Family and Childcare Trust

Creating a family friendly UK

Childcare Costs Survey 2014

Jill Rutter
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Even part-time childcare costs outstrip the average mortgage. For a family of two children, the cost for one child in part-time nursery care and one in an after school club is £7,549 a year compared to the average UK mortgage of £7,207.



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About the Family and Childcare Trust

The Family and Childcare Trust works to make the UK a family friendly society where all parents and children have the resources they need to thrive. The charity was forced in 2013 as a result of a merger between Daycare Trust and the Family and Parenting Institute. Collectively both organisations have almost 40 years' experience of policy and campaigning on issues affecting families. The Family and Childcare Trust undertakes research and policy advocacy. It also works with parents, businesses and government in order to serve families better.

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Key findings and areas for action

Childcare is something that affects most of us, as parents, as grandparents, as practitioners and as tax payers. Over half of all families with children – over four million – use formal childcare every year. Successive governments have recognised its value to children, families, society and the economy and it now spends £6 billion supporting childcare every year. Indeed, during the course of the current parliament, the government will have put an additional £1 billion into supporting childcare[1]. Yet, since 2009, prices have gone up by 27 per cent while wages have remained the same[2], making childcare ever more unaffordable for parents.

Every year the Family and Childcare Trust collects information about childcare costs and availability in Britain. The data makes it possible to monitor changes in childcare costs and availability from year to year and identify differences in childcare provision across the regions and nations of Britain.

This year's survey, the 13th in the series, has found that costs for childcare have continued to increase, putting extra pressure on families' budgets. The survey also highlights serious and ongoing gaps in provision across the country for working parents, school-aged children, disabled children, those living in rural areas and two-year-olds who qualify for free early education.

Key findings

Childcare costs

- The cost of sending a child under two to nursery part-time (25 hours) is now £109.89 per week in Britain or £5,710 per year.
- For a family with two children in full-time childcare, the yearly bill is £11,700[3]. This makes childcare costs 62 per cent higher than the cost of the average mortgage for a family home.
- Over the last five years childcare costs have risen 27 per cent – meaning parents pay £1,214 more in 2014 than they did in 2009.
- Most parents buying full-time care contribute 20-30 per cent of their gross income on childcare.
- The average cost of an after-school club is now £48.19 per week in Britain or £1,830 per year.

Childcare supply

- Just under half (49 per cent) of local authorities had enough childcare for working parents.
- Only a third (33 per cent) had enough childcare for children aged 5-11. This has worsened in the last five years.
- Three quarters (75 per cent) of local authorities do not have enough childcare for disabled children.

Free early education for two-year-olds

- Over 30,000 of England's poorest two-year-olds miss out on free nursery education. This is over one quarter (26 per cent) of this cohort.
- There are big differences between local authorities in the proportions of two-year-olds receiving free early education. In London just 51 per cent of eligible children had been placed by November 2013.
- There are 37 local authorities where less than 60 per cent of eligible two-year-olds had been placed by November 2014, of which 25 were in London.

Areas for action

Our research shows that the current childcare system is not working for anyone. Children are losing out on vital early education and families remain trapped in poverty because they cannot make work pay. Childcare providers struggle with debts. Women fail to return to the labour market after they have children and the economy loses their skills and their taxes. The state faces greater welfare bills and high administrative costs for delivering a complex support system.

1 Department for Education, 2013.
2 Family and Childcare Trust, 2013a.
3 Based on a two-year-old in 42 hours provision and a five year old in an after school club.

Key findings and areas for action

The priority must be to address the increasing costs for parents and making work pay. In the short-term, the steps that will most effectively meet these aims and support families are to:

- Extend free early education to all two year olds.
- Extend the pupil premium to our most disadvantaged two, three and four year olds.
- Make better use of school premises and children's centres to provide high quality and flexible childcare provision.
- Uprate Working Tax Credits to account for childcare cost increases since 2005.
- In future, increase support with childcare costs in Universal Credit to a minimum of 85 per cent for all parents.
- Effectively enforce the duty on local authorities to provide sufficient childcare.

But these measures are only a sticking plaster. They will not solve the problems of high costs, low quality care and complexity in the system. Childcare will remain unaffordable for many families and its costs a barrier to parents returning to work – shutting them out of the labour market and dependent on benefits.

Ten years on from the Government's 2004 childcare strategy, bold reform is needed to address the UK's childcare challenges. We need a childcare system that gives children the best start in life and that enables parents to remain in work.

The run up to a general election is a key opportunity for political parties to look at reform of childcare provision. Over the next year we will be setting out our vision for childcare – and we want to see all political parties commit to a long-term strategy that delivers for providers, for parents and, crucially, for children.

Table One: Average weekly childcare costs by region and nation, 2014

Region/Nation	Nursery 25 hours (under 2)	Nursery 25 hours (2 and over)	Childminder 25 hours (under 2)	Childminder (2 and over)	After-school club 15 hours	Childminder after-school pick up
East of England	£111.90	£105.02	£121.28	£120.45	£51.13	£58.37
East Midlands	£94.30	£97.19	£86.27	£86.05	£46.48	£61.84
London	£140.12	£136.93	£136.40	£138.77	£49.04	£93.83
North East	£108.24	£102.66	£90.88	£90.09	£49.52	£55.72
North West	£98.00	£97.58	£84.81	£89.27	£49.27	£60.59
South East	£130.08	£121.58	£110.32	£115.86	£47.68	£66.10
South West	£109.70	£104.96	£100.48	£99.54	£50.75	£61.54
West Midlands	£112.17	£101.85	£85.52	£82.85	£46.85	£62.37
Yorks and Humberside	£94.03	£87.94	£90.68	£90.75	£44.84	£62.38
England regional average	£110.95	£106.19	£100.74	£101.51	£48.40	£64.75
Scotland average	£106.04	£102.06	£95.59	£96.84	£49.54	£77.90
Wales average	£103.17	£102.28	£94.24	£94.24	£45.98	£55.61
Britain average of regions and nations	**£109.89**	**£105.52**	**£99.77**	**£100.52**	**£48.19**	**£65.08**

Source: Family and Childcare Trust Annual Childcare Costs Survey, 2014

Background

Working parents with young children use many different forms of childcare. Choices depend on many factors including family income, childcare availability, parental employment patterns and the age of children. In England in 2013, 78 per cent of families[4] with children under 15 years used childcare with 10 per cent of them using a **day nursery**, most of which are run by private or voluntary sector (not-for-profit) organisations. A further 5 per cent of families sent their children to **sessional pre-schools,** which offer part-time provision. Some 10 per cent of families sent their children to **nurseries attached to primary schools, or nursery schools**. This public sector provision is mostly for children over the age of three, where they usually receive 15 free hours of early education funded by the Government. Another 5 per cent of families use **registered childminders** to care for their children.

When children reach school-age, many parents use **breakfast and after-school clubs** to look after their children before and after the school day. Nearly half (43 per cent) of this form of childcare is run by private organisations, although 32 per cent is run by schools or local authorities[5]. In England in 2013, some 6 per cent of families with children under 15 were using breakfast clubs and 36 per cent were using after-school clubs. Other families use **childminders** to pick up their children after school, with five per cent of families with children aged between five and seven using this form of childcare in 2013. Families may also use **holiday childcare**, particularly during half-term periods and over the summer holidays (Family and Childcare Trust, 2013b). Parents of older children may also use after-school and holiday arts, sports and leisure activities as surrogate forms of childcare, with these activities usually run by schools, local authorities, sports clubs and third sector organisations.

Other families rely on informal – unregulated – childcare, with over a quarter of families (27 per cent) using **grandparents** to provide childcare during term-time, 4 per cent using older siblings, 6 per cent using other relatives and 6 per cent using friends and neighbours. While not a form of childcare, 'shift-parenting' is another family caring strategy, where parents work at different times, although this is not an option for some single parents. Informal childcare and shift-parenting are frequently used where parents have 'atypical' work patterns such as shift-work or irregular work patterns, as formal childcare may be difficult to find (Rutter and Evans, 2011).

Childcare is clearly essential for families in Britain. It is an investment in the future of children, and also in parents who need affordable childcare in order to return to or remain in work. But until the late 1990s many parents found it difficult to find affordable childcare and as a consequence mothers often left the labour market when they had children. The ability of many families to escape from poverty was therefore constrained.

By the mid-1990s, as a result of campaigning, the demand for childcare was being heard and politicians across all the main political parties acknowledged this need. In 1998 the *National Childcare Strategy* committed government to increasing the availability and affordability of early childhood education and childcare in England and Wales (Department for Education and Employment, 1998). A further ten-year childcare strategy was published in 2004 which paved the way for the Childcare Act 2006 (HM Treasury, 2004). This legislation obliges all English and Welsh local authorities to ensure sufficient childcare for working parents and those undertaking training or education with the intention of returning to work. At the beginning of 2014 there was no equivalent legislation in Scotland, although the 2008 Early Years' Framework requires that local authorities have 'a strategic view of childcare accessibility' and has a longer-term objective that families have 'access to integrated pre-school and childcare services in every community matched to an assessment of local demand' (Scottish Government, 2008). This guidance will be strengthened as the Children and Young People (Scotland) Act 2014 proposes a new duty on local authorities to ensure enough childcare for pre-school children.

The sufficiency duty, outlined in the Childcare Act 2006, obliges local authorities in England and Wales to assess supply and act to fill gaps in provision, with the Early Years' Framework in Scotland providing a similar although less explicit obligation. As a consequence of these duties the number of childcare places has expanded dramatically in all parts of Britain, although local authority childcare sufficiency analysis– and Family and Childcare Trust annual childcare surveys – still shows gaps in provision.

4 All family childcare use data comes from the 2012-13 Childcare and Early Years Survey of Parents (Department for Education 2014).

5 Source: Department for Education, 2012a.

Background

In the years since the 1998 strategy a number of initiatives have helped make childcare more affordable. In England, Scotland and Wales all young children receive some free early education, usually provided by nurseries. In England all three and four-year-olds and the 40 per cent most deprived two-year-olds get 570 hours of free early education annually, which amounts to 15 hours per week over 38 weeks of the year. Provisions in the Children and Young People (Scotland) Act 2014 propose increasing the amount of free early education for three and four year olds in Scotland to 600 hours per year, with a target of August 2014 given for implementing this entitlement. In Wales, all three and four-year-old children are eligible for a free part-time nursery place, typically ten hours per week during the school year, although some local authorities offer more.

The current infrastructure of support also includes help with childcare costs through the childcare element of Working Tax Credit. At present working parents on low incomes can receive up to 70 per cent of their childcare costs through tax credits, up to a maximum cost of £175 per week for one child in childcare and £300 per week for two or more children. This means that a family can receive up to £122.50 help with childcare costs for one child and up to £210 for two or more children, although for almost all families the amount of help is much lower. These levels were set in 2005 and have not been uprated since then, despite big increases in childcare costs over this period. Moreover, it is only the most deprived working families that receive this type of help, as the childcare payment starts to taper off steeply if the first earner in a household earns more than £15,910 per year before tax and National Insurance are deduced.

The tax credit system is now being merged into the single Universal Credit, with 2017 being the target date for its full implementation. Within Universal Credit the overall maximum support levels will remain, although these will be now calculated monthly. Universal Credit will also be administered online and these two changes will enable greater flexibility for parents whose childcare costs fluctuate from week to week. This is particularly important for parents who face a big increase in childcare costs during the school holidays.

Parents who work less than 16 hours per week will qualify for help with childcare costs through Universal Credit, a move that eliminates some of the benefit 'cliff edges' that can disincentivise moving back into work. In March 2013 the Government announced that it will be spending £1 billion more on childcare. Some of this money will be spent on an increase in the level of childcare support through Universal Credit to 85 per cent of costs, up from 70 per cent that parents receive today. This increase is due for implementation in 2016, although at the time of writing this additional level of support will be restricted to families where both parents are paying income tax (HM Treasury, 2013).

Some parents also receive help with their childcare costs through employer-supported childcare vouchers, either as an additional benefit on top of their salary or as a salary sacrifice before they pay tax. Those receiving childcare vouchers can save up to £55 per week if they are basic rate taxpayers or higher rate taxpayers who joined a voucher scheme before 5 April 2011. Childcare vouchers can also be 'banked' and used at a time when childcare costs may be particularly high, for example, during the school holidays. However, the Government has announced that it will phase out the present employer-supported childcare voucher scheme and replace it with a tax free 'voucher' of £1,200 per year in 2015 (HM Treasury, 2013). This support will be available to all families where parents work and whose household income is less than £300,000 per year. There will, however, be age restrictions on the £1,200 voucher and initially this will only be available to help with under-fives' childcare.

This new help with childcare costs is welcome, although some poor families will not benefit from it. Overwhelmingly it will be families in the top half of the income distribution who will benefit from the £1,200 voucher support. Analysis by the Resolution Foundation 36 suggests that 80 per cent of the 2 million beneficiaries of this voucher will be in the top 40 per cent of the income distribution and almost no families in the bottom 40 per cent. While some of the latter group of families will receive additional support by increasing Universal Credit support from 70 per cent to 85 per cent of costs, there are families that will miss out on this too. Families on the lowest incomes – those where parents

Background

are not paying income tax – will not qualify for this increased level of support.
There may be as many as 930,000 families who earn too little to pay income tax, who include many single parents in low paid, part-time jobs, as well as households where just one parent earns enough to pay income tax. Many child poverty campaigners are calling for all working families receiving Universal Credit to get 85 per cent of their childcare costs, irrespective of their payment of income tax.
If necessary the increased cost to the Exchequer could be met by lowering the maximum income threshold for the £1,200 voucher.

Others are calling for more radical reform to support for childcare costs. As the date for the next election approaches, all political parties are considering this issue as part of their manifesto commitments. The Labour Party has committed itself to a guaranteed after-school childcare place and to extending free early education for three and four-year-olds to 25 hours per week. Liberal Democrat policy is also to increase the hours of free early education. The 2014 Childcare Costs Survey has been undertaken at a time when childcare has risen up the political agenda. We hope that its findings will inform debate and remind policy makers and politicians of the importance of childcare.

Methodology

The Family and Childcare Trust has carried out an annual survey of childcare costs and sufficiency since 2002. In December 2013 a survey was sent to all local authority Family Information Services in England and Wales and Children's Information Services, their equivalent in Scotland. This requested details about the costs and availability of different types of childcare in Britain. The same information has been collected since 2002, enabling time series analysis to take place.

The Childcare Act 2006 and its accompanying statutory guidance obliges local authorities in England and Wales to keep up-to-date data about childcare costs and its sufficiency. Local authorities were asked to provide costs for 25 hours and 50 hours of childcare, provided by nurseries or childminders. The former figure – 25 hours – is the typical amount of childcare that a parent who works part-time might purchase, or a parent in full-time employment who purchases an extra 25 hours childcare on top of the 15 free hours of early years' provision available in England. We also asked for the average price for 15 hours childcare in an after-school club and for childminders who pick up children from school. Regional and national average costs for the different forms of childcare were then calculated from the information supplied by local authorities.

This year we also calculated an average hourly nursery cost for a child aged two or under, weighted to take into account nursery ownership patterns and populations. Proportionally more parents live in London and the South East where childcare costs are higher. Our weighting fomula takes into account population distrubution. Most children who attend nurseries attend ones that are run by private and voluntary sector organisations, which tend to be more expensive than those run by schools and local authorities[7]. Weighting the survey responses enabled us to take this into account and come up with a more precise calculation of the parents' childcare costs.

It is important to emphasise that this survey does not ask childcare providers to estimate what their services cost to deliver. This is likely to be a different amount than the prices information we requested because of the complex systems of cross-subsidy and the array of business models that different childcare providers use. The survey also represents average costs to parents and there will be parents who have higher or lower costs than implied in the survey.

The survey also examines childcare supply and looks at whether local authorities have sufficient childcare for different groups of children. In England, Scotland and Wales local authorities are required to assess childcare supply. (The legal requirements that underpin this duty are discussed later). The survey asked local authorities to draw on their most recent childcare sufficiency data and report if they had enough childcare for under 2s, 2-year-olds, 3-4 year olds, 5-11 year olds, 12-14 year olds, disabled children, children who live in rural areas, parents who work full-time and parents who have atypical work patterns such as shift workers.

In order to ensure an adequate response rate in all the regions and nations of Britain, Freedom of Information Act requests were used collect the information where the survey methodology had failed. Responses were received from 184 local authorities, a response rate of 89 per cent and a minimum response rate of 75 per cent in all regions and nations of the UK.

7 Some 91 per cent of nurseries are run by private and voluntary sector organisations in England (Department for Education, 2012).

Childcare Costs

Childcare costs for the under fives

For a child under two the average cost of 25 hours childcare in a nursery is now £109.89 per week of £5,710 per year in Britain. When the cost data was weighted to take into account ownership patterns and population, the weighted cost for an under two in a nursery was £4.51 per hour in England. Using the weighted hourly cost parents who buy 40 or 50 hours childcare would now expect to pay £9,380 and £11,730 every year, respectively.

The most expensive nursery costs £494 per week for 25 hours childcare and was in London. Over the year a full-time place (50 hours) in this nursery would cost £25,700. The average cost for 25 hours childcare in the most expensive local authority nursery was £228.25 per week. There were 15 local authorities where average costs for 25 hours childcare exceeded £150 per week.

Table One shows that London and the South East remain the regions with the most expensive under-fives childcare. In London nursery costs for a child under two are 28 per cent higher than the British average. A London parent with a child under two pays on average £30.23 more every week for 25 hours nursery care than the average parent in Britain. Over one year this amounts to £1,570 extra cost; for parents in the South East the comparable figure is £1,050 extra per year.

Childminders' costs are generally a little lower than nursery costs. For a child under two the average cost of 25 hours childcare from a registered childminder is now £99.77 in Britain (Table One). Over a year parents who buy 40 or 50 hours childcare for a child aged two or under would now expect to pay £8,300 and £10,370 respectively.

Again, London and the South East are the regions where registered childminders are most expensive. In London childminder costs for a child under two are 37 per cent higher than the Britain average. A London parent of a child under two pays on average £36.63 more every week or £1,905 per year for 25 hours weekly childcare from a childminder.

Childcare costs for the over fives

In Britain about a third of parents use after-school clubs to care for their children. The average cost of an after-school club providing 15 hours of care is now £48.19 per week in Britain or £1,830 per year. The East of England and the South West are the regions with the most expensive after-school clubs.

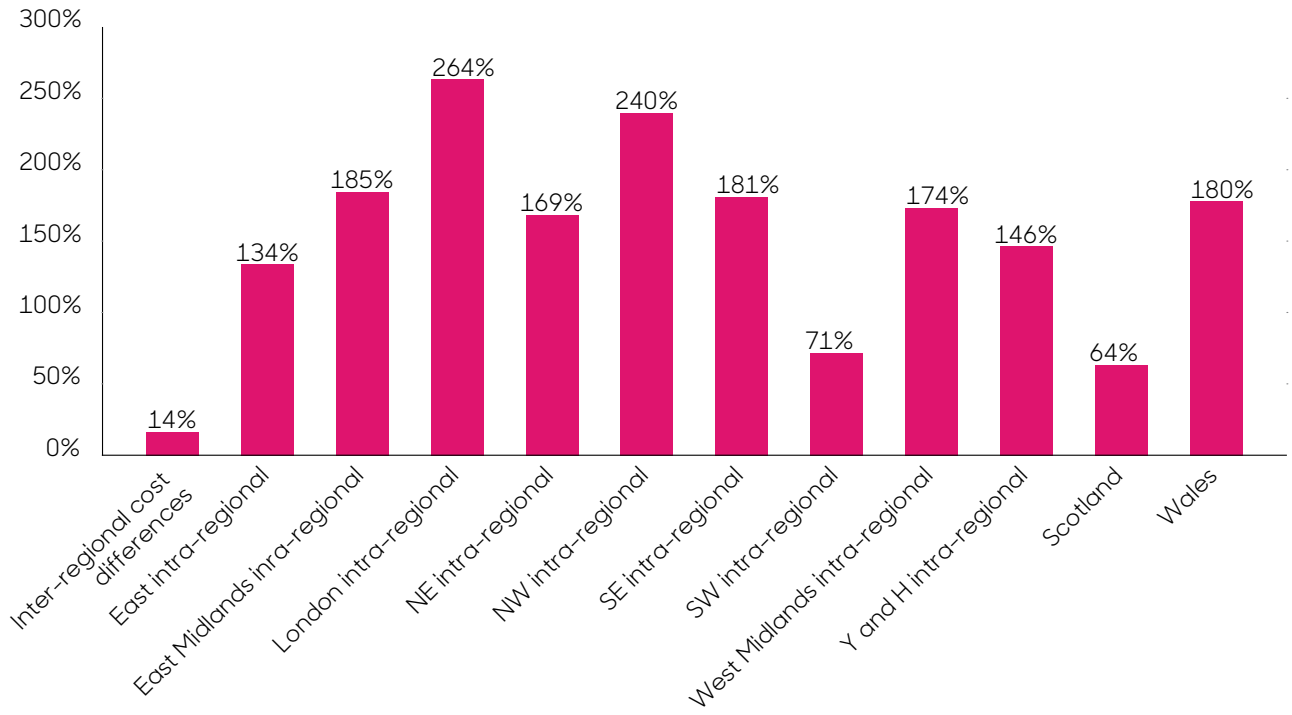
Some families with children aged between 5 and 11 use childminders to pick children up from school. This is often a favoured arrangement if parents sometimes work after six o'clock; childminders are usually more flexible than after-school clubs and can often provide extra hours of childcare. The average costs in Britain for an after-school pick-up and 15 hours after-school care from a childminder is now £65.08 per week or £2,470 per year.

Childminder care for the over-fives is most expensive in London, where it is 44 per cent more expensive than the British average. A London parent with two children who are picked up from school by a childminder can expect to pay £1,090 more a year than the average parent in Britain.

For under-fives, childcare costs differences across Britain are largely associated with regional differences in staff wages, with nursery costs highest in London and the South East. Here higher average family incomes can offset some of the greater costs of childcare. But for after-school childcare there is no such inter-regional pattern in costs. There are more significant differences in the costs of clubs *within* local authorities and *between* different local authorities in a region/nation than between regions and nations (Figure Two). While there is only a 14 per cent difference in price between the most expensive region (East of England) and the cheapest (Yorkshire and Humberside), the costs in the most expensive London local authority are 240 per cent higher than the cheapest in the capital. These cost differences are caused by differing levels of local authority and school subsidy for after-school provision, as well as level of supply and market failure. This means that parents in neighbouring local authorities may have very different costs for after-school clubs and that cannot be offset by regional differences in wages. This is indicative of a childcare postcode lottery.

Childcare costs

Figure Two: Cost differences for after-school clubs within regions and nations, 2014



Source: Family and Childcare Trust Annual Childcare Costs Survey, 2014

Changes in costs over time

During the last 12 months nursery costs for the under twos have increased in all parts of Britain, with an average increase of 3.3 per cent (Table Three). This is above the rate of inflation. England has seen the lowest price increase for nursery provision. Childminder prices have risen in England and Scotland, although not in Wales.

The costs of after-school clubs have fallen in all parts of Britain. The survey showed that about a third (35 per cent) of these clubs are run by schools and four per cent by local authorities. The Family and Childcare Trust's work with clubs has led us to conclude that many schools and local authorities are conscious of the increased costs of living and the squeeze on family incomes and have attempted to maintain their prices.

Table Three: Changes in childcare costs between 2013 and 2014

Region/Nation	Nursery 25 hours (under 2)	Nursery 25 hours (2 and over)	Childminder 25 hours (under 2)	Childminder (2 and over)	After-school club 15 hours
England	2.2%	0%	1.7%	4.4%	-2.6%
Scotland	4.8%	8.2%	2.5%	4.2%	-1.8%
Wales	11.7%	13%	-1.4%	0%	-5.1%
Britain average of all nations and regions	3.3%	1.5%	1.6%	4.0%	-3.0%

Source: Family and Childcare Trust Annual Childcare Costs Survey, 2011

Over the last five years since 2009 however, childcare costs in almost all regions have risen significantly at a time when wages have been stagnant (Table Four). For a child under two receiving 25 hours of childcare in a nursery is now 27 per cent more expensive than it was in 2009. For this part-time provision, parents are now paying £23.35 per week or £1,214 more every year in 2014 than they were in 2009. Even for after-school clubs parents are paying £146 more per year than they were in 2009.

Table Four: Changes in childcare costs over a five year period 2010-2014

Region/Nation	Nursery 25 hours (under 2)	Nursery 25 hours (2 and over)	Childminder 25 hours (under 2)	Childminder (2 and over)	After-school club 15 hours
East of England	24%	19%	44%	43%	9%
East Midlands	10%	16%	11%	13%	-9%
London	29%	41%	31%	35%	9%
North East	44%	47%	11%	10%	43%
North West	29%	46%	23%	29%	48%
South East	23%	25%	16%	22%	0%
South West	26%	31%	17%	14%	18%
West Midlands	46%	40%	20%	20%	20%
Yorks and Humberside	12%	11%	13%	13%	-7%
England	26%	30%	21%	22%	8%
Scotland	26%	31%	19%	23%	3%
Wales	32%	29%	19%	18%	18%
Britain change: average across regions and nations 2010-2014	27%	31%	21%	22%	9%

Source: Family and Childcare Trust Annual Childcare Costs Survey, 2014

Impact of childcare costs on families

The survey shows that childcare is a significant outlay for working parents. Childcare costs take a large proportion of parents' income and many young families spend more on it than they do on their mortgage. The most recent Living Costs and Food Survey from the Office for National Statistics indicated that in the average UK mortgage payment was £7,207 per year. For a family with two children aged two and five, and where parents work full-time, the average yearly childcare bill would be £11,700. (This is based on 42 hours of nursery care every week for 52 weeks and after-school care for the oldest child). In this family childcare costs are 62 per higher than the average mortgage. Where the family uses part-time (25 hours) childcare parents would spend £7,549 on childcare. Even for a family buying part-time nursery care for an under two, at £109.89 per week, childcare is more expensive than average food costs in the UK (£56.80 per week in the Living Costs and Food Survey) and average costs on transport (£64.10 per week).

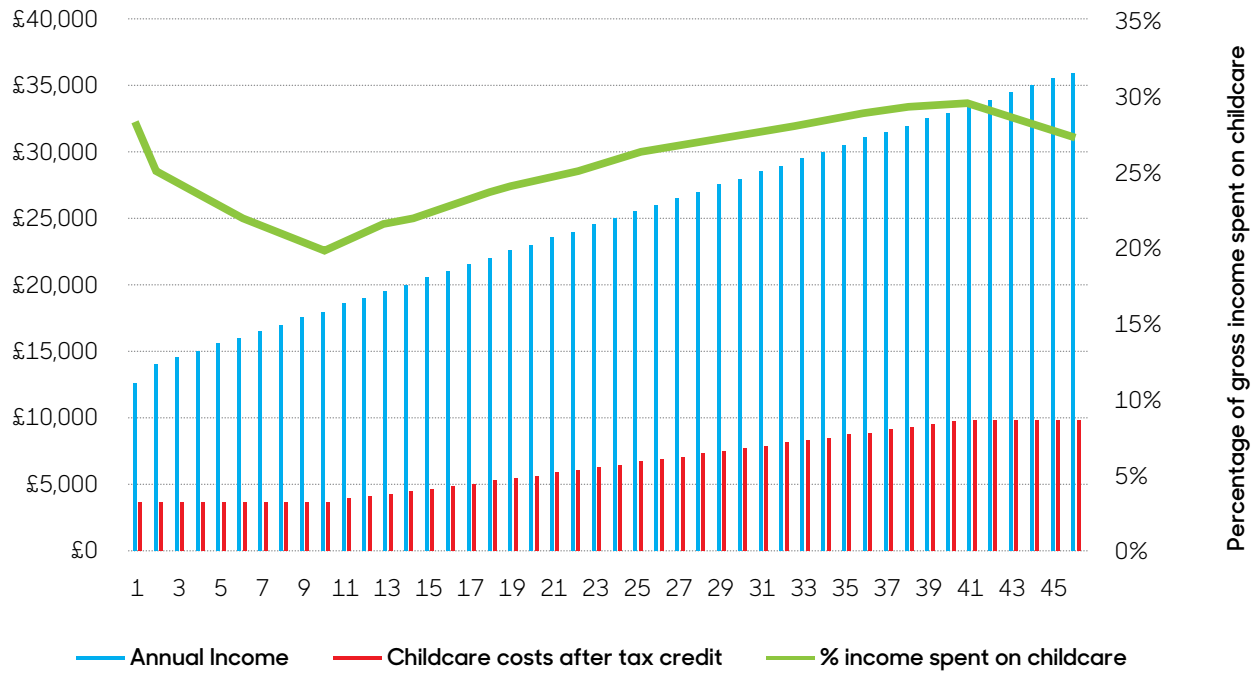
These costs also need to be seen in context of the limited financial assistance that is offered by the Government to help families with their childcare costs. Parents of all three and four year olds and some two-year-olds qualify for some free early education and others may receive employer supported childcare vouchers. However, not all employers issue vouchers and not all childcare providers accept them.

Help with childcare costs is also available through the childcare element of Working Tax Credit, although the amount of help tapers off sharply for after if the first earner in a couple household earns more than £15,910 per year before tax and National Insurance are deduced. Figure Five shows the impact of this taper on a single parent who works 37 hours per week and needs to purchase 42 hours of childcare costing £190 every week or £9,880 per year. Earning the National Minimum Wage a parent would still have to be expected to contribute £3,510 or 28.1 per cent of their gross income. Help with childcare costs tapers off if the single parent earns more than £17,000 per year. Even at this income, the parent is spending more than a fifth (20.6 per cent) of her income on childcare. This is because tax credit regulations set a maximum level of help with costs of £122.50 per week for one child. The survey shows that there is not a single local authority in Britain where this would buy full-time childcare for a child under two and there are 38 local authorities where this would not even purchase 25 hours of childcare for a child aged two or under.

The average salary for a nurse in Britain is £31,000 per year. At this income the parent in Figure Five's model would only receive £994 help with her childcare costs through Working Tax Credit and would be expected to contribute £8,886 or 28.7 per cent of her gross income to pay for childcare. A parent earning £36,000 would receive no help with childcare costs and would be expected to pay all £9,880. A single parent working for 37 hours and needing to buy 42 hours of childcare would have to earn more than £49,400 to be paying less than 20 per cent of her income on childcare.

Impact of childcare costs on families

Figure Five: Tax credit support with childcare costs by income



Source: HMRC Tax credit Calculator

High childcare costs often have the largest impact on families of young children who need to purchase full-time or nearly full-time childcare. Of course, parents could stay at home and look after their children. However, it can be difficult to re-enter the labour market after protracted periods of unemployment. It is for this reason that many parents want to work after they have children and maintain their skills.

All children in England, Scotland and Wales qualify for part-time free early education in the term after their third birthday. In England they receive 570 free hours every year. This can help with childcare costs as the case study shows. But even this help means that some parents are contributing a substantial part of their income to childcare. Data from the OECD shows that parents in Britain are forced to set aside a very high proportion of their salary to cover childcare costs; in 2012 only Swiss parents contributed a higher percentage of their earnings. The average childcare costs for all OECD counties is 11.8 per cent of parental net income. In France this figure is 10.4 per cent, in Germany it is 11.1 per cent while in the UK parents are paying 26.6 per cent of their net income for childcare[8]. For some parents high childcare costs are a barrier to work. As a consequence maternal employment levels for those with children under five – particularly for the least well qualified – are low, compared with OECD countries (Ben-Galim, 2011). Women's skills are lost and families become a cost to the Exchequer as they depend on benefits.

8 OECD Family Database live tables.

Impact of childcare costs on families

Even for parents who return to work after having children, the cost of childcare can prevent them taking full-time work. Parents, usually mothers, become trapped in low-paid and low status part-time work and the high cost of childcare prevents them from extending their hours. A 2014 survey for the Resolution Foundation indicated that 20 per cent of all mothers wanted to work more hours. The desire to work extra hours was highest in low income households. Ensuring affordable childcare would enable parents to work, to extend their hours and to move out of poverty.

Case study
Rebecca is a manager of a department store and has a gross salary of £24,500 per year. She is a single parent to a four-year-old boy and as a consequence receives 15 hours free nursery care every week, which means that Rebecca only needs to buy 30 hours of childcare costing her £135 per week. Rebecca also qualifies for help with childcare costs through Working Tax Credit, with that help amounting to £51 per week, leaving her £84 out of pocket. In a year she spends £4,368 on childcare or nearly 18 per cent of her gross annual salary.

Why is childcare so expensive?

While these costs represent a significant outlay to parents, it is important to remember that childcare by its very nature is labour intensive and thus will always be expensive. It is also inaccurate to argue that these costs are merely the result of childcare providers charging high fees to hard-pressed parents. The reality is more complex. Much of the cost of childcare is due to wages, with recent Government research suggesting that 77 per cent of group-based (nursery and club) childcare costs were staff costs (Department for Education, 2012b). At present regulations stipulate that for children under two in nurseries there must be one member of staff for three children. In nurseries, too, the manager must have a relevant level 3 qualification – equivalent of an A-Level. While salaries for nursery workers are not high, the need to maintain safe supervision levels and deliver high quality childcare does, inevitably, mean that childcare cannot – and should not – be provided 'on the cheap.'

In England in 2013, the Department for Education proposed to change staffing ratios for early years' providers, arguing that allowing staff to care for more children would reduce the costs to parents. A nursery worker would be allowed to care for up to four children under one, compared with three under existing regulations (Department for Education, 2013). But there was overwhelming opposition to this proposal from parents who felt their children's safety and wellbeing would be compromised. The Government eventually dropped this proposal.

But there are other reasons that childcare is costly in Britain. Much of it is delivered by the private and not-for-profit sector: 91 per cent of nursery care, 94 per cent of sessional and pre-school education and 67 per cent of after-school clubs are delivered by the private and voluntary (not-for-profit) sectors in England (Department for Education, 2012a). Most private and voluntary sector providers are required to pay business rates and many pay rent for their premises. Bank loans for expansion need to be serviced. Government research suggested that 7 per cent of the childcare costs of group settings in England could be accounted for by rent or mortgage payments (Department for Education, 2012b). Private sector childcare providers also aim to make a profit. Public sector childcare usually does not have the additional costs of rent, rates and servicing debts as well as profits. The reliance on the private and not-for-profit sectors to deliver childcare in Britain is reflected in the differential costs of nursery provision. This year's survey showed that nursery provision for a child under two is 17.5 per cent more expensive in the private and not-for profit sectors than in the maintained sector in Britain. If a parent buys 50 hours per week childcare in a nursery every year, the price difference between public sector provision and the rest will add up to over £1,500.

Some schools and local authorities subsidise their breakfast and after-school childcare, although as already noted, levels of subsidy vary from area to area (Figure Two). This means that some parents face more costly provision than others.

In other cases working parents also cross-subsidise free part-time early education in nurseries. In England, central government, via local authorities, funds early years' providers to deliver part-time free early education for all three and four year olds, providing £3.80 per hour (adjusted by area) to local authorities to deliver to providers. Many nurseries and sessional pre-schools argue that this level of funding does not cover their costs (Rutter et al, 2012). In order to break even, early years providers then charge working parents a higher rate for the additional hours that they purchase. In some areas providers also operate other cross-subsidy systems, with the parents of three and four-year-olds cross-subsidising childcare for babies, where higher staffing requirements can make childcare too expensive for local markets to sustain.

There is also a link between childcare supply and its cost. As already noted, childcare in Britain operates on a regulated free-market principle. Increased demand is meant to increase supply and help keep prices competitive and therefore affordable. If prices increase, the implication is that supply is lower than demand and that new entrants are not setting up to meet this unmet demand. This is a symptom of market failure in our childcare system.

A further reason that childcare is expensive in Britain is that funding mechanisms for subsidising childcare are complex. Parents receive financial help directly, through the childcare element of Working Tax Credit, through employer-supported childcare vouchers and through small schemes operated by Job Centre Plus and colleges. Other subsidies go from the Government directly to the childcare provider through the free early education offer. All of these funding channels have administrative costs and there is considerable potential to simplify funding streams to reduce costs.

Childcare supply

The Childcare Act 2006 obliges all local authorities in England and Wales to provide sufficient childcare for working parents and those undertaking training or education with the intention of returning to work. In order to meet this duty, local authorities need to know about gaps in childcare provision, so they can intervene in the market. The Childcare Act 2006 and its statutory guidance thus require local authorities to assess childcare sufficiency. In Wales, 'childcare sufficiency assessments' are undertaken every three years, with an annual update between the three year reporting period. In England, the legal obligation to assess childcare supply and demand is being amended, first in statutory guidance and now in the Children and Families Bill 2014. Local authorities are now required to produce an annual report and action plan to explain how they are ensuring sufficient childcare in their area:

"Report annually to elected council members on how they are meeting their duty to secure sufficient childcare, and make this report available and accessible to parents". (Department for Education, 2012c)

There is no equivalent legislation to the Childcare Act 2006 in Scotland, although the 2008 Early Years' Framework requires that local authorities have 'a strategic view of childcare accessibility' (Scottish Government, 2008). In the past, about half of local authorities in Scotland did not undertake accurate assessments of childcare supply and demand (Family and Childcare Trust, 2013c). Over the last year the survey shows that many more local authorities in Scotland have assessed the sufficiency of childcare. In future, such an assessment will be obligatory as the Children and Young People (Scotland) Act 2014 is likely to require local authorities to have childcare plans to ensure sufficient provision for the under-fives.

The survey asked local authorities to use their most recent childcare sufficiency data to estimate if they had sufficient childcare for different groups of children. In 40 per cent of English local authorities and 37 per cent of Scottish local authorities, parents had voiced a lack of childcare over the last 12 months. Despite the obligations of the Childcare Act 2006 and the Scottish Early Years' Framework the survey showed that only half (49 per cent) of local authorities had sufficient childcare for working parents (Table Six). Although there have been some improvements in the supply of childcare for this group since the 2013 survey, half of local authorities are failing their duties and not being held to account for this.

The survey showed that an increased number of English local authorities have enough childcare for the under twos, with just 20 per cent of them reporting sufficient provision in 2013, compared with 54 per cent in 2014 (Family and Childcare Trust, 2013a). Table Six also highlights large gaps in provision for disabled children and children who live in rural areas, although in both cases there have also been some improvements in supply in England since 2013.

Table Six: Percentage of local authorities reporting sufficient childcare for particular groups of children, 2014

	England	Scotland	Wales	Britain average of regions and nations
Children aged two or under	54%	32%	22%	49%
Three and four year olds	69%	55%	17%	63%
5-11s	35%	32%	11%	33%
12-14s	17%	23%	6%	17%
Disabled children	28%	18%	6%	25%
Children who live in rural areas	20%	14%	0%	17%
Children of parents who work full-time	54%	23%	28%	49%
Children of parents with atypical work patterns, for example, shift workers	14%	9%	6%	13%

Childcare supply

Another serious gap in provision is childcare for 5-11 year olds. Table Six shows that just a third of local authorities (33 per cent) had sufficient childcare – childminders, breakfast, and after-school clubs – for this age group. The shortage in this type of childcare was most severe in Wales. Moreover, this trend has worsened over the last six years (since the first childcare sufficiency assessments in 2008) with 39 per cent of local authorities reporting enough provision in 2009, compared with 33 per cent today (Daycare Trust, 2009). Nor has there been any large improvement in ensuring sufficient after-school activities for 12-14 year olds with 14 per cent of local authorities reporting they had enough provision for this group in 2009, compared with 17 per cent today.

The Family and Childcare Trust's research suggests that there is a mismatch between supply and demand of childcare in some areas, suggesting market failure. Reasons for this could include the high costs of entry into the nursery market (particularly where rents are high and suitable premises scarce), uncertainty about parental demand and difficult lending conditions.

The childcare market is bound by rules to determine its quality. These requirements, rightly, set a fixed minimum cost for providers. Most for-profit childcare providers operate on low profit margins that are highly sensitive to small changes in income or outgoings. Not-for-profit providers experience similar sensitivities. Economies of scale can help providers reduce costs, and this can be achieved by both local authorities and large 'chain' nurseries, the latter having a highest market presence in England and Wales.

A local community might almost reach market saturation for childcare, or there might be services that meet mainstream needs, but investment in additional childcare places for particular types of need – for example, disabled children or children in sparsely-populated rural areas is unlikely to be delivered in a free market.

These market failures are why local authorities are expected to intervene, and why knowledge about childcare demand and the limits of market supply are necessary. The greater use of school buildings to provide childcare and activities for school-aged children is one local authority intervention that would increase supply for older children.

Childcare for parent with atypical work patterns is another gap where there has been little progress to extend provision. Atypical work patterns are varied, but they include planned and unplanned overtime, shift work, zero hours' contracts, agency work, casual and seasonal work. Many parents with atypical work patterns share childcare with their partners – a strategy sometimes termed shift parenting. Others rely on informal childcare, with grandparents most likely to provide this type of childcare (Rutter and Evans, 2012). However, not all parents are able to turn to partners, relatives and friends to provide childcare. If they have no formal childcare they may be restricted in the jobs they can take.

There are models of formal childcare for parents with atypical work patterns. Ensuring that nurseries and childcare for school-aged children is open between 7am and 7pm is an adjustment that can help some parents. The Family and Childcare Trust also advocate better use of sessional crèches for parents who have irregular work and study patterns. Sessional crèches provide part-time flexible childcare, often for a few hours every week and typically run in children's centres, community centres or colleges. In England sessional crèches are often oversubscribed; data from the Childcare and Early Years Providers Surveys shows that they the highest occupancy rate of any form of childcare (Department for Education, 2012a).

However, many parents who have atypical work patterns prefer their children to be cared for in a home environment, either in their own home or at a registered childminder's home. Childminders, more so than nurseries, have a greater capacity to accommodate out-of-hours or changeable childcare needs. In some parts of England private childcare providers and a small number of employers have started to provide registered 'at home' childcare services. Here registered childminders or other groups of people who regularly work with young children provide childcare in the child's own home. The carers are registered with Ofsted, so low income parents are able to apply for the childcare element of Working Tax Credit. The organisation that runs the service – a private company or large employer – brokers the relationship between parent and the 'at home' carer.

Childcare supply

While there are models of formal childcare for parents with atypical work patterns, Family and Childcare Trust surveys show that childcare market has failed to deliver such provision for working parents. Indeed, there has been little increase in this type of provision over the last five years. There are a number of reasons for this. First, providers themselves may not see extended hours, sessional provision or 'at home' services as being sufficiently profitable to justify offering these services.

A second reason that providers may not act to provide childcare for parents with atypical work patterns is that they may lack information about potential local markets for these services. If local authority childcare sufficiency reports fail to examine for the need for childcare outside normal office hours, then providers will not know if there is a market for this provision. Research undertaken in 2012 showed that just 2 out of London's 33 childcare sufficiency reports from 2008 looked at demand for childcare outside normal office hours (Rutter and Evans, 2012). It is telling that in 2014 the survey showed that 33 local authorities still did not know if they had enough provision for parents with atypical work patterns.

Third, many childcare sufficiency assessments have lacked detailed action plans that identified how local authorities might act to fill gaps in provision. And where there were written action plans, local authorities did not always act on them. Throughout, central government has failed to hold local authorities to account for this failure to ensure sufficient childcare provision for working parents.

Places for two-year-old children who qualify for free early education

In England, Scotland and Wales a proportion of the most disadvantaged two-year-olds qualify for free part-time early education. In Scotland this provision is offered to children who are identified as in need by their local authority. The Flying Start programme in Wales is in the process of extending free part-time early education to the 36,000 most deprived two-year-olds, alongside enhanced health visiting, parenting support and other targeted help. Plans to offer free early education for two-year-olds are most advanced in England. The Department for Education is offering funding for 570 hours of early education annually (this amount to 15 hours per week over 38 weeks of the year). By September 2013 the poorest 20 per cent of two-year-olds should have been receiving free early education. In September 2014 this will be extended to the 40 per cent most deprived children.

The Department of Education offers £5.09 per hour to local authorities to deliver free early education (this figure is adjusted using a formula, giving local authorities in London and the South East more money to compensate for their increased running costs). Local authorities then distribute the money to providers. Statutory guidance obliges local authorities to find places for eligible children and they are being placed in a variety of settings: private and voluntary sector nurseries, children's centre nurseries, sessional pre-schools and with registered childminders.

To help providers, the Government made an additional £100 million capital funding available in 2012 and a further £8 million to London local authorities in December 2013. It has also funded a small team of advisers to work with local authorities to help them find places. In order to assist with planning, the Department of Education has also calculated the number of eligible children in each local authority (Table Seven). The first estimates of numbers were made in 2012 and were based on Office for National Statistics population estimates and data from HM Revenue and Customs (HMRC) and the Department for Work and Pensions (DWP). The 2012 estimate suggested that there would be 150,300 eligible children by September 2013. In 2013 a second estimate of 129,624 eligible childcare was made, this time just based on the HMRC and DWP data (Department for Education, 2013). While the first estimate may be too high, the second estimate excludes children in need who are also eligible, and also does not tally with population estimates for two-year-olds.

Free early education for two-year-olds is an ambitious programme that has the potential to make a real difference to the lives of England's most deprived children, supporting their development and enabling parents to move back into work or undertake training. But from the start, some local authorities have struggled to find enough places for children who qualify (Rutter et al, 2012). In this year's survey the Family and Children Trust has mapped the extent to which local authorities have met their 2013 target. They were asked if they had enough places for two-year-olds and how many qualifying children had been placed on 1 November 2013.

Less than half (41 per cent) of local authorities had enough places for two-year-olds in all areas. Table Seven gives data on the proportion of children from the September 2013 target who had been placed and were receiving early education on 1 November 2013. The survey shows that an average of 74 per cent of eligible two-year-olds were receiving early education, but there was a wide variation in the proportions of children in provision between local authorities. In England there were 37 local authorities where less than 60 per cent of eligible two-year-olds were receiving free early education, of which 25 were in London. The survey suggests that 30,000 – 32,000 of England's poorest two-year-olds are missing out on free nursery education.

Places for two-year-old children who qualify for free early education

Table Seven: Proportions of the September target number of two-year-olds who were placed with early years providers in November 2013

	2012 DfE estimates on numbers of 2 years who will qualify for free place by September 2013	2013 DfE estimate on numbers of 2 years who will qualify for free place by September 2013, excluding children in need	Average percentage of target met by local authority November 2013	Highest percentage target met in region, November 2013	Lowest percentage target met in region, November 2013
East of England	13,700	11,935	78%	110%	48%
East Midlands	12,000	9,978	77%	119%	55%
London	28,800	26,716	51%	121%	33%
North East	8,900	7,265	79%	97%	53%
North West	21,800	18,773	77%	119%	47%
South East	18,200	16,521	74%	94%	40%
South West	11,700	9,869	91%	111%	52%
West Midlands	18,700	15,180	73%	113%	41%
Yorks and Humberside	16,500	13,667	91%	129%	53%
England Total	150,300	129,624	74%	121%	33%

Sources: Department for Education, 2012; 2013; Family and Childcare Trust Annual Childcare Costs Survey, 2014

There are a number of reasons why local authorities are struggling to place children. Some parents have decided not to take up the offer. But in many areas providers have decided not to take part in the programme. They have complained that that the hourly funding rate is not financially sustainable. As already noted, many nurseries operate complex cross-subsidy mechanisms; they rely on working parents of three and four year old children to purchase extra hours on top of their existing 15 hours of free provision. However, few parents of two-year-olds who qualify for free provision will be working, so they will not purchase extra hours. This means there is no cross-subsidy to cover costs. Additionally, the two-year-old offer is generally delivered over 38 weeks of the year, while nurseries and childminders tend to work over 48 - 50 weeks, leaving 10 – 12 weeks as unfunded 'dead-time' that providers cannot fill with another child. A child receiving a 15 hours early education every week can block a full-time place if providers cannot find another child who to take the remaining hours (Rutter et al, 2012).

Some providers feel that children who qualify for free provision have too many additional needs and have declined to take them (ibid).

They may have to attend meetings with social workers or provide special equipment for a disabled child. It is important to note that the funding that early years' providers receive is only adjusted for area costs, and not for children's needs. In this respect, early years' funding differs from schools' funding, as schools receive extra money in the form of the pupil premium. This grants extra funder to children in receipt of free school meals (£1,300 per pupil of primary-school age and £935 for a secondary aged pupil). Looked-after children attract a higher premium. Outside the pupil premium grant, service children receive extra funding as do children who have high cost special educational needs. There is a compelling argument to introduce a pupil premium for the early years. This would enable providers to better meet the needs of the most disadvantaged children and address concerns about provider under-funding for children with specific needs.

Places for two-year-old children who qualify for free early education

In many urban areas, particularly London, there is not sufficient space to expand existing provision (Rutter et al, 2012). There is also a spatial mismatch between supply and demand. There has always been less nursery provision in deprived areas, as there is less demand here, so local authorities have to find places for two-year-olds in areas where there is already less provision. This problem has worsened with over 100 nurseries based in Sure Start centres – disproportionally located in poor areas - closing over the last two years (House of Commons Education Select Committee, 2013).

By September 2014 local authorities will be expected to find an estimated 277,000 places for two-year-olds (excluding children in need and children with special educational needs and disabilities). On present evidence it is likely that many local authorities will miss this target and many of England's poorest children will not benefit from early education. The Government could respond by offering additional revenue and capital funding to providers including a pupil premium. An alternative approach would be to extend free early education for two-year-olds to universal provision. This would cost an additional £400–£450 million a year to deliver, although there would be efficiency savings to local authorities in reduced administration costs. Universal provision would result in a market driven expansion of supply: providers could operate the cross-subsidy systems that they use for three and four year olds, where working parents purchase extra hours on top of their free allocation. Such an expansion would also benefit parents, enabling them to return to work and preventing long periods of time spent out of the labour market.

Fixing the system

Our research shows that the current childcare system is not working for anyone. Children lose out on vital early education and families remain trapped in poverty because they cannot make work pay. Childcare providers struggle with debts. Women fail to return to the labour market after they have children and the economy loses their skills and their taxes. The state faces greater welfare bills and high administrative costs for delivering a complex support system.

The priority must be to address the increasing costs for parents, make work pay and ensure that all children benefit from high quality early education. In the short-term, the steps that will most effectively meet these aims and support families are to:

- Extend free early education to all two year olds.
- Extend the pupil premium to our most disadvantaged two, three and four year olds.
- Make better use of school premises and children's centres to provide high quality and flexible childcare provision.
- Uprate Working Tax Credits to account for childcare cost increases since 2005.
- In future, increase support with childcare costs in Universal Credit to a minimum of 85 per cent for all parents.
- Effectively enforce the duty on local authorities to provide sufficient childcare.

These measures will make a difference to some parents and to providers. But they are not a long-term and sustainable solution to the problems of high costs, low quality and the complexity in the childcare system. Childcare will remain unaffordable for many families.

Ten years on from the 2004 childcare strategy, bold reform is needed to address the UK's childcare challenges. We need a childcare system that gives children the best start in life and that enables parents to remain in work.

The run up to a general election is a key opportunity for political parties to look at reform of childcare provision. Over the next year we will be setting out our vision for childcare – and we want to see all political parties commit to a long term childcare strategy that delivers for providers, for parents and, crucially, for children.

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