 Targeting

Clearly a wide range of options could be considered to respond to the need of parents for financial support with up-front childcare costs. The aim, however, is to respond to need with a targeted initiative that maximises benefits to those most in need but to widen the support currently available as far as possible, for

example, extending support to couples and lone parents who have not been claiming out-of-work benefits for a prolonged period. Childcare affordability is a key priority for the Daycare Trust. So too is maximising the existing support for childcare through the childcare element of Working Tax Credit (WTC).

3.3.2 Up-front costs

Findings of the research have revealed an overall (for all income groups) median payment of £300–500 for up-front fees. However, this is clearly a larger percentage of gross income for those on lower wages. As income goes up, up-front fees required tend to increase; this could reflect the fact that those on higher incomes tend to use more expensive childcare.

	Salaries range per annum	Median up-front fees
Household income	£18,000–22,000	£300
Household income	£22,000–25,000	£400+
Household income	£25,000–31,000	£400 +
Household income	£31,000–40,000	£500–600+

From the research, those with a household income of £12,000–18,000 per year and £31,000–40,000 per year are most likely to seek help with these up-front costs. The former are on relatively high levels of WTC but have a high percentage (of net income) required for use for up-front costs. The latter are likely to be near or just over WTC income limits. And, from the research conducted for this project, the latter often comprise a couple with one parent working full-time and one part-time.

Across all income bands at least 20 per cent expressed difficulty paying up-front costs.

The context therefore of the financial modelling is how to best help these two groups of families who face particular challenges in paying up-front childcare costs.

3.3.3 Affordability and cash flow

Childcare costs for working parents will be ongoing – although there is clearly a problem with up-front payments. For many this is primarily a cash flow issue pending receipt of wages and the childcare element of

WTC. It can be resolved within months. **For others is it an overall affordability issue which has to be seen as a separate issue.** This report is focused on addressing the former not the latter.

3.3.4 Options open to parents/carers to secure up-front fees

The parent survey conducted for this project shows many parents use high-cost lenders to fund up-front fees. The options open to parents for lenders to fund the costs include:

- Credit card – average 40 per cent APR for small loans. Increasingly credit card limits are reduced dramatically for customers with no notice.
- APR on cash loans – 183.2–365.1 per cent. The majority of the home credit market has a typical APR of over 250 per cent.
- Unauthorised overdraft costs can be more expensive than payday lending⁴, for example, £200 for 21 days now costs between £222 and £417 to repay (January, 2009).

For each parent who uses high-cost lending to fund up-front fees we can estimate the interest they will pay, for example, a £300 loan will incur interest of £100–200. Clearly this reduces their family's budget and increases their indebtedness. For those borrowing £500 – not untypical – interest repayments can reach £300+.

Non-profit lenders vary; the maximum APR a Credit Union is legally allowed to charge is 26.78 per cent APR. This is based on an actual 2 per cent per month interest on the declining balance of a loan.

For example, a £500 loan borrowed for 5 months and repaid in equal instalments will generate £30 interest. See Option Three in 3.4.

Credit Unions are also not allowed to charge loan set-up costs. If the loan is repaid early – for example, on receipt of WTC – there is no penalty for early repayment and the interest incurred will be even less. Many Credit Unions only provide loans to members who agree to save money with them although a small number are funded through the Government's Growth Fund⁵ to provide access to loans for people on low incomes without needing to save first.

⁴ Payday loans are small, short-term loans that are intended to help borrowers to meet expenses until their next payday. Interest rates vary.

⁵ The Growth Fund was set up in 2004 to increase the availability of affordable personal loans through not-for-profit lenders such as credit unions and CDFI.

3.4 Option on costs

This section comprises a series of tables and assumptions to model costs of various options to address the challenge of up-front costs. **All of these assumptions need to be tested out in a pilot delivery phase.**

3.4.1 Modelled responses

There are three types of modelled response – see Options one to three below:

Option one. A full and direct subsidy to parents of the up-front childcare costs they are asked to pay.

Option two. The offer of a short-term 'interest-free loan' from a non-profit organisation.

Option three. The offer of a short-term 'low interest loan' to parents.

All three options have the following assumptions:

- They are based on actual evidenced costs of up-front fees required.
- A maximum of £500 is available.
- There is only one payment per child.
- Monies paid will be restricted to up-front fees not for deposits. This is to ensure that there is not an incentivisation to charge deposits or administration costs.
- Providers cannot charge a differential (eg higher) up-front cost to parents who use this scheme.
- There will be an eligibility household income ceiling of £36,400. This fits with national income figures available and equates to a weekly household income of no more than £700 per week.
- For loans there will be not be early repayment penalty, for example, if help from the childcare element of WTC is received very quickly the loan may then be quickly cleared.
- For loans there will be standard required repayment methods, for example, either payroll deduction (eg by employers), Standing Order, Direct Debits or Benefits Direct.
- For loans it will be in effect a bespoke loan applied for and countersigned by the provider.

All options have been costed on the following basis:

- There are 635,600 childcare places in England (August 2008) – it is assumed that there is one child per place per year.
- Based on Data on Family Income by Household Type (DWP 2007), 54 per cent of households with children earn less than £700 per week, that is, a total income of £36,400 per year.

Therefore, an income ceiling of £36,400 per year (total household income) is used as a ceiling for eligibility.

- From the parent survey conducted for this project, assume that approximately 20 per cent of parents have difficulties paying up-front childcare costs.
- Hence, 635,600 x 54 per cent x 20 per cent results in:

68,645 families per year who are likely to use the Childcare Advance scheme.

For **direct subsidy** models in particular, this figure is likely to rise dramatically once a scheme is established and, so further eligibility criteria may be required, or more funding to be made available.

3.5 Cost models

3.5.1 National models

Option one: Full and direct subsidy to parents of up-front childcare costs

This option assumes each parent who meets eligibility criteria is given a full subsidy of up to £500 on a non-returnable basis.

Unit costs to delivery body

Capital unit cost per subsidy	Admin %	Admin actual £	Total per subsidy
£500	15%	£75	£575

The 15 per cent administration charge is an estimate based on delivery of other bond schemes (eg rent guarantees).

National costs

Total cost pa	68,645	x	£575	=	£39,470,875
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These costs do not include national set-up costs (ie to set up a large capital fund for local disbursement).

National set-up costs

Total operating costs pa to administer the funds		200,000
Staffing	10 @ 40,000	400,000
Total		£600,000

Option two: Short-term interest-free loans

This option assumes each parent who meets eligibility criteria is given an interest-free loan of £500 repaid over 5 months.

Unit costs to delivery body

Capital unit cost per subsidy	Admin %	Admin actual £	Total per subsidy
£500	22%	£110	£610

Delivery (ie lending) body will require revenue funding to cover their administration costs. However, an employer, for example, could choose to absorb these administration costs. The administration charge is based on assumptions below and based on market averages.

Management and administration costs

Loan	£500	
Fixed costs	15%	£75
Risk charge*	5%	£25
Capital charge**	2%	£10
		£110

Fixed costs include: marketing; application; assessment; decision; disbursement; and office costs.

Hence, for each loan **£110** will be required for management and administration.

*This represents the default rate on the loans. The figure used is a market average for credit union loans; the level will need to be tested through pilot delivery as default rates for low interest credit can be higher than this but for employer-based loans, may be lower.

**This represents the interest foregone by not having the money held on deposit and/or high interest accounts. Currently interest rates are low but they may rise in 2009.

Unit costs to parents

Month 1	£500 balance	£0 interest
Month 2	£400	£0
Month 3	£300	£0
Month 4	£200	£0
Month 5	£100	£0
Total interest cost to parent		£0

Assume interest rate 0 per cent per month on declining balance

Based on repayment over 5 months @ £100 per month

National costs – revenue

	Number of loans		Admin costs	
Total cost pa	68,645	x	£110	£7,550,950

These national costs do not include national set-up costs (ie to set up a large capital fund for local disbursement).

National costs – capital fund

This will be a revolving capital fund which needs initial capitalisation.

Assume disbursements to delivery agents are made in tranche drawdowns (eg £100,000 at a time).

Assume capital fund is recycled from Year 2. This global figure is for all of England.

Assume one loan per month (ie 12 per annum) requires £3,000 capital fund.

capital fund cost is total for year one but assumes that the total fund is required by month 11.

No loans	Capital fund required Year 1
68,645 @ £500	£17,161,250

National set-up costs

Total operating costs pa to administer the funds		200,000
Staffing	10 @ 40,000	400,000
Total		£600,000

Option three: Short-term low interest loans

This option assumes each parent who requests is giving a 'low interest loan' of £500 repaid over 5 months. The interest rate is assumed at 2 per cent per month on the declining balance – the maximum permitted by Credit Unions.

Unit costs to delivery body

Capital unit cost per loan	Admin %	Admin actual £	Admin cost minus interest
£500	25%	£125	£95

The delivery (ie lending) body will require revenue funding to cover their administration costs. However, an employer, for example, could choose to absorb these administration costs.

These administration costs will be reduced by the interest received by the lender.

The administration charge is based on assumptions below and based on market averages.

Management and administration costs loan £500

Fixed costs	15%	£75	
Risk charge*	5%	£25	
Capital charge**	2%	£10	
Regulatory retentions***	3%	£15	(required by Credit Unions)
£125			

Fixed costs include: marketing; application; assessment; decision; disbursement; and office costs.

Hence for each loan **£95** will be required for management and administration.

*This represents the default rate on the loans. The figure used is a market average for credit union loans; the level will need to be tested through pilot delivery as default rates for low interest credit can be higher than this but for employer-based loans, may be lower.

**This represents the interest foregone by not having the money held on deposit and/or high interest accounts. Currently interest rates are low but they may rise in 2009.

***This represents the FSA required minimum amount for allocation to a statutory reserve and a realistic return on funds raised (for Credit Unions in the form of a dividend).

Unit costs to parents

interest 2% per month

Month 1	£500 balance	£10
Month 2	£400	£8
Month 3	£300	£6
Month 4	£200	£4
Month 5	£100	£2
Total interest cost to parent		£30

National costs – revenue

	Number of loans	Admin costs (minus interest)
Total cost pa	68,645 x	£95
		£6,521,275

National costs do not include national set-up costs (ie to set up a large capital fund for local disbursement).

National costs – capital fund

This will be a revolving capital fund which needs initial capitalisation.

Assume disbursements to delivery agents are made in tranche drawdowns (eg £100,000 at a time).

Assume capital fund is recycled from Year 2. This global figure is for all of England.

Assume one loan per month (ie 12 per annum) requires £3000 capital fund.

Capital fund cost is total for year one but assumes that the total capital fund is required by month 11.

No loans	Capital fund required Year 1
68,580 @ £500	£17,161,250

National set-up costs

Total operating costs pa to administer the funds	200,000
Staffing	10 @ 40,000
Total	£600,000

3.5.2 Local model

Model of local delivery in Birmingham

Childcare places in Birmingham (2008)

19,900	PVI places for 0–4 year olds
9,700	PVI places for 5–7 year olds
8,000	Maintained places
37,600	Total childcare places

Based on (DWP, 2007) Data on Family Income by household type, 54 per cent of households with children earn less than £700 per week (ie a total family income of £36,400 per annum).

If an income ceiling of £36,400 per annum (total household income) is used as a ceiling for eligibility — from DCT survey — assume approximately 20 per cent of these have a problem with up-front childcare costs.

37,600 x 54% x 20% results in
4,061 families per annum in Birmingham who are likely to want/use the Childcare Advance scheme.

This assumes a family may have more than one child who is eligible.

		No Units	Revenue costs Year 1
Option 1	Full subsidy	4,061	£2,334,960
Option 2	No Interest loans	4,061	£446,688
Option 3	Low interest loans	4,061	£385,776

In addition, for Options 2 and 3 a capital fund of £1,015,200 will be required in Year 1.

Based on costs as outlined in 3.5.1

3.6 Conclusion

The tables reveal the following:

Costs	Option 1 Full subsidy	Option 2 No interest loan	Option 3 Low interest loan
Cost to parent	0	0	£30
Unit revenue cost of each Childcare Advance	£575	£110	£95
National cost of roll out Year 1	£39,433,500	£7,543,800	£6,515,100
National capital fund required	£0	£17,145,000	£17,145,000

The tables also show what a Childcare Advance initiative could cost at a local level, for example, in Birmingham.

Costs	Option 1 Full subsidy	Option 2 No interest loan	Option 3 Low interest loan
Cost to parent	0	0	£30
Unit revenue cost of each Childcare Advance	£575	£110	£95
Cost of roll out Year 1	£2,334,960	£446,688	£385,776
National capital fund required	£0	£1,015,200	£1,015,200

3.6.1 Option of full direct subsidy

Clearly from financial modelling enclosed, this requires large-scale funding and take up is likely to be very widespread and require renewing every year, which makes the sustainability of the scheme more tenuous. It will likely require considerable rationing. This could generate hostility and divisiveness.

Also if it is a non-returnable direct subsidy it will not be eligible for the childcare element of WTC as it will not be an incurred childcare cost and its treatment as income for tax purposes would need to be clarified.

3.6.2 Loan options

The advantage of the loan options is that the childcare fees paid by loans will be eligible for the childcare element of WTC. Advice from HMRC (July 2009) is that there will not be an effect on the childcare element of WTC or childcare vouchers. The recycling of the Capital Fund also makes the loan options more sustainable.

And if a small interest charge is made it will offset the

necessary revenue support for administration costs. Hence, Option Three, with a low interest charge, costs less per individual loan and for national roll out.

However, small-scale loans, even with a low interest charge, are not viable for not-for-profit lenders delivering affordable credit unless supported by revenue support. Some of this revenue support could come from, for example, Housing Associations and/or employers if they decide to forgo any interest, for example, as an employee benefit. Some already offer interest-free loans.

3.6.3 Risks

For loan options the main risk of default is borne by the lender and included in the costs as outlined. For both models a risk (ie of default) of 5 per cent is included – paid by the funding body. This is market average for credit union loans and realistic in the current market.

If a parent defaults on the loan there is also (as with all loans) a risk to their credit rating. This would need to be

made very clear in the loan agreement. It is, however, the same if they used a doorstep lender or credit card loan arrangement.

For some parents a loan would not be granted as the risk would be deemed too high by the lender given their credit history and granting a loan would be considered 'irresponsible lending'. However, some of these people would then use a high-cost lender who prices-in this risk short-term through very high interest rates. These interest rates themselves become a contributory factor in creating further indebtedness. Clearly for these families there is a bigger issue of the overall affordability of the childcare in the medium term.

It could be argued that the risk of default will be lower if the loan is granted by an employer given the nature of the relationship. This may be similar if granted by a Housing Association.

Support for speeded-up WTC claims would assist in reducing risk as it would facilitate earlier repayment.

4: Proposed delivery model

Chapter summary

The importance of wide reach to any scheme is stressed, as is the need for eligibility to extend to parents returning to work (eg after maternity leave, to couples and to lone parents who have not been in receipt of out-of-work benefits for prolonged periods).

On cost grounds, loans seem to be preferable to a direct subsidy to parents as they offer a better fit with current financial support with childcare costs and a more sustainable model. The Capital Fund would largely be recycled beyond the first year of the scheme.

Potential delivery agents are influenced by financial regulation, so partnership models are recommended to combine the financial credentials of Credit Unions or CDFIs with the links with families of FIS or RSL. It is also suggested that employers could develop and deliver schemes for their employees.

The fact that a number of different delivery models is suggested are indicative of both a need for pilot testing of a new scheme to determine the effectiveness of the mechanisms and products proposed, but also of the long term need for a range of options to meet the different needs of families rather than a national 'one size fits all' model.

4.1 Introduction

To ensure that the up-front costs loan scheme reaches those most in need, careful consideration needs to be given to delivery agents and access points as well as the marketing of the scheme.

The need for help identified in this project is to address a cash flow issue rather than the more long term affordability of childcare, so there are certain factors that a scheme offering help with up-front childcare costs must offer. These include:

- Reactivity – help will be needed with very little notice and must be in place before the parent starts work.
- Affordability – whilst help is needed in the short term, repayment must be available at a manageable rate and be sensitive and flexible to the different circumstances of families so that debt is not incurred by parents who seek help with these costs.
- Accessibility – a scheme should be available as widely as possible so that debt is not incurred as a consequence of seeking help with these costs.

4.2 Business case

The financial modelling and analysis leads us to suggest that the best option for delivery of a scheme to support parents with up-front childcare costs is to offer a low interest or interest-free loan. The business case and benefits of such a scheme are outlined below.

4.2.1 General benefits

The general benefits of an effective up-front costs loan scheme could include:

- Use of formal childcare would increase, as a barrier to using childcare would be removed.
- Increase in employment rate of parents alongside an increase in tax and National Insurance income from parents who may otherwise decide not to work because they are unable to pay up-front costs.
- Improved sustainability of provision as a result of reduced arrears, increased income generation, reduced defaults and increased occupancy rates which improves provider cash flow and less staff time needs to be spent chasing unpaid fees.
- Less family income spent on borrowing money to pay

up-front costs increases the family's cash flow and reduces debt.

- Wider eligibility for help: whereas JCP pilots are for lone parents only, a Childcare Advance loan would be available to couples and lone parents returning to work who haven't been in receipt of out-of-work benefits.
- On the assumption that Childcare Advance is targeted at fees in advance only – not deposits – it won't encourage a growth in childcare providers requiring deposits.

4.2.2 Benefits to the economy

In addition to the income generated through tax and National Insurance from parents who are able to start or return to work as a result of an up-front costs loan, the impact on the sustainability of childcare provision would also benefit the economy. Sufficient childcare provision underpins welfare reform and return-to-work strategies. Providers included in our research cited late and non-payment of fees as an issue they regularly face and the importance of fees in advance to providers as a way of securing their business is acknowledged.

4.2.3 Benefits of loan options

A specific benefit of the loan options is that they avoid the issues that arise in the direct subsidy model regarding increased taxable income and non-eligibility for WTC. They provide clear evidence for WTC of actual monthly costs and loans could be significantly repaid by WTC claims.

Choosing one of the loan options also allows for greater sustainability of the scheme as a whole new capital fund would not need to be raised each year. In the current economic climate, financial viability and sustainability must be at the forefront of any recommendations.

4.3 Delivery vehicles

The delivery of an up-front costs loan scheme is as significant as its funding and eligibility. Current schemes are available through statutory sources, for example, JCP, but only reach a small number of parents who find it difficult to pay up-front costs. To reach the higher income groups who said that they experienced difficulties meeting up-front costs (eg £31,000-40,000), reach would need to go beyond this. For this reason a number of delivery organisations/mechanisms are suggested.

4.3.1 Financial regulation

In proposing delivery models for the scheme, financial regulations have to be considered. Financial institutions such as Credit Unions and some CDFIs will already be regulated by the Financial Services Authority (FSA) and it may be appropriate to combine the financial expertise of one of these with the childcare expertise of a Family Information Service to develop the most productive delivery vehicle. The FSA suggest that as this is a new product being offered, a consumer credit licence may be required from the Office of Fair Trading. The scheme may be eligible for a group licence and clarity is required on whether employers need a consumer credit licence to offer loans.

Further clarity is required as to whether a separate consumer credit licence would be needed to cover loans offered by employers and if so, whether a group licence could cover these loans such as the Cycle to Work scheme.

4.3.2 Employers as delivery agents

As proven by the small number of employers who already offer interest-free loans to their employees, employers could be an effective agent for the delivery of a loan scheme. This route enables help to be targeted beyond statutory services and opens access up to two groups who currently tend to miss out on support with up-front costs; those already in employment but returning to work after a period of absence (after maternity leave, for example) and couples.

The scheme could operate along the same principles as the season ticket/bicycle loans already offered by employers where interest-free loans are offered to employees and the money is reclaimed by the employer at source, through payroll deduction at an agreed rate and for an agreed period.

Employers could be incentivised to offer loans to new starters as well as established employees by offering short repayment periods and restricting eligibility to those with a permanent contract or contract of a minimum length.

Advice from HM Treasury is that the costs met by an employer loan – even if paid direct to the provider – are eligible costs for both tax credits and childcare vouchers.

4.3.3 Credit Unions/CDFIs as delivery agents

Already delivering financial services across 65 per cent of England, Credit Unions are established and expert in

offering low interest credit and financial support and education. Expansion of their services to include a loan specifically for parents who need help with the up-front costs of childcare is feasible but may require central funding/underwriting as local Credit Unions may not have the reserves to support many small-scale loans.

To widen reach, Credit Unions working in partnership with social/community organisations with a focus on childcare and/or employment support may be the preferred option.

4.3.4 Local authorities as delivery agents

Local authorities, as the co-ordinator and providers of childcare and family information, also stand out as potential delivery agents for a loan scheme. Access through FIS would enable the widest reach as they are open to all families within the local authority area regardless of income or employment status.

However, financial regulation requirements may make it unworkable for FIS – or any part of the local authority – to administer the scheme. For this reason, Family Information Services/local authorities should be considered as delivery agents only when in partnership with a financial organisation or institution.

4.3.5 Registered Social Landlords as delivery agents

RSLs offer the advantage of both enabling access to the scheme for parents in the lower income groups and, increasingly, of being both housing provider and tenancy or employment support services. The support-side of an RSL could be well-placed to deliver an up-front costs loan as they are able to offer support and advice to ensure tax credit claims to support on-going costs and affordability issues.

RSLs would, however, bring the same regulatory issues as for Family Information Services, so again they may lend themselves best to belonging to a partnership delivery with a financial organisation such as a Credit Union or CDFI.

4.4 Administration of a loan scheme

Costings have been provided for both a national scheme and a sample local delivery model. Whilst pilot schemes would obviously need to be funded on a local level, consideration should be given to the possibility of offering a national scheme as a central fund but

delivered locally by appropriate agents. These could all be based on standard criteria including:

- initial interview;
- information requirements (eg evidence of childcare place and costs);
- payment methods; and
- loan repayment methods (eg repayment over a period of up to five months gives the lender a chance to stabilise income versus costs and interest).

The inclusion of evidence requirements (of childcare costs and proof of a new job/income) will ensure loans are being paid to meet childcare costs rather than being used as a more general source of low-cost borrowing.

The option of a national scheme with central delivery has not been considered because it is felt that local delivery would offer the widest access to the scheme.

If employers were to offer a loan scheme, it would be expected that they fund the scheme themselves (as they do currently for season ticket loans, for example), but it is possible that a national scheme offering to underwrite loans offered to new starters may provide an incentive to employers to start or widen a scheme.

5: Conclusions and recommendations

This scoping project has identified a need for targeted, affordable financial support with up-front childcare costs, but has also identified a very varied audience who may be in need of this help.

A pilot stage is being recommended in order to further test some of the issues raised in this research. The aims of pilot delivery are:

- To assess the impact of the scheme options on numbers of parents starting or returning to work.
- To test the options of payment to childcare providers or to parents and the impact this may have on the success of a scheme.
- To establish the administration costs of the different scheme options.
- To test the efficiency of the scheme options; ability to meet the needs of parents for financial support in a timely and secure manner.
- To ensure the long term affordability of a scheme for parents; testing amounts paid out and repayment terms.

To ensure maximum reach, different models with common eligibility criteria are being recommended both at pilot stage, and beyond this, for national implementation. It is felt that a 'one model to meet all needs' approach would not meet this aim.

The research suggests that the common criteria for a Childcare Advance scheme to help parents meet the costs of up-front childcare should be that it:

- is open to families with a household income (including benefits) of up to £40,000 per year;
- meets the costs of fees in advance (up to a maximum of 4 weeks or one month's fees per child), but not deposits;
- requires evidence of registered childcare fees and income and a standard initial interview; and
- is offered as a low interest/interest-free loan.

It is proposed that a second stage of the project should pilot a Childcare Advance scheme through the following delivery agents:

- employers (offering an interest-free loan);

- Family Information Service & Credit Union/CDFI (offering a low interest loan); or
- RSL & Credit Union/CDFI (offering a low interest loan).

Pilots – or a national scheme – should initially target the 20 per cent of parents for whom up-front childcare costs are most likely to affect their decision to start or return to work.

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Appendix 1: Additional help with ongoing childcare costs

Free early years and childcare entitlement for three- and four-year olds

From April 2006, all three- and four-year olds are entitled to 12.5 hours of free early education, for 38 weeks a year, and this is being extended to 15 hours a week by 2010, with some local authorities already providing 15 hours a week. The entitlement often consists of five 2.5 hour sessions, but many childcare providers are now providing this more flexibly, and some are enabling parents to stretch their entitlement over more than 38 weeks, so that they can take fewer hours over more weeks. Some local authorities are also piloting an offer of 10 hours a week to two year olds, focusing on disadvantaged groups as research shows they will benefit most from early education. The long-term goal in the Childcare Strategy is to provide 20 hours of childcare a week, for 38 weeks a year.

The childcare element of Working Tax Credit can provide working families, on low to middle incomes and who work over 16 hours a week, with up to 80 per cent of their childcare costs. This is up to a maximum level of £175 for one child and £300 for two or more children, meaning that parents can claim a maximum of £140 a week for one child and £240 for two or more children.

470,000 families are currently claiming an average of £69 per week from the childcare element of Working Tax Credit (HMRC 2009: 3).

Employer-supported childcare was introduced by the Government to help working parents with the cost of formal childcare. This benefits parents on higher incomes who are not eligible for the childcare element of Working Tax Credit. The majority of employers use a voucher company to administer the scheme, although some (mainly smaller employers) pay childcare providers directly. Each parent can receive up to £243 worth of vouchers each month (or £55 each week) free from income tax and National Insurance Contributions. The scheme usually is as a salary sacrifice, whereby the employee is provided with childcare vouchers in lieu of a portion of their salary; however, it can be added on top of a salary. The 2007 Parents' Childcare Survey found that 19 per cent of families who had paid for childcare in

the last week had received financial help from their employer. Seventy-seven per cent of people receiving support from their employers did so through salary sacrifice (Kazimirski et al, 2008: 78).

New Deal for Lone Parents is a package of intensive support offered at JCP to help lone parents to find and start work. Similar programmes are offered to partners of workers.

Childcare Subsidy will pay childcare costs up to £87.50 for one child and £150 for 2 or more children for up to 52 weeks for parents who:

- have been participating in the New Deal for Lone Parents (or Partners) programme; and
- are starting work for less than 16 hours per week; and
- use registered childcare.

Take-up figures for Childcare Subsidy are very low with only £243,000 spent on Childcare Subsidy in the year 05/06 and no later data available. This suggests that only 200 parents benefited from the subsidy (NAO, 2007:33).

Care to Learn offers help with childcare costs to parents aged 16–19 who return to school or college after having a baby. Parents can receive up to £160 (£175 in London) towards the cost of registered childcare. Payment is made direct to the childcare provider. The scheme is administered by the Learner Support Fund.

Childcare Affordability Programme offers subsidised childcare to lower income families across London. Phase Two of the programme was for parents who are looking for employment, starting employment or parents on vocational training leading to employment and offered subsidised childcare for children aged 0-14 years. Phase Two has now ended.

Appendix 2: Parent survey

Section A: Your Family

1. How many children do you have in each of the following age bands?

- | | | | |
|-----|--------------------------|-------|---|
| 0-1 | <input type="checkbox"/> | 6-11 | <input type="checkbox"/> |
| 2-3 | <input type="checkbox"/> | 12-14 | <input type="checkbox"/> |
| 4-5 | <input type="checkbox"/> | 15-18 | <input type="checkbox"/> (for children with additional needs) |

2. Do any of your children have any disabilities or additional needs?

- Yes
– No

3. Which of the following best describes your situation? (Please tick one)

- I have sole responsibility for my children
– I share responsibility with someone I live with

4. Please tick your own (and partner's, if applicable) employment status

- | | You | Your partner |
|----------------------|--------------------------|--------------------------|
| – Employed full time | <input type="checkbox"/> | <input type="checkbox"/> |
| – Employed part time | <input type="checkbox"/> | <input type="checkbox"/> |
| – Self employed | <input type="checkbox"/> | <input type="checkbox"/> |
| – Voluntary work | <input type="checkbox"/> | <input type="checkbox"/> |
| – Studying | <input type="checkbox"/> | <input type="checkbox"/> |
| – Not in employment | <input type="checkbox"/> | <input type="checkbox"/> |

5. Which bracket best describes your household's annual income, including benefits?

- | | | | |
|-------------------|--------------------------|-----------------|--------------------------|
| – below £5000 | <input type="checkbox"/> | | |
| – £5000 – £8000 | <input type="checkbox"/> | £31000 – £40000 | <input type="checkbox"/> |
| – £8000 – £12000 | <input type="checkbox"/> | £40000 – £50000 | <input type="checkbox"/> |
| – £12000 – £18000 | <input type="checkbox"/> | £50000 – £60000 | <input type="checkbox"/> |
| – £18000 – £22000 | <input type="checkbox"/> | £60000 – £70000 | <input type="checkbox"/> |
| – £22000 – £25000 | <input type="checkbox"/> | £70000+ | <input type="checkbox"/> |
| – £25000 – £31000 | <input type="checkbox"/> | | |

Section B: Use of Childcare

1. What type(s) of childcare, if any, have you used in the last three months?

- Day nursery
– Nursery school or nursery class
– Breakfast/after-school club
– Holiday Club/Scheme

- Childminder
– Specialist day nursery or unit for children with disabilities/SEN
– Playgroup or pre-school
– Nanny
– Au Pair
Other: please specify _____

– No childcare

Go to section D

Section C: Paying for Childcare

1. When you started with your main childcare provider what up-front costs were you required to pay?

- Deposit If so, how much £
– Fees in advance If so, how much £
– Holding or booking fee If so, how much £
– Other: please specify _____

2. Were you offered the option to pay the above costs in instalments?

- Yes
– No

3. Did you find it difficult to pay for these costs?

- Yes
– No

4. Did you seek any financial help to pay for these costs?

- Yes
– No

5. If you received any financial help, where did it come from?

- Family or friend
– Door-step loan eg Provident
– Credit card
– Credit Union
– Bank loan
– Job centre plus loan
– Overdraft
– Employer assistance
– Hardship fund from childcare provider
Other: please specify _____

6. Did the up-front costs affect your decision to go back to work?

- Yes
– No

If yes, briefly explain how

7. Do you receive any of the following (please tick all that apply)

- Child Tax Credit
– Working Tax Credit
– Severe Disability element of Child Tax Credit
– Childcare element of Working Tax Credit
– Child Benefit
– Employer supported childcare eg childcare vouchers
– Childcare Assist, through New Deal
– Care to Learn, for teen parents
– Funding from your college or university
– Sixth-form college childcare scheme
– Funding from your local authority
– Disability Living Allowance (for your child)
– Disability element of Child Tax Credit
– Housing benefit
– Other; please specify

Section D: No childcare

1. If you have not used any childcare in the last three months, please give your reasons for this? (please tick all that apply)

- I'd rather look after my children myself
– Childcare is not available when I need it
– I can't find childcare in a convenient place
– There are no childcare providers I could trust
– I prefer to use family/friends because I know them
– I prefer to use family/friends because they are free
– Childcare is too expensive
– Childcare does not reflect my culture
– I do not know how to find good childcare
– I cannot find childcare to meet my child's needs

2. Did the up-front costs required by childcare providers affect your decision at all?

- Yes – If so, briefly outline how below
– No

About you

We would be grateful if you would answer the following question, so we know our survey is representative.

- Are you Male Female How old are you?
under 20
20-29
30-39
40-49
50+

Please describe your ethnic background:

- White** **Asian**
British Indian
Irish Pakistani
Other; please specify Bangladeshi
Other; please specify

- Black** **Chinese or other**
Caribbean Chinese
African Other; please specify
Other; please specify

To be entered for the prize draw, please fill in your contact details below. Daycare Trust will not pass your details on to any other organisation.

Name:

Address:

Email:

Telephone:

Would you be willing for us to contact you as part of the Childcare Bonds project and be involved further in giving your views?

- Yes
– No

Would like to find out more about becoming a member of the Daycare Trust (membership is free for parents)

- Yes
– No

THANK-YOU

Appendix 3:

Providers interviews

Explain what the project is about – why we are investigating and why we need the views of providers.

1. What do they charge for childcare?
 2. Differences in amount required depending on age of child – under twos more expensive?
 3. What fees are paid up-front and when?
 4. Rationale for this up-front funding... non-occupancy/default
 5. What is done with the money?
 - General part of income
 - Kept separately
 - Interest earned
 6. How is it paid – how is it agreed to be paid?
 7. Any flexibility with this – explain – has there been an increased demand for flexibility? Types of parents who ask for flexibility – those claiming childcare element of Working Tax Credit/those coming off maternity leave/single parents.
 8. What % of total income per year is factored in up-front payments – how is it factored into financial planning?
 9. If deposit, how often is it not returned? How much of a problem is it?
- Turnover of children? That is, how often do you have new starters?
10. How do schemes like Taster sessions, New Deal funds and JCP pilots fit in with your fees policy?
 11. Who administers the fees/invoicing, etc? How much time does it take?
 12. Discuss Childcare Advance scheme and their thoughts on it.
 13. What they think might work best – offer different financial scenarios.
 14. Would it be useful to have someone who was able to chase up WTC claims etc? (Brokerage role of CB scheme)

Bond to cover the deposit – so no money changes hands but if parent defaults on place, the provider is paid by the scheme. FIS to possibly administer this (this one affects providers most as we are suggesting they do away with deposits).

Appendix 4:

Family Information Service survey

Childcare Bonds – assisting parents with up-front costs of childcare fees

Your views: Family Information Service

Childcare costs are one of the biggest financial burdens on parents when entering or re-entering the job market. The Daycare Trust childcare bond scoping project is exploring how to remove this financial barrier to employment by developing a scheme that will offer parents the chance to access childcare of their choice without the significant outlay of up-front fees while ensuring the provider does not lose out financially.

Are up-front costs a problem for parents?

1. Do you receive enquiries from parents requesting help with paying up-front fees such as deposits and fees in advance?

- Yes
– No

If so, how many (per week/month)?

2. If you do not receive enquiries directly to your service about this, do you have anecdotal evidence of parents struggling with up-front fees in your area? Please give details

Up-front fees in your area

3. Do most providers charge fees up-front?

- Yes
– No

What do these fees consist of (eg retainer, fees in advance, deposit)?

4. How much on average does a parent pay in your area when they start with a new childcare provider?

Nursery: Pre-school: Childminder
Don't know

5. What sort of flexibility – if any – do providers offer to parents with payments (eg payment plans)?

6. Please tell us about any schemes/initiatives operating in your area to help parents with up-front fees? Please include: Any Jobcentre Plus schemes, Early Years initiatives, Sure Start and charitable trust schemes.

● Of the schemes you have listed, please briefly outline:

- The criteria
-
-
- the average amount awarded
-
-
- who administers the scheme
-
-
- whether it is felt to be successful and any other comments.

Administration of a childcare bonds scheme

7. If Daycare Trust was to launch a scheme to help parents with the up-front costs of starting at a new provider – and entitlement to this help was not restricted to those coming off benefits eg Jobseeker's Allowance to start work – how many parents in your area do you think could benefit from such a scheme?

- don't know

8. Would your Family Information Service be in a position to administer the scheme?

- Yes
– No
– Don't know

9. The scheme may require a level of brokerage or support for childcare providers in order to be successful; would your service be in a position to offer this?

- Yes
– No
– Don't know

10. What additional resources – if any – would the FIS require to undertake the administration of this?

- We are well resourced to undertake this additional service
– We would require an additional post to administer this
– Unsure of what additional resources are required
– Other comments: _____

Thank you for completing this questionnaire. We will let you know how the project progresses.

Please email your completed form or return to Childcare Bonds Project, Daycare Trust, 21 St Georges Road, London SE1 6ES

Daycare Trust, the national childcare charity, is campaigning for quality, accessible, affordable childcare for all and raising the voices of children, parents and carers. We lead the national childcare campaign by producing high quality research, developing credible policy recommendations through publications and the media, and by working with others. Our advice and information on childcare issues assists parents and carers, providers, employers, trade unions and policymakers.

Established in 1986, Daycare Trust has seen its campaigning translate into policy change, including the establishment of the national childcare strategy. However, access to quality childcare services is still dependent on where families live and on their income. Daycare Trust is uniquely qualified to give a voice to parents facing a multiple range of challenges. Please support our campaign for universal quality affordable childcare.

Daycare Trust offers a range of services, including an information line, publications, consultancy, training and membership. Contact us for details of our services or visit our website.

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