



# WORKING AT THE EDGE...

## Childcare

December 2014

Citizens Advice Scotland (CAS), our 61 member bureaux and the Citizen Advice Consumer Service helpline form Scotland's largest independent advice network. Advice provided by the Scottish CAB Service is free, independent, confidential, impartial and available to everyone. Our website, Adviceguide, also provides the public with up to date information on a range of topics. We are champions for both citizens and consumers and in 2013/14 we helped over 330,000 people deal with over a million issues overall.

Many people who are in work live in relative poverty due to low wages and high costs of living. Our '**Working at the Edge**' series examines the problems that these households face due to in-work poverty.

### Summary

Childcare in Scotland has moved up the political agenda in recent years with the Children and Young People (Scotland) Act 2014 extending the amount of free early education available for three and four year olds as well as looked-after<sup>1</sup> two year olds, those in kinship care and those from workless households, from 475 to 600 hours per year.

Evidence from citizens advice bureau clients has however shown that for working parents the costs of childcare can be a route to in-work poverty. Despite the increase in the statutory guarantee of hours, a number of issues remain, which must be tackled to ensure that Scotland's children get the best start in life and their families can avoid poverty through work:

- **Affordability of childcare** – Working parents have sought advice from a CAB because they cannot afford the cost of nursery places or childminder's fees on their income.
- **Availability of childcare** – CAB clients have been unable to increase hours or take up offers of work because there are no childcare facilities available in their local area. This appears to be a particular problem in rural areas.
- **Childcare in summer holidays** – The school holidays can be a real difficulty for working parents. Clients on low incomes have reported problems finding and paying for increased childcare during the summer months.
- **Changes to Tax Credits** – Reductions in state support to top up family incomes as a result of restrictions to the tax credits system have led to working families being vulnerable to income shocks and financial difficulties.
- **Zero hours contracts and childcare** – The rise of the zero hours contract has led to some parents struggling to arrange childcare around their unpredictable hours, and having difficulties accessing support from the benefits system with a fluctuating income.

<sup>1</sup> Children 'looked after' by a local authority. This can be for a number of reasons, most often because their parents are unable to care for them or have neglected their duties towards them.

Citizens Advice Scotland recommends that action should be taken by local authorities and the Scottish Government to increase the availability of affordable local childcare across the country. CAS also believes that more should be done to make sure that the benefits system supports working families and ensures that parents do not face poverty because of the cost of childcare.

## Affordability of Childcare

Key to ensuring parents can return to work after having children is that the income they would earn would comfortably exceed the costs of making sure their children are cared for during their working hours. The increase to 600 hours of free early education will be of benefit to some working parents, but would only cover six months of the year at 25 hours per week, estimated to be the typical amount that a parent working part time might require, so will not cover full costs. According to research by the Family and Childcare Trust, in Scotland the average cost of sending a child to nursery part time (25 hours per week) for two to five year-olds is £5,307 per year, rising to £5,514 for children under the age of two. Nursery costs for those aged two and over have risen by 8.2% in the past year, considerably above inflation and the cost of living. The average annual cost of 15 hours at an after-school club is £1,883 per year, with after-school pick-ups by a childminder costing an annual average of £2,960 – notably higher than in the rest of the UK, indicating that ensuring suitable provision for parents of school-aged children as well as those of younger children should not be overlooked.<sup>2</sup>

Compared with other countries, childcare is particularly costly in Scotland and the UK - parents in Scotland spend 27% of their household income on childcare, in contrast to the average of OECD countries of 12%.<sup>3</sup> For a number of CAB clients, these costs represent a barrier to re-entering the workplace, and have led some to consider giving up work due to difficulties affording appropriate childcare.

- ▶ A North of Scotland CAB reports of a client who had just started a new job and was looking for support to pay childcare costs. She had been advised that a £200 registration fee is required to register her child at nursery which she did not have. She also required support to pay the first week's fees of £92. As she had not applied prior to commencing work, the client was not able to access support from Jobseeker's Allowance (JSA) and would need to wait for a Child Tax Credit application to be processed.
- ▶ A West of Scotland CAB reports of a client who is a lone parent with a two year old. She has to leave for work every day at 5.30am so needs to rely on her father to take her daughter to a child minder early in the morning. The childminder costs £140 per week which the client is struggling to pay and has built up rent arrears and other debt. She feels the current arrangements are unsustainable and has looked for full-time work with a later start time, but without success. She wants to know if she would be better off giving up work and claiming Income Support.

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<sup>2</sup> The 2014 Scottish Childcare Report - Family and Childcare Trust – <http://www.familyandchildcaretrust.org/childcare-costs-surveys>

<sup>3</sup> Early Childhood Education and Care Provision: International Review of Policy, Delivery and Funding – Scottish Government, June 2013 - <http://www.scotland.gov.uk/Publications/2013/03/4564>

## Availability of Childcare

Childcare costs can vary considerably depending on where in Scotland a family lives, with part-time nursery care in the most expensive local authority being £3,341 per year more than in the neighbouring local authority.<sup>4</sup> Part of the reason for this local difference may be due to the low levels of childcare supply reported by the majority of local authorities. Childcare in Scotland is provided by a range of services, some run by local authorities, some by private providers and some by voluntary/not-for-profit organisations operating on a 'regulated free-market principle' on the basis of supply and demand. Public sector provision is on average 12% cheaper than that offered by other providers, but is more prevalent in some areas than others which will affect prices in different local authorities.<sup>5</sup>

There is no legal requirement for local authorities to provide childcare, but the Children and Young People Act now places a duty on local authorities to consult on and publish plans for childcare, building on existing guidance requiring them to maintain a strategic view of childcare accessibility in their area, across providers from all sectors.

In 2014, just 23% of Scottish local authorities felt that in their area there was enough childcare for working parents (incorporating local authority-run, private and not-for-profit services), compared with 54% of English local authorities.

Provision of particular types of childcare is even worse, with lower figures reported for disabled children (18%), for childcare provision in rural areas (14%) and for parents with atypical work patterns, (e.g. shift workers, workers on zero hours contracts), with just 9% of local authorities considering that provision in their area was sufficient.<sup>6</sup>

Availability of affordable local childcare – or indeed any childcare at all – has caused problems for citizens advice bureau clients who, in some instances, have been forced to give up work, or prevented from taking up jobs due to no childcare being available locally.

- ▶ An East of Scotland CAB reports of a client who currently works 19 hours per week and whose partner works full-time. They have a one year old child, but the client's childcare will no longer be available from next month. The client is concerned that she will need to give up work and that the family will struggle to live on her partner's income and benefits. The client was frustrated and felt that she and her partner have been penalised for working.
- ▶ A North of Scotland CAB reports of a client who has a 15 month old baby. The client wants to work, but because of a lack of local child care facilities she has had to give up her job. The child's father is not interested in the child and provides no maintenance.
- ▶ A West of Scotland CAB reports of a client who is a single parent with a two year old child. She is keen to return to work and has been offered a job. Whilst her childcare costs would partially be met by tax credits, she would be unable to take on the job as there are no childcare facilities in the local area, she is unable to drive and there is a lack of regular public transport.

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<sup>4</sup> The 2014 Scottish Childcare Report - Family and Childcare Trust

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

## Childcare in summer holidays

A particular problem reported by some citizens advice bureau clients is being able to afford childcare in the school summer holidays. For single parents, those on low incomes or those without relatives nearby who can assist ('informal childcare') the summer holidays can result in parents struggling to find and pay for up to seven weeks' worth of childcare. This could involve a sudden doubling of costs if parents have to find full-time instead of part-time childcare, childcare costs where normally they have none, or even greater for those with more than one child. In Scotland, the average weekly cost of a school or local authority holiday club or play scheme is £103.52, or £101.87 for an equivalent private or voluntary sector scheme, a considerable amount for low income households to afford.<sup>7</sup>

Research from Netmums and the Family and Childcare Trust estimates that 25% of working parents had to cut their hours to manage childcare during the summer holidays. A further 12% of parents had to give up work entirely, due to a lack of summer childcare. On top of this, it is estimated that across the UK, 900,000 working days were lost last year due to parents being forced to call in sick due to a lack of childcare during the holidays.<sup>8</sup>

- ▶ A North of Scotland CAB reports of a client who worked part-time earning the National Minimum Wage which equated to £101 per week. The client is a single parent and requires childcare over the summer holidays. The costs would be £96 per week and although the client would be able to claim 70% of the costs through tax credits, the client would not be able to afford to pay the remaining 30%. There appeared to be no help with these costs and the client had no relatives in the local area that could help.
- ▶ A West of Scotland CAB reports of a client who has a six year old son. The client and his partner have no-one who can look after their son after school and in the holidays, so the client's partner does not work as they cannot afford childcare. The client earns just over the National Minimum Wage, and the family are experiencing financial difficulties, struggling to pay normal living expenditure and are being pursued by sheriff officers over a council tax debt.

In addition, schools in a number of local authorities in Scotland including Edinburgh, East Lothian and West Lothian, close on Friday afternoons, creating additional childcare requirements for families in some parts of the country and putting further pressures on some family incomes.

## Changes to Tax Credits

In April 2012, the eligibility rules for Working Tax Credit and Child Tax Credit changed negatively impacting on 85,000 Scottish families. Up to that date, families were eligible for Child Tax Credits if their income was below £41,300. This changed to £32,000 for families with two children and £26,000 for lone parents. Families were also able to claim Working Tax Credit if they were responsible for at least one child and worked at least 16 hours per week, but this was increased to 24 hours per week (with one parent having to work at least 16 hours). These changes mean that 73,300 families in Scotland will have lost Child Tax Credits

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<sup>7</sup> Holiday Childcare Survey 2014 – Family and Childcare Trust - <http://www.familyandchildcaretrust.org/News/nearly-a-million-working-days-lost-to-uk-economy-as-lack-of-childcare-forces-parents-out-of-work>

<sup>8</sup> Ibid.

worth around £545 per year and a further 11,370 families will have lost Working Tax Credits worth up to £3,870 per year.<sup>9</sup>

By April 2014, the number of in work families in Scotland receiving in work tax credit support had reduced by 97,300 compared to two years previously (a reduction of 27% in the number of families).<sup>10</sup> As a result of these changes, and others to come, the contribution of state support to family incomes has declined and will decline further. Consequently, low to middle income families are increasingly vulnerable to income shocks and unexpectedly large bills. Citizens advice bureaux have advised clients who have lost their entitlement to tax credits and subsequently fallen into financial difficulties.

- ▶ An East of Scotland CAB reports of a client who wanted to know how to access a food bank as she and her partner simply could not make ends meet, The client has fallen into financial difficulties following the change in the rules for Working Tax Credit. The bureau referred the client to a local church for a food parcel. The client is going to try to increase her employment hours in order to receive tax credits again.
- ▶ A West of Scotland CAB reports of a client who is struggling financially after being unable to get an increase in work from his current part-time employment. The client is struggling with food and fuel bills and cannot afford to provide support to his two children who live with their mother. The bureau advised that the client would be entitled to Working Tax Credit if he could get employment of 30 hours per week. The client will try to increase his hours again, but will need a food parcel if he cannot.

The increase in hours from 16 to 24 for Working Tax Credit eligibility has created a 'hole' in the benefits system for working parents, as those working more than 16 hours per week are ineligible for income-based Jobseeker's Allowance (JSA). In some cases, this creates a disincentive for working parents to increase their hours.

- ▶ A West of Scotland CAB reports of a client, currently on Income Support who has a two year old child, and has found a potential job offering her 20 hours per week to increase her income. After running a benefits check it became apparent that the client would benefit from working 16 hours per week – she would pay an effective rate of tax on her earnings of 20%, meaning she would be paid £80 per week. However, as her employer needs her to work 20 hours per week, the client would pay an effective tax rate of 87% on the four additional hours worked.

When Universal Credit is fully rolled out, the UK Government proposes that claimants will be able to receive 85% support with their childcare costs provided they earn above the personal tax threshold. However, those earning less than this (£10,000 per year) would only be eligible for 70% support for childcare costs. As research by our colleagues at Citizens Advice (England and Wales) shows a number of groups would miss out on support as a result of this 'two tier' system, including lone parents who want to return to work after maternity leave; households with high childcare costs with variable hours of work and lone parents with more

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<sup>9</sup> Welfare changes: Voices from the frontline – Citizens Advice Scotland, May 2012 -

<http://www.cas.org.uk/publications/voices-frontline-welfare-changes>

<sup>10</sup> There were 258,500 in-work families in receipt of tax credits in Scotland in April 2014, compared with 355,800 in April 2012. Personal tax credits: provisional statistics: 2014 to 2009, HM Revenue & Customs -

<https://www.gov.uk/government/statistics/personal-tax-credits-provisional-statistics-2013-to-2009>

than two children of school age. It also makes claimants vulnerable to sudden and dramatic income loss if the Personal Tax Allowance rises.<sup>11</sup>

CAS would echo Citizens Advice's recommendation that 85% support for childcare costs should be extended to all Universal Credit claimants, or if no further funding is available then all claimants should be able to access the same level of support rather than a two-tier system being created. Additionally, given that the full rollout of Universal Credit is not scheduled to be complete until 2017, CAS believes that the UK Government should review support provided by the current tax credits system.

## Zero hours contracts and childcare

With an estimated 1.4 million zero hours employment contracts in the UK<sup>12</sup>, their growing prevalence has given rise to a number of serious causes for concern. Citizens advice bureaux in Scotland have highlighted a number of different problems stemming from the way zero hours contracts have been used by employers, particularly in the last year.

In addition to problems caused by misuse for clients on zero hours contracts, including a lack of work causing destitution and fluctuating hours causing debt and budgeting difficulties<sup>13</sup>, working parents have had difficulties securing enough working hours due to their childcare commitments, and being unable to access benefits to allow them to afford professional childcare.

- ▶ A South of Scotland CAB reports of a client who is employed as a carer on a zero hours contract. She recently took nine months maternity leave and has been back at work for a month. Before her maternity leave she was able to be more flexible in the range of hours that she was willing to work and was regularly getting 16 hours per week, which is what she needs to continue receiving Working Tax Credit. Since she returned to work, she asked to be considered for hours within the 9am to 3pm range to look after her children. Now, her manager sometimes only gives her one or two hours' work each week. The client is worried she will lose her Working Tax Credit and have to make a large repayment.
- ▶ An East of Scotland CAB reports of a client with a ten month old daughter, who is employed on a zero hours contract. This is causing financial hardship to the family as it prevents her and her husband from claiming any benefits, they are struggling with rent payments and do not qualify for help with housing costs as she does not receive wage slips for the weeks she doesn't work. The family sometimes struggles to pay for food, and the client is considering bankruptcy due to the debt she has accumulated.

## Flexible working requests

In June 2014, the UK Government extended the right to request flexible working hours to all employees who have worked for their employer for more than six months. This welcome move is intended to balance their work with responsibilities, keep people in long term

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<sup>11</sup> Support for childcare costs in Universal Credit – Citizens Advice (England and Wales), November 2013 [http://www.citizensadvice.org.uk/index/policy/policy\\_publications/er\\_benefitsandtaxcredits/support\\_for\\_childcare\\_costs\\_in\\_universal\\_credit.htm](http://www.citizensadvice.org.uk/index/policy/policy_publications/er_benefitsandtaxcredits/support_for_childcare_costs_in_universal_credit.htm)

<sup>12</sup> Analysis of Employee Contracts that do not Guarantee a Minimum Number of Hours – Office for National Statistics, April 2014 <http://www.ons.gov.uk/ons/rel/lmac/contracts-with-no-guaranteed-hours/zero-hours-contracts/art-zero-hours.html>

<sup>13</sup> Working at the Edge: Zero Hours Contracts – Citizens Advice Scotland, July 2014 - <http://www.cas.org.uk/publications/working-edge-zero-hours-contracts>

employment and enable employers to retain their best staff. This policy particularly benefits working parents who can use the right to balance work with childcare commitments.<sup>14</sup>

Employers are required to deal with requests in a 'reasonable manner', taking into account the advantages and disadvantages. There is no obligation to grant the request, but the employer must offer an appeal process and employees can take them to an employment tribunal if they don't handle the request in a reasonable manner.

Early evidence suggests that some employers who have declined requests may not be giving clear reasons for their decisions or information about an appeals process. Employers must ensure that they familiarise themselves with, and comply with the law in this area.

## Conclusion

For parents, making sure that suitable professional childcare is in place is vital to their ability to boost their income through work. However, far too many citizens advice bureau clients seek advice because they are struggling to pay high childcare costs on a low wage, because no childcare is available locally, because the benefits safety net offers them no support, or because the unpredictable nature of their working hours means that there are no realistic childcare options.

The result is that working families with children can be forced to accept a daily struggle to make ends meet, are prevented from taking on work, or cannot re-enter the workforce after having children. Some working parents have even been forced to give up their jobs because of a lack of affordable childcare. Citizens Advice Scotland believes more must be done to ensure that suitable, affordable childcare is available in all parts of Scotland, and that in-work benefits support parents to stay in work without fear of being dragged into poverty.

Following its inquiry into Women and Work, the Scottish Parliament Equal Opportunities Committee recommended that the Scottish Government take action towards the introduction of a statutory right to childcare including older children – up to the age of 15 – as well as disabled children.<sup>15</sup> This was backed by leading children and families organisations who have long campaigned for quality, affordable childcare with support for the childcare workforce.<sup>16</sup> CAS would recommend that the Scottish Government investigate the feasibility of this move.

## Recommendations

Citizens Advice Scotland recommends:

- The Scottish Government and local authorities must work together to ensure that suitable, affordable childcare is provided for working parents in all areas of Scotland. This is particularly important in rural areas, where provision is reported to be particularly inadequate.
- The Scottish Government must take caution to ensure that the additional childcare provided is affordable for working families to prevent childcare costs causing in-work poverty or forcing parents to leave their jobs.

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<sup>14</sup> Flexible working rights extended to more than 20 million – UK Government, June 2014

<https://www.gov.uk/government/news/flexible-working-rights-extended-to-more-than-20-million>

<sup>15</sup> 4<sup>th</sup> Report, 2013 (Session 4): Women and Work – Scottish Parliament Equal Opportunities Committee, June 2013 <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/64971.aspx>

<sup>16</sup> 'Right to childcare' timetable call from MSPs – BBC News, June 2013 <http://www.bbc.co.uk/news/uk-scotland-scotland-politics-22943203>

- The Scottish Government should investigate the possibility of introducing a statutory right to childcare.
- Employers should ensure that they are familiar with the rules regarding the right to request flexible working and ensure they comply with them.
- The UK Government should review the support provided by the current tax credits and benefits system, to avoid the interaction between different forms of state support causing disincentives to work for parents with childcare commitments.
- All Universal Credit claimants should receive at least 85 per cent support with their childcare costs, including those families earning less than £10,000 per year.
- The UK Government should ensure that the planned increase in the level of childcare support in 2016 through Universal Credit is also extended to parents in receipt of other benefits if Universal Credit is not fully rolled out by then.
- The UK Government should use the Small Business, Enterprise and Employment Bill as an opportunity to give workers on a zero hours contract a statutory 'right to request' a contract that guarantees hours, without suffering dismissal or detriment.