



Northern Ireland  
Assembly

## Research and Information Service Briefing Paper

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Paper 15/24

17 May 2024

NIAR 48-24

# Economic inactivity, key employment barriers and childcare costs potentially impacting those barriers: initial considerations for Northern Ireland

**Finance and Economics Research Team**

This Briefing Paper has been prepared for the Committee for the Economy, to provide an overview of Northern Ireland's economic inactivity and barriers to employment, including the potential impact of childcare costs on those barriers.

The Paper draws on available sources (governmental, inter-governmental, academic and other) and identifies initial considerations arising from them.

## Key Points

Economic inactivity is a persistent issue in Northern Ireland, found to have contributed to poor health, increased poverty and reduced social inclusion for citizens. Most recent governmental data show over 300,000 individuals in Northern Ireland are currently economically inactive (almost 27% of the working age population).

Reasons for economic inactivity have been found to include: long-term sickness or disability; caring for family and home; studying; and, retirement. In Northern Ireland, long-term sickness and disability has been identified as the single largest reason for economic inactivity. Moreover, caring for family and home has been found to account for 15% of Northern Ireland's economically inactive.

Available studies reveal certain barriers may impact economically inactive individuals' ability to obtain and retain work. Those identified barriers include: age; disability; family responsibilities; and, lack of education, skills and training. Lack of affordable childcare has also been cited in this context as a significant obstacle for individuals wishing to re-enter the labour force.

In Great Britain, for free "formal childcare" – that is, regulated and registered - between 12.5 to 30 hours are available for parents per week, for children under two years of age. Such childcare provision is not available in Northern Ireland. In Northern Ireland, on average, parents with a child under five spend around £14,000 a year for formal childcare; and only 19% of families use formal childcare.

Nonetheless, United Kingdom-wide, parents on low pay and in receipt of Universal Credit can claim for an allowance towards formal childcare payments. However, many formal childcare providers require advance payment and many low-income families are not in a financial position to make such large, upfront payments. Furthermore, childcare payment reimbursement for such upfront payments is retrospective, which can further adversely impact parents' financial situation.

Analysis published by the Department for the Economy in 2024 found Northern Ireland had ranked third for the highest share of average household income

spent on childcare costs, when compared with all member states of the Organisation for Economic Cooperation and Development.

## Introduction

The Committee for the Economy (the Committee) commissioned the Assembly's Research and Information Service (RaISe), to compare the impact of childcare policies on economic inactivity across various jurisdictions. After identifying and considering the available evidence base, RaISe's Finance and Economics Research Team found it could not undertake such a comparison, due to the following reasons:

- Insufficient detailed information is available about childcare policies for individual countries, which makes it difficult to undertake valid international comparative analysis.
- From what is available:
  - There is a large degree of variance with regard to funded and non-funded childcare policies across countries - for example, the United Kingdom - which makes side-by-side comparisons problematic.
  - There is no universally shared definition for childcare provision. It includes many elements, and delivery is provided in many forms, such as: childminders; creches; au pairs; and, nannies. This lack of a shared definition makes comparative study across jurisdictions challenging.

Nonetheless, to facilitate Committee deliberations in this area, RaISe has relied on the available evidence base to compile this Paper and highlight what could be found in relation to childcare costs and its impact on parental decisions to return to the labour force.

The Paper first provides context-setting information, providing an overview of Northern Ireland's economic inactivity - section 1 - and identifying key employment barriers - section 2. Thereafter, the Paper – at section 3 - looks at existing “formal childcare” provision in Northern Ireland – that is, regulated and registered provision; before looking at the impact of childcare costs on parents' decisions to enter/re-enter the labour force – section 4. Throughout all those sections, the Paper highlights published findings addressing the potential impact of childcare costs on those barriers, drawing on available sources -

governmental, inter-governmental, academic and other.<sup>1</sup> In closing, the Paper provides some key concluding remarks – section 5.

This information is provided to Members of the Legislative Assembly (MLAs) in support of their duties, and is not intended to address the specific circumstances of any particular individual. It should not be relied upon as professional legal advice, or as a substitute for it.

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<sup>1</sup> The use of the term “formal childcare” in this Briefing Paper, refers to care services for children under 12 years old and run for at least two hours a day (as defined in the Children (NI) Order 1995). This includes nurseries, playgroups, creches, out of school clubs and holiday schemes. This type of childcare is regulated and made up of registered providers.

# 1 Economic inactivity in Northern Ireland

This section provides a summary of high-level data and reasons for economic inactivity in Northern Ireland, as measured in official statistics.

## 1.1 What is economic inactivity?

The [Office for National Statistics \(ONS\)](#) defines the [economically inactive](#) as people not in the labour force. They are not in employment – but do not meet the internationally accepted definition of unemployment. The economically inactive differ from the unemployed in that they have not been seeking work within the last four weeks, or they are unable to start work in the next two weeks.

The economic inactivity rate is the proportion of people aged between 16 and 64 years, who are not in the labour force. Figure 1 below – drawn from recent research published by [Pivotal Public Policy Forum](#) – outlines the reasons for economic inactivity in Northern Ireland, and the size of each, relative to the total:

**Figure 1: Reasons for economic inactivity, ages 16-64, Northern Ireland, Q4 2023<sup>2</sup>**



Source: [Pivotal](#), May 2024.

<sup>2</sup> NISRA (2024) *Labour Market Report*. <https://www.nisra.gov.uk/publications/labour-market-report-april-2024>

The economically inactive population covers a broad range of groups, including: those dealing with long-term sickness or disability; people with family or caregiving responsibilities; students; and, retirees. The group defined as “Other” includes those discouraged from labour market participation, who believe there are no available jobs, or who have given no reason as to why they do not participate in the labour market.

Relatively high economic inactivity can lead to a range of adverse socio-economic consequences<sup>3</sup> – including: higher benefit payments, poor health outcomes,<sup>4</sup> increased poverty<sup>5</sup> and reduced social inclusion.<sup>6</sup> It also limits the capacity of the economy to grow and places additional reliance on migration for future labour supply.

The most recent publication of the [Northern Ireland Statistics and Research Agency \(NISRA\) Labour Force Survey \(LFS\)](#) from April 2024 shows that there are 314,000 economically inactive people in Northern Ireland – equivalent to a rate of 26.7%. In other words, almost 27% of Northern Ireland’s working age population is economically inactive.

## 1.2 Reasons for economic inactivity

As stated above, there are a number of reasons for why people are economically inactive. However, Northern Ireland performs significantly worse in terms of economic inactivity, due to long-term sickness or disability, when compared to the rest of the United Kingdom. This group accounts for 38% of total inactivity in Northern Ireland; compared to just 30% United Kingdom-wide, as highlighted in Figure 2 below:

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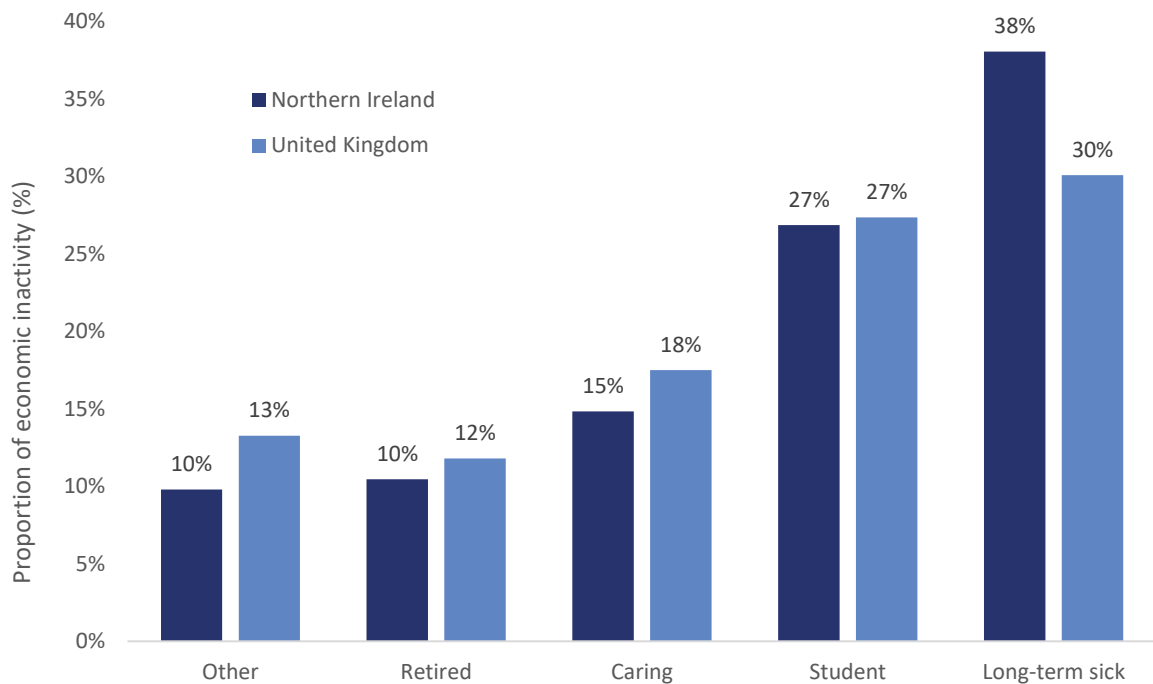
<sup>3</sup> The Economist. [Why Britain has a unique problem with economic inactivity](#). September 2023.

<sup>4</sup> Institute for Public Policy Research. [Healthy Places, Prosperous Lives](#). January 2024.

<sup>5</sup> Ulster University. [An anatomy of economic inactivity in Northern Ireland](#). November 2016.

<sup>6</sup> Local Government Association. [Understanding the cost of economic inactivity for young people](#). January 2022.

**Figure 2: Reasons for economic inactivity as a proportion of total economic inactivity, Northern Ireland and United Kingdom, February 2024<sup>7</sup>**



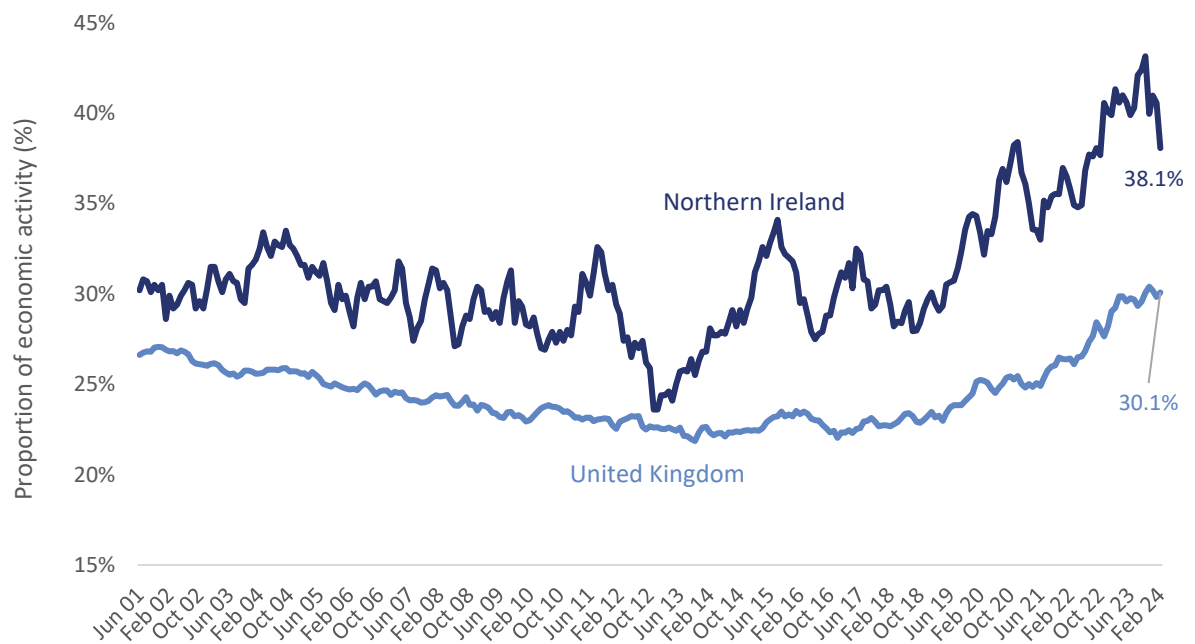
Source: [ONS](#), [NISRA](#), April 2024

Figure 3 below shows this has been a consistent, long-term (and worsening) issue for Northern Ireland. It shows that the proportion of inactive individuals who are long-term sick has been increasing in Northern Ireland over the last decade – peaking at a record high of 43.1% in October 2023. This is significantly higher than the United Kingdom-wide level at that same point in time (30.1%):

<sup>7</sup> ONS (2024) *Labour market overview, UK: April 2024*  
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/april2024#labour-market-data>



**Figure 3: Long-term sickness and disability as a proportion of total inactivity, Northern Ireland and United Kingdom, June 2001 – February 2024<sup>8</sup>**



Source: [ONS](#), [NISRA](#), April 2024

### 1.3 Looking after family/home

This sub-section discusses economic inactivity in the context of those who are caring for the family or home. This group accounts for 15% of total inactivity in Northern Ireland, and 18% United Kingdom-wide.

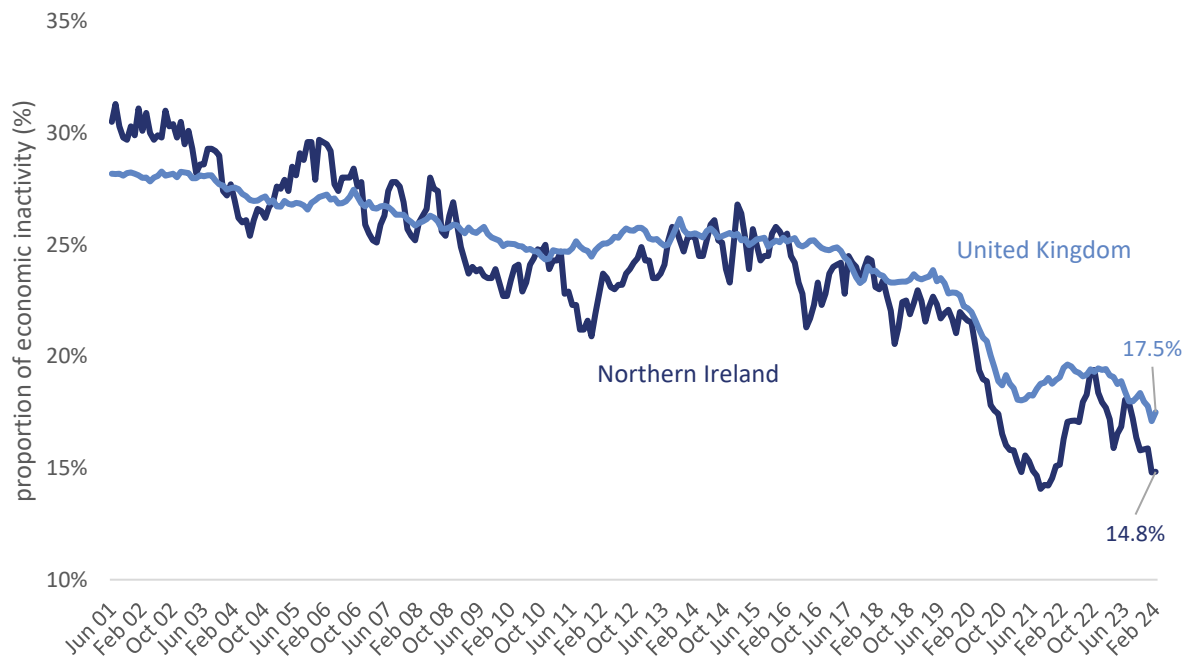
In Northern Ireland and the United Kingdom, the proportion of total economic inactivity accounted for by those looking after the family or home has fallen from 30% in 2001, to just under 15% in early 2024. This steady downward trend is indicative of significant changes in family life, women's participation in the workforce and gender roles in our society.<sup>9</sup> Figure 4 below shows that there

<sup>8</sup> As cited immediately above.

<sup>9</sup> Pivotal (2024) *Economic inactivity in Northern Ireland*: <https://www.pivotalppf.org/cmsfiles/Publications/20240430-Economic-inactivity-FINAL-REPORT.pdf>

was a sharp increase in this form of economic inactivity following the pandemic in Northern Ireland, when compared to the United Kingdom-wide average:

**Figure 4: Looking after family/home as a proportion of total inactivity, Northern Ireland and United Kingdom, June 2001 – February 2024<sup>10</sup>**



Source: [ONS](#), [NISRA](#), April 2024

This decrease over time is partly a result of increasing educational attainment and labour force participation for women – vital in expanding the size of the labour force during the 1990s and 2000s.<sup>11</sup> However, there are still a number of barriers to employment within this group – including the cost of childcare.<sup>12</sup> It is perhaps noteworthy that the Pivotal report cited earlier in this paper, makes reference to a suggestion by Devlin ([2023](#)) - that rates of inactivity due to caring responsibilities are surprisingly low in Northern Ireland, and that:<sup>13</sup>

<sup>10</sup> As cited above.

<sup>11</sup> Ulster University. [Economic inactivity: Who, what, where, why?](#) January 2024

<sup>12</sup> Ulster University. [An anatomy of economic inactivity in Northern Ireland](#). November 2016

<sup>13</sup> Ulster University. [Economic inactivity: Who, what, where, why?](#) January 2024

*...this may be due to people reducing hours rather than exiting the labour market completely (while men in NI work longer hours than the UK average women in NI work less)...or may be due to more informal childcare being used.*

And:

*While sources on caring responsibilities are hard to come by, recent work has found families in NI utilise informal childcare and care by family much more than families in neighbouring Ireland.*

## 2 Barriers to Employment

A multitude of factors might affect someone's chances of gaining employment. However, most common barriers include age, disability, family responsibilities, lack of education, skills and training.

This section discusses key publications examining employment barriers; produced by:

- Organisation for Economic Co-operation and Development (OECD)
- Ulster University Economic Policy Centre (UUEPC)
- Pivotal - public policy think-tank

### 2.1 OECD<sup>14</sup>

In a paper to address joblessness in its member countries, the OECD presented three key drivers impinging on an individual's ability to find and secure suitable employment. Those are:<sup>15</sup>

- insufficient work-related capabilities

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<sup>14</sup> OECD is an international organisation that works with its member countries' governments, policy makers and citizens, to establish evidence-based international standards and propose solutions to its membership and others, for a range of social, economic and environmental challenges.

<sup>15</sup> <https://www.oecd-ilibrary.org/docserver/5j1wvz47xptj-en.pdf?expires=1714138656&id=id&accname=guest&checksum=CC5A40A341170217DB12025D5DC64F36>

- weak incentives to look for a job
- scarce employment opportunities

According to the OECD analysis, insufficient work-related capabilities include skills and education, work experience, health limitations and caring responsibilities. It notes that these are all factors that may limit individuals' capacity for performing specific tasks and therefore hinder them in obtaining and retaining employment.

Moreover, that analysis asserts that weak incentives to look for a job arise from low potential pay or relatively generous out-of-work benefits. It further asserts that scarce employment opportunities are also a factor; referring to the existence of a small number of vacancies in the relevant labour-market sector, skills mismatches, or discrimination in the workplace.<sup>16</sup> However, the most relevant driver identified in the OECD publication is caring responsibilities. The OECD analysis states.<sup>17</sup>

*Care responsibilities can be primary drivers of individuals' inability to participate in the labour market, particularly among women. Unpaid work, including childcare or care for incapacitated family members, is time consuming and reduces the amount of time that can be spent in paid work. High-intensity care-giving, in particular, is associated with low labour supply among family carers.*

## 2.2 Ulster University Economic Policy Centre<sup>18</sup>

In a 2024 briefing paper on economic inactivity and inclusive labour markets in Belfast and Northern Ireland, the Ulster University Economic Policy Centre

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<sup>16</sup> <https://www.oecd-ilibrary.org/docserver/5j1wvz47xptj-en.pdf?expires=1714138656&id=id&accname=guest&checksum=CC5A40A341170217DB12025D5DC64F36>

<sup>17</sup> As cited immediately above.

<sup>18</sup> The Ulster University Economic Policy Centre is an independent economic research centre, which aims to produce evidence based research to inform policy development and implementation.

(UUEPC) stated that individuals often face a combination of employment barriers simultaneously. The UUEPC publication stated:<sup>19</sup>

*When dissecting the reasons why these individuals do not return to employment, much of the research points to the many barriers to re-entering the labour market which individuals identify, but also increasingly that these are multiple barriers being faced simultaneously, as opposed to a singular issue which can be easily removed.*

The UUEPC briefing cites the following barriers that are often mentioned by those identified as economically inactive:<sup>20</sup>

- previous/recent work experience;
- household finances;
- qualifications;
- access to child care;
- age;
- benefits system;
- local opportunities; and,
- access to health care.

## 2.3 Pivotal<sup>21</sup>

A May 2024 report by Pivotal addressing economic inactivity in Northern Ireland found that a lack of adequate public service provision may prove another important barrier for individuals wishing to enter/re-enter the labour force.

Pivotal's publication states:<sup>22</sup>

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<sup>19</sup> As cited immediately above.

<sup>20</sup> UUEPC (2024) *Economic inactivity Who, what, where, why?*  
<https://www.ulster.ac.uk/epc/pdf/2024/economic-inactivity-who,-what,-where,-why/Economic-Inactivity-FINAL.pdf>

<sup>21</sup> Pivotal is a public policy forum, which is independent of government and unaligned with any political party. Its focus is on evidence-based ideas and policies to improve our society, economy and public services.

<sup>22</sup> Pivotal (2024) *Economic inactivity in Northern Ireland:*  
<https://www.pivotalppf.org/cmsfiles/Publications/20240430-Economic-inactivity-FINAL-REPORT.pdf>

*...people may be or remain inactive because of inadequate health care, an absence of social care for a loved one, or a lack of affordable childcare. Poor provision in each of these areas of public services in Northern Ireland at present is likely to be contributing to persistent rates of economic inactivity.*

### 3 Northern Ireland's Formal Childcare

This section summarises Northern Ireland's formal childcare – that is, registered and regulated. It outlines government funding, the cost of fees, access to childcare payments in the benefit system via Universal Credit and the latest position (at the time of writing) with regard to developing a new childcare strategy for Northern Ireland.

#### 3.1 What is Formal Childcare?

Many families use a variety of methods to meet their childcare needs, including formal, informal and casual arrangements. Formal childcare refers to care services for children under 12 years old and run for at least two hours a day, as defined in the Children (NI) Order 1995.<sup>23</sup> That includes nurseries, playgroups, creches, out of school clubs and holiday schemes. This type of childcare is regulated and made up of registered providers. Informal childcare is largely provided by family and friends. Casual childcare refers to paid for care, as provided by someone who is not registered, such as an unregistered childminder.

The most recent Northern Ireland Childcare Survey report (2023), published by Employers for Childcare (EC), found that over two-thirds of families (69%) in Northern Ireland use a variety of the three childcare methods mentioned above; whilst less than one fifth of families (19%) use formal childcare (down from 34%

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<sup>23</sup> *The Children (Northern Ireland) Order 1995:*  
<https://www.legislation.gov.uk/nisi/1995/755/contents/made>

in 2021).<sup>24</sup> Furthermore, the 2023 EC Survey reports that more than one in ten families use “casual” childcare at least regularly.<sup>25</sup>

### 3.2 Government Funding for Formal Childcare in Northern Ireland, Great Britain and the Republic of Ireland

In Northern Ireland, the Department for Education (DE) is responsible for childcare policy; while the Department of Health (DoH) is responsible for the registration and inspection of childcare facilities for children under the age of 12 years. In Great Britain, between 12.5 to 30 hours of free childcare per week are available, if specific eligibility criteria are met. The Northern Ireland Executive has no national scheme providing free childcare for 2-year-olds. The Government in the Republic of Ireland provides means-tested support up to [€177.75](#) per week for children of this age.

Moreover, in [Northern Ireland](#), children aged 3 and 4 are entitled to 12.5 hours of funded childcare per week, in their immediate pre-school year only. Children from socially disadvantaged circumstances can receive 22.5 hours per week. Whereas in the [Republic of Ireland](#), 15 hours per week is offered. In Great Britain, children aged 3 and 4 receive up to 30 hours per week; often available for more than one year, depending on precise date of birth and school starting age.

The 12.5 or 22 hours per week, currently available to 3 and 4 year olds in Northern Ireland, must be taken daily (2.5 or 4.5 hours per day). However, in England and Scotland, the 30 hours weekly entitlement can be used more flexibly, over a full year rather than used solely during term time (as in Northern Ireland). In the Spring Budget 2023, the United Kingdom Government announced plans to extend the 30 hours entitlement to children aged nine months up to three years in England, on a phased basis between April 2024 and September 2025. The Government estimates that the extension will cost £4.1 billion a year by 2027/28.

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<sup>24</sup> Employers for Childcare (2023) *Northern Ireland Childcare Survey report*

<sup>25</sup> As cited directly above.

### 3.3 Cost of Formal Childcare Fees in Northern Ireland

The most recent Northern Ireland Childcare Survey report (2023), published by the EC, found that average childcare fees in Northern Ireland increased across all types of provision since the previous year. Key findings from the report are presented in Box 1 below:<sup>26</sup>

**Box1: Northern Ireland Childcare Survey: Key findings  
2023**

- On average, parents are spending around £9,360 a year on childcare. This rises to over £14,000 for parents with a child under 5 who are using formal childcare only.
- The average cost of a full-time childcare place in Northern Ireland is now £10,036 a year, an increase of 14% since 2021 and more than the maximum costs supported through Tax-Free Childcare.
- 84% of childcare providers report that they are making a loss or just breaking even.
- 43% of childcare providers describe their financial situation as 'struggling' or 'distressed'.
- 88% of parents have had to change their work arrangements due to the cost of childcare.
- For 41% of families, childcare is their largest monthly outgoing ahead of their mortgage or rent.
- 56% are using means other than their income to pay for childcare including savings, credit cards and loans.

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<sup>26</sup> Employers for Childcare (2023) *Northern Ireland Childcare Survey report*:  
<https://www.employersforchildcare.org/report/northern-ireland-childcare-survey-2023/>



- 15% of families report using an unregistered childminder for some or all of their childcare.

The 2023 EC Survey results also highlighted the impact that lack of affordable childcare can have on parents' employment and career progression. According to the Survey, 88% of parents have had to change their work arrangements due to the cost of childcare. Parents in lower income households were more likely to have had to stop work due to the cost of childcare. For example, 63% of stay-at-home parents said they would be able to return to work, if they could access more affordable childcare.

### 3.4 Benefit System: Universal Credit and Childcare payments

Universal Credit (UC) was introduced in Northern Ireland in September 2017 under the [Welfare Reform \(Northern Ireland\) Order 2015](#).<sup>27</sup> UC is a payment for people over the age of 18 and under State Pension Age, who are out of work and/or on a low income. UC consists of a monthly "[standard allowance](#)", plus additional elements, if the claimant has a disability or health condition, housing costs, children, children with disabilities, and **childcare costs**.

To be eligible for the "childcare element" of UC, either the claimant or the claimant and their partner (if it is a [joint UC claim](#)) must be either be in paid work, self-employed or about to start work.<sup>28</sup> However, claimants may be able to get help with childcare costs in circumstances where one partner is in work, but the other:

- currently has a '[limited capability for work](#)' (for example, they have been assessed as unfit for work via a [Work Capability Assessment](#)), or
- looks after a severely disabled child, or

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<sup>27</sup> Universal Credit replaces six benefits – Jobseeker's Allowance (income-based), Employment and Support Allowance (income-related), Income Support, Child Tax Credits, Working Tax Credits and Housing Benefit. These six benefits are commonly known as 'legacy' benefits. Universal Credit is being rolled out on a gradual basis in Northern Ireland and some claimants currently remain on legacy benefits.

<sup>28</sup> If a claimant is part of a couple, they or their partner must make a [joint claim](#) for UC.

- is temporarily absent from home (for example, in hospital or in custody).

Claimants will only receive reimbursement for childcare costs for “relevant childcare”. “Relevant childcare” means that the childcare provider is registered or approved, for example, registered with the local Health and Social Care Trust. There are no set number of hours an eligible claimant needs to work to be entitled to the childcare element of Universal Credit. However, childcare costs payable will be related to the number of hours a claimant works. UC claimants can claim childcare costs for children they are responsible for until the 31 August after their 16th birthday.<sup>29</sup> According to the Northern Ireland Statistical Research Agency (NISRA) and Department for Communities data, in August 2023, approximately 5% households in payment of UC received the childcare element (around 6,610 households).<sup>30</sup>

### **How much can a claimant receive for childcare costs in UC?**

Eligible claimants will only receive childcare costs of payments they have already made to a registered or approved childcare provider(s), and if they have informed UC of the amount they have paid to the provider. UC will cover up to 85% of these childcare costs and this will be included in the claimant’s UC payment. However, there is a maximum amount that will be paid towards monthly childcare costs:<sup>31</sup>

- a maximum of £1,014.63 for one child
- a maximum of £1,739.37 for two or more children

Key issues with regard to UC and childcare are presented below in Box 2:

#### **Box 2: UC and Childcare: Issues for consideration**

1. UC and retrospective childcare costs

<sup>29</sup> NI Direct, ‘[Universal Credit payments for children and childcare](#)’.

<sup>30</sup> NISRA & Department for Communities. [Universal Credit Publication](#). Data to 31 August 2023. Published 29 November 2023.

<sup>31</sup> NI Direct, ‘[Universal Credit payments for children and childcare](#)’. [Accessed 17 April 2024].

The report – entitled “The impact of Universal Credit on women” and published by the Women’s Regional Consortium’ (September 2020)<sup>32</sup> - highlighted the difficulties caused by the retrospective payment of childcare costs in UC. The report stated that many childcare providers require payment in advance and that many low-income families are unable to make these large payments upfront. It further stated that the Women’s Regional Consortium supported a recommendation by the House of Commons Work and Pensions Committee that amendments should be made to Universal Credit’s systems to enable childcare costs to be paid directly to childcare providers. It found that this would “alleviate the problem of prohibitive upfront costs, help with budgeting, and give providers themselves much-needed certainty of income”.<sup>33</sup>

## 2. Lack of awareness of financial support for childcare costs

The report – entitled “Women’s experiences of the cost-of-living crisis in Northern Ireland”<sup>34</sup> and published by the Women’s Regional Consortium (June 2023) - argued that there was a lack of awareness around sources of financial support for childcare such as the Adviser Discretion Fund. It maintained that the ‘opaque’ names of such funding did not adequately describe what it provides and felt that this was a constraining factor in ensuring claimants can access support. The report argued it was critical that the Department for Communities and other stakeholders (such as local councils) to effectively promote such sources of financial support.

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<sup>32</sup> <https://womensregionalconsortiumni.org.uk/wp-content/uploads/2021/04/September-2020-The-Impact-of-Universal-Credit-on-Women.pdf>

<sup>33</sup> <https://committees.parliament.uk/publications/34661/documents/190790/default/>

<sup>34</sup> <https://www.womensregionalconsortiumni.org.uk/wp-content/uploads/2023/06/Womens-Experiences-of-the-Cost-of-Living-Crisis-in-NI-2.pdf>

### 3.5 Developing a childcare strategy for Northern Ireland.

In September 2022, the then Minister for Education issued a statement on progress towards the publication of a new Northern Ireland early learning and childcare (ELC) strategy.<sup>35</sup> A year later, in September 2023, the Department for Education (DE) provided an [update](#) to the Northern Ireland Assembly All Party Group on Early Education and Childcare (All Party Group) regarding progress on the development of the strategy. The DE advised that work on costed options, which was informed by extensive stakeholder engagement and the publication of an [Independent Review of Childcare Services in Northern Ireland](#) in February 2023, was nearing completion.

Moreover, [in June 2023](#), the DE emphasised that costed options will not be influenced by the current budget situation, in recognition that substantial new funding will be necessary to effectively implement the forthcoming ELC Strategy.

And most recently, the All Party Group was informed by DE in [February 2024](#) that it has engaged the services of the [Strategic Investment Board \(SIB\)](#), to review the costing methodology and assist with the assessment and refinement of options.

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<sup>35</sup> <https://www.education-ni.gov.uk/sites/default/files/publications/education/Written-Ministerial-Statement-update-on-Childcare-Strategy-7-September-2022.pdf>

## 4 Impact of Childcare Costs on Employment Decisions

This section presents published analysis addressing the impact of childcare costs on parents' decisions to enter/re-enter the labour force.

### 4.1 Measuring Impact

Parental decisions to re-enter the labour force, or not, after becoming a parent, are underpinned by a variety of financial and social factors, unique to their own circumstances. The cost and availability of childcare are undoubtedly factors, but decisions regarding parental employment are multifaceted and discrete to each couple or individual. That view is echoed by the Institute for Fiscal Studies (IFS) in a 2016 report on free childcare. With regard to childcare subsidies and parental employment decisions, it stated: <sup>36</sup>

*.. because subsidies are likely to have non-linear effects on parental employment, the existing literature remains limited in its ability to help predict the impact of extending childcare subsidies.*

Put simply, the non-linear effects on parental employment reflects the unique circumstances each parent find themselves in after becoming a parent.

### 4.2 Affordability of Childcare in Northern Ireland

The Independent Review of Childcare Services in Northern Ireland, published in February 2023<sup>37</sup>, included an assessment of affordability challenges for parents in Northern Ireland, based on income. The Review asserted that in Northern Ireland, childcare can be a large financial outgoing for families. As part of the review, LucidTalk carried out a parent survey targeting parents of at least one

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<sup>36</sup> IFS (2016) *Free childcare and parents' labour supply: is more better?* <https://election2019.ifs.org.uk/uploads/publications/wps/WP201622.pdf>

<sup>37</sup> DE (2023) *Review of Childcare Services in Northern Ireland – Final Report*. <https://www.education-ni.gov.uk/sites/default/files/publications/education/RSM%20%282023%29%20DE%20Review%20of%20Childcare%20Services%20in%20NI%20-%20Final%20Report.PDF>

child aged 0-14 years old.<sup>38</sup> Table 1 below presents the LucidTalk survey results assessing the average cost and hours used of formal childcare by age group. It shows respondents with three to four year olds paid the most on average per week for childcare (£152), followed by those with children aged two and under (£147):

**Table 1: Average cost and hours used of formal childcare by age group<sup>39</sup>**

| Age of Child | Average cost per month | Average cost per week | Average hours used | Average cost per hour |
|--------------|------------------------|-----------------------|--------------------|-----------------------|
| 0-2 years    | £638                   | £147                  | 26                 | £5.66                 |
| 3-4 years    | £659                   | £152                  | 26                 | £5.85                 |
| 5-11 years   | £482                   | £111                  | 19                 | £5.85                 |
| 12-14 years  | £346                   | £80                   | 15                 | £5.32                 |

Source: DE 2023

In February 2022, the EC published a briefing addressing childcare and Northern Ireland's high levels of economic inactivity.<sup>40</sup> The briefing asserted that the high cost of childcare in Northern Ireland affected parents' ability to work. The research showed that of those surveyed: 71% of working mothers had to reduce their hours of work; 49% of mothers experienced limited career prospects or progression; and, 10% of working mothers had to stop working altogether.

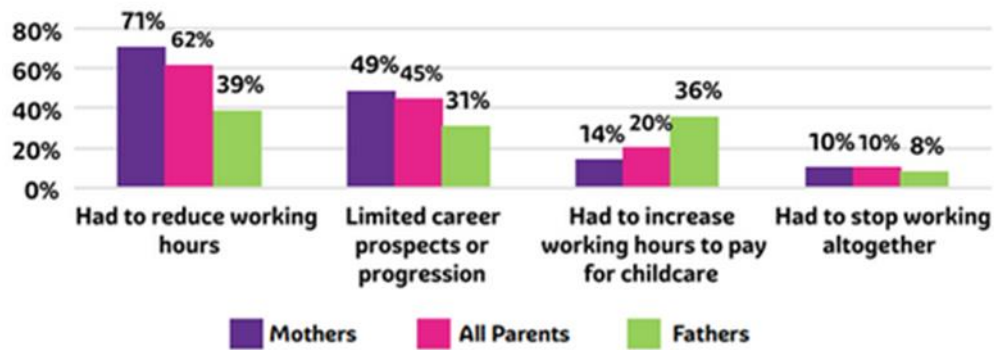
Figure 5 below illustrates the EC findings:

<sup>38</sup>The online parent survey was live from 5th to 30th September 2022. It targeted parents of at least one child aged 0-14 years old. The survey link was sent to a sample of LucidTalk's online Opinion Panel (14,000+ members) which is balanced by gender, age-group, area of residence, and community background, in order to be demographically representative of Northern Ireland. The parent survey received 4,828 completed responses.

<sup>39</sup> DE (2023) *Review of Childcare Services in Northern Ireland – Final Report*. <https://www.education-ni.gov.uk/sites/default/files/publications/education/RSM%20%282023%29%20DE%20Review%20of%20Childcare%20Services%20in%20NI%20-%20Final%20Report.PDF>

<sup>40</sup> EC (2022) *Investing in childcare key to addressing Northern Ireland's high levels of economic inactivity*: <https://www.employersforchildcare.org/news-item/investing-in-childcare-key-to-addressing-northern-irelands-high-levels-of-economic-inactivity/>

**Figure 5: Impact on Parents of the Cost of Childcare<sup>41</sup>**

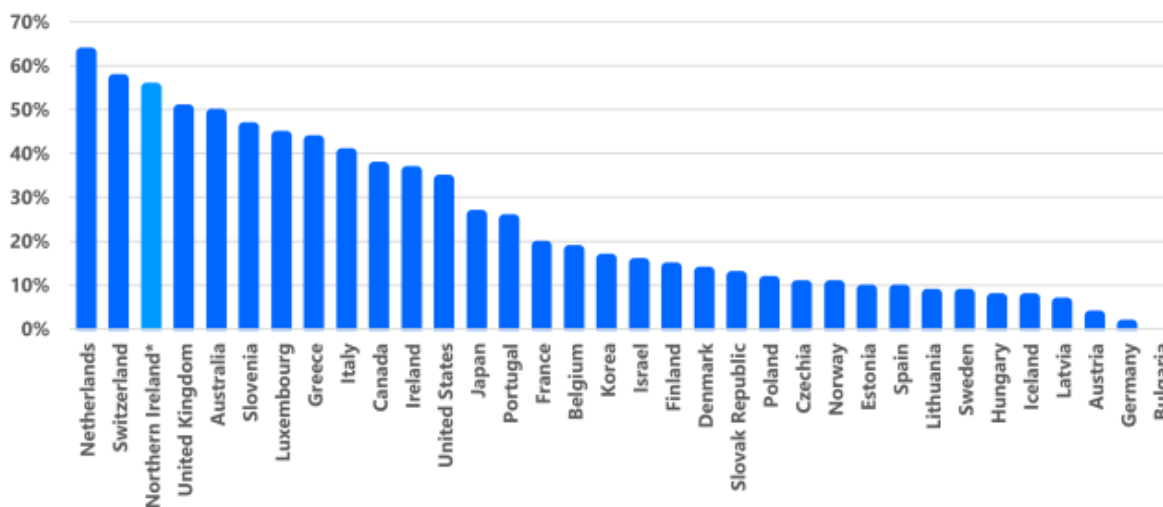


Source: EC 2022

The DE and EC analysis (cited immediately above) examine affordability of childcare in Northern Ireland only. However, in May 2024, the Department for the Economy (DfE) published “Economic Commentary: Spring 2024”. This report included analysis of childcare as a share of the average income across a selection range of countries, including Northern Ireland. The DfE analysis uses OECD data for income and childcare costs for all countries, except Northern Ireland. For Northern Ireland, the DfE use DE figures for childcare costs and NISRA data for incomes.

Figure 6 below presents that May 2024 DfE analysis, illustrating Northern Ireland had ranked third for the highest share of average household income spent on childcare costs, when compared with all OECD member states:

<sup>41</sup> As cited immediately above.

**Figure 6: Childcare costs as a share of the average income<sup>42</sup>**

Source: DfE 2024

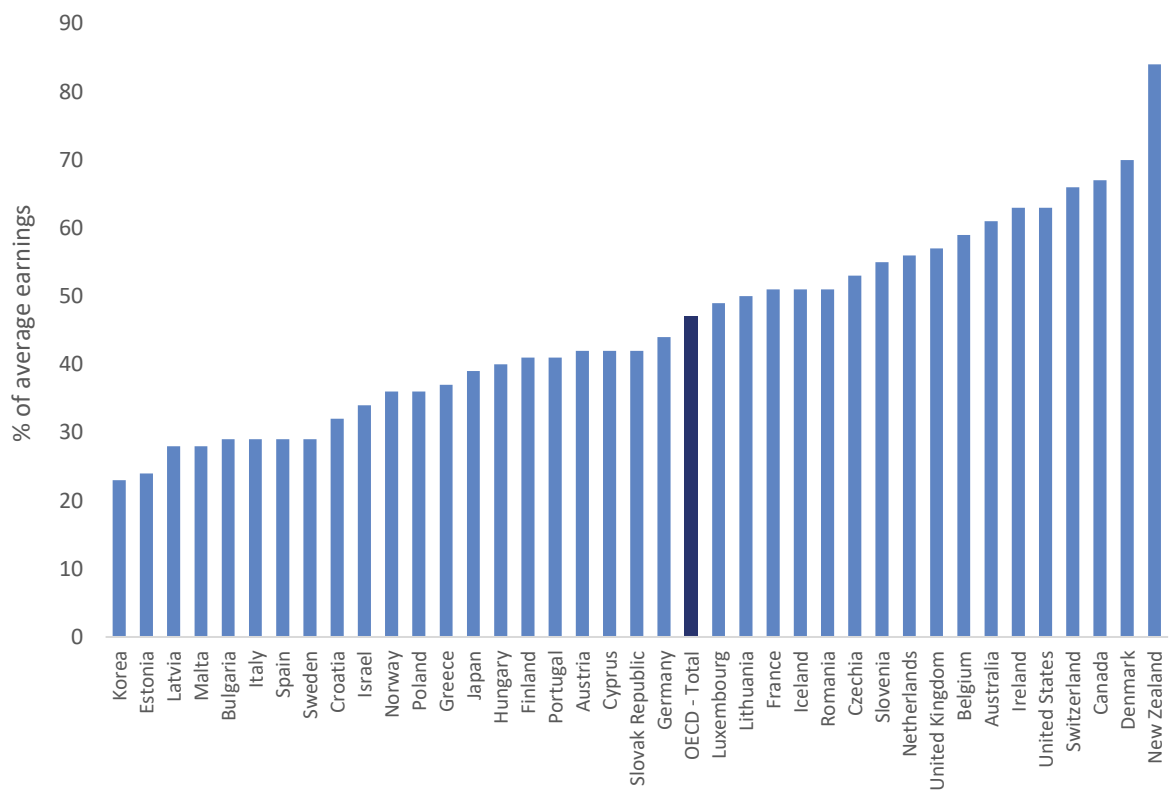
In 2022, the OECD published data assessing the relative financial disincentives to enter employment associated with childcare costs among member countries. The data measure the percentage of earnings lost to either higher taxes or lower social security benefits when a parent of two children takes up full-time employment and uses formal childcare. Calculations refer to a couple with two children aged two and three, where the other parent works full-time at the average wage.

The OECD data is reproduced below at Figure 7. As that Figure shows, on average across OECD countries, 47% of income is lost to either higher taxes or lower benefits when using (formal) childcare. In the United Kingdom, 57% of income is lost; and in the Republic of Ireland, 63% of income is lost. The Figure clearly highlights childcare costs as a substantial barrier to parents re-entering the labour force in all the countries examined:

<sup>42</sup> [DfE economic commentary - spring 2024 \(economy-ni.gov.uk\)](https://www.economy-ni.gov.uk/economic-commentary/spring-2024)



**Figure 7: Financial disincentive to enter employment with childcare costs: Earning average wage, % of earnings, 2022 or latest available<sup>43</sup>**



Source: [OECD, 2024](#)

<sup>43</sup> [Benefits and wages - Financial disincentive to enter employment with childcare costs - OECD Data](#)

## 5 Concluding Remarks

Economic inactivity is a persistent issue in Northern Ireland, often leading to poor health, increased poverty and reduced social inclusion for citizens. Most recent data show over 300,000 individuals in Northern Ireland are currently economically inactive (almost 27% of the working age population). Reasons for economic inactivity include: long-term sickness or disability; family or caregiving responsibilities; studying; and, retirement.

According to official statistics in Northern Ireland, long-term sickness is the single largest reason for economic inactivity. Over the last decade, economic inactivity has risen steadily due to long term sickness reaching a peaking of 43.1% in October 2023. Conversely, economic inactivity due to caring for family or home has fallen from 30% of the total in 2001, to 15% in 2024. That downward trend is likely indicative of: significant changes in family life; women's participation in the workforce; and, gender roles in our society. The use of informal childcare - provided by family and friends - is cited as one possible reason for this.

Economically inactive individuals face certain barriers that may impact their ability to obtain and retain work. Those barriers to employment can include: age; disability; family responsibilities; and, lack of education, skills and training. According to analysis conducted by the OECD, weak incentives to look for a job due to low potential pay or relatively generous out-of-work benefits can also prove a barrier to employment for some. A lack of affordable childcare has also been cited as an important barrier for individuals wishing to re-enter the labour force.

With regard to childcare, many families use a variety and combination of methods, including a mixture of formal (regulated and registered), informal (family and friends) and casual (paid care, but unregistered). In Northern Ireland, a 2023 Employers for Childcare (EC) report noted that just 19% of families used formal childcare. The relatively high cost of formal childcare in Northern Ireland may be a factor in the low take up.

In Great Britain, between 12.5 to 30 hours of free formal childcare per week are available for parents with children under two years of age. This is not available in Northern Ireland. The 2023 EC survey reported that in Northern Ireland, on average, parents with a child under five are spending around £14,000 a year on formal childcare. Parents on low pay and in receipt of UC can claim for an allowance towards formal childcare payments. However, many formal childcare providers require payment in advance and many low-income families are unable to make these large payments upfront. Furthermore, UC childcare related payments are often made retrospectively, thus compounding the problem for parents.

Measuring the impact of childcare policies across jurisdictions is challenging. However, several attempts have been made to establish a link between the cost of formal childcare and decisions to enter/re-enter the labour force. The EC assert that the high cost of formal childcare in Northern Ireland affects the ability of parents to work. Moreover, analysis published by the DfE states that compared with OECD member states, Northern Ireland is the 3<sup>rd</sup> highest ranked in relation to the cost of childcare as a share of average income.

Finally, data from the OECD show that when a parent of two children takes up full-time employment and uses formal childcare in the United Kingdom, 57% of income is lost to either higher taxes or lower social security benefits. In the Republic of Ireland, that figure is even higher at 67%. All the above analysis highlights childcare costs as a substantial barrier to parents entering/re-entering the labour force.