

Help with upfront childcare costs

For many parents, the requirement to pay upfront childcare costs including fees in advance, deposits, retainers and administration fees to secure a place with a childcare provider creates a significant barrier to starting or returning to work.

This project investigates the help currently available to families when faced with upfront childcare costs and the extent to which parents experience difficulty meeting these costs. It also models potential options for a sustainable scheme offering financial help to parents with these costs.

Key findings

- Research carried out for the project found that over half of parents surveyed struggled to pay upfront childcare costs, with 21 per cent reporting that upfront fees affected their decision to go back to work.
- Parents who lived in households with an income of £40,000 per year or less were most likely to report difficulties. Both lone and couple parents reported difficulties paying upfront fees.
- Childcare providers interviewed for the project said that payment of fees in advance was essential for the sustainability of their business.
- Financial modelling tested three options – a full and direct subsidy, an interest-free loan and a low-interest loan. The annual costs of running these options on a national level were estimated to be between £6,520,000 (with a £17,150,000 capital fund) and £39,500,000.

Key recommendation

These research findings support the need for a national scheme offering parents financial help with upfront childcare costs and suggest that a low-cost loan delivered by not-for-profit lenders is the best way of supporting parents, both for the long-term sustainability of the scheme and in order to offer a better fit with financial help with ongoing childcare costs available to parents.

A second stage of this project is recommended during which different delivery models can be trialled and evaluated. At least one pilot should be an employer delivered loan scheme and one delivered through a partnership between a community organisation or family information service and a credit union or community development finance institution.

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About the study

This project by the Daycare Trust adopted a mixed methods approach to exploring the prevalence of upfront childcare costs and the impact they have on families and providers, and set out a sustainable solution to the issues raised.

A literature review was carried out to establish previous work in this area and investigate any current help and policy initiatives taking place on the issue of upfront childcare costs.

Parents, childcare providers, family information services and employers were identified as key stakeholders. The research focused on five geographical areas in England – Barnet, Birmingham, Horsham, King's Lynn and Liverpool.

Parents' views were collected via 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 were invited to focus groups. Family information services were sent a survey and interviewed by telephone. The findings were then subject to a qualitative analysis.

In the final stage of the research financial modelling of three options to support parents to pay upfront childcare costs – full and direct subsidy, interest-free loans and low interest loans – was carried out to find the estimated costs of delivery on a national and local level.

Policy and practice context

The Government's welfare reform agenda promotes parents' transition 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 upfront childcare costs has yet to be successfully tackled.

Whilst a range of help is available to parents with ongoing childcare costs, existing help specifically to meet upfront childcare costs was found to come mainly from two sources – a Jobcentre Plus pilot scheme available to lone parents in London only

and a limited number of employers who offer interest-free loans to their employees to meet upfront childcare costs.

The sustainability of childcare provision is vital to maintaining the movement of parents into work, and the study therefore considers the importance of upfront payment to providers.

Key concerns

The findings of the parent survey include:

- 58 per cent of parents who responded to the survey said that they found it difficult to meet upfront childcare costs.
- Families with a household income of less than £40,000 were most likely to report having difficulties meeting the upfront costs of childcare, and those with an income of £12,000–18,000 and £31,000–40,000 were most likely to indicate problems.
- Median upfront 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 upfront childcare costs affected their decision to return to work; more parents in couples (79 per cent) than lone parents (20 per cent) reported this.

'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!'

'We're both working full time and earning between £22,000–25,000 [joint income]. Our nursery fees upfront were £630 and although we tried to get help, we didn't, and this really affected my decision to go back to work.'

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

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.

Family information services reported that enquiries to their service show that parents have difficulty meeting upfront childcare costs and were supportive of a scheme that would help parents with these costs.

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 it was assumed that the reach of the scheme is 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 the most difficulty 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. A scheme was estimated to cost between £6,520,000 (with a £17,150,000 capital fund) and £39,500,000 (excluding set-up costs).

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, and a scheme was estimated to cost between £385,000 (with a capital fund of £1,015,200) to £2,335,000 (excluding set-up costs).

Whilst the direct subsidy model is perhaps the more appealing – certainly from the parents' point of view – its sustainability is questionable, as a substantial capital fund would need replenishing every year. The loan options, on the other hand, 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 upfront childcare costs is a cash flow issue and is not about the long-term affordability of childcare, so there are certain factors that a scheme offering help with upfront 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 additional debt is not incurred by parents who seek 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 the scheme having a wide reach is stressed, as is the need for eligibility to extend to parents returning to work (for example, after maternity leave), 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 direct subsidy to parents and 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 institutions with the family links of family information services or registered social landlords. It is also suggested that employers could develop and deliver schemes for their employees.

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

Conclusions and recommendations

This project found there was a need for targeted, affordable financial support with upfront childcare costs. It also identified a varied audience who may be in need of this help. It is suggested that different models with common eligibility criteria be piloted, to ensure maximum reach, and that any national scheme may well need to include a range of models. The research suggests the following common criteria for a 'Childcare Advance' scheme to help parents meet the costs of upfront childcare:

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

It is proposed that pilot delivery of a Childcare Advance scheme should include at least one of each of the following models:

- Employers offering an interest-free loan.
- Family information service and credit union/community development finance institutions offering a low interest loan.
- Registered social landlord and credit union/community development finance institutions offering a low interest loan.

Further information

This summary is available in print and as a pdf from Friends Provident Foundation (foundation.enquiries@friendsprovident.co.uk and www.friendsprovidentfoundation.org). The full report, *Childcare Advance: scoping the need for help with up-front costs* by Patricia Bartholomeou, Pip Dorkings, Kathleen Egan and Roz Hampson, is available as a pdf from Daycare Trust (publications@daycaretrust.org.uk and www.daycaretrust.org.uk).

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