Family and Childcare Trust

Creating a family friendly UK

Childcare Costs Survey 2015

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Over the last Parliament the cost of a part-time nursery place for a child under two has increased by 32.8 per cent. A family paying for this type of care now spends £1,533 more this year than they did in 2010, while wages have remained largely static.



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Key findings and areas for action

Childcare provision is a crucial part of a modern state's infrastructure: it enables parents to work, improves children's outcomes and helps narrow the gap between disadvantaged children and their peers. This essential service enables businesses and public services to function. Without affordable childcare provision, the skills of working parents are lost and families are forced to depend on benefits, rather than contribute to the economy as tax-payers. Given how important childcare is to all of us, getting it right should to be a key objective of any government.

Since 2002 the Family and Childcare Trust has undertaken an annual childcare survey – measuring the prices of childcare for parents and the availability of childcare places. The data – collected from local authority Family Information Services – make it possible to monitor changes in childcare prices and its supply from year-to-year.

Over the last five years, while there have been deep cuts to other public services, the Coalition Government has increased spending on childcare. But despite this welcome investment, this year's survey, the 14th in the series, finds childcare prices have continued to increase and the gaps in provision remain unfilled. The reality is that for too many families it simply does not pay to works.

Key findings

Childcare costs

- The cost of sending a child under two to nursery part-time (25 hours) is now £115.45 per week in Britain, or £6,003 per year, which is a 5.1 per cent rise since 2014.
- The cost of part-time care from a childminder has also risen – by 4.3 per cent – and now costs £104.06 per week or £5,411 per year.
- Childcare prices have continued to rise at levels above the rate of inflation. When population distribution is taken into account, the cost of a part-time nursery place for a child under two has increased by 32.8 per cent over the last Parliament.

Childcare supply

- The Childcare Act 2006 requires local authorities in England and Wales to make sure – as far as is practicable – that there is sufficient childcare for working parents, but despite this duty, this year just 43 per cent of councils in England had enough childcare for them, compared with 54 per cent last year.
- Gaps in provision for disabled children have also increased, with only 21 per cent of English local authorities and 7 per cent in Wales now having enough childcare for this group, compared with 28 per cent (England) and 18 per cent (Wales) in 2014.

Free early education

- In England, the 40 per cent most income deprived two year olds became entitled to free part-time early education in September 2014. By November 2014 about 160,000 children were receiving this help - 60 per cent of those who are eligible, although there were large variations in the take-up between local authorities (35-100 per cent). This means that 110,000 eligible two year olds are missing out on free early education.

Key findings and areas for action

Table One: Average weekly childcare costs by region and nation, 2015

Region/Nation	Nursery 25 hours (under 2)	Nursery 25 hours (2 and over)	Childminder 25 hours (under 2)	Childminder 25 hours (2 and over)	After-school club 15 hours	Childminder after-school pick up
East of England	£110.93	£107.43	£120.88	£120.43	£49.46	£57.87
East Midlands	£118.82	£107.74	£92.20	£90.54	£48.20	£72.13
London	£152.06	£140.64	£146.31	£144.27	£53.65	£89.94
North East	£110.49	£107.08	£96.03	£95.48	£49.67	£62.01
North West	£106.14	£102.27	£91.55	£89.94	£43.03	£52.11
South East	£133.27	£128.17	£114.21	£112.67	£52.03	£65.63
South West	£114.72	£108.87	£101.50	£101.10	£49.16	£60.53
West Midlands	£112.77	£110.20	£94.68	£94.08	£43.18	£62.22
Yorkshire and Humberside	£96.47	£92.37	£90.12	£88.83	£42.84	£64.14
England regional average	£117.30	£111.64	£105.28	£104.15	£47.91	£65.18
Scotland average	£110.01	£99.93	£100.37	£99.30	£49.03	£64.57
Wales average	£104.32	£103.44	£96.81	£96.81	£49.74	£59.97
Britain average of regions and nations	**£115.45**	**£109.83**	**£104.06**	**£103.04**	**£48.18**	**£64.65**

Areas for action

Our research shows persistent problems with childcare provision in the UK. It is expensive, there are gaps in provision and too many children are missing out on the free early education to which they are entitled. The run up to a general election is the time for all political parties to look at childcare reform.

We have five recommendations, which we call on any incoming Government to implement in the next Parliament:

1. Merge Universal Credit support for childcare with the tax-free childcare scheme to create a single progressive system.
2. Extend free early education to cover all two year olds and for 48 weeks of the year for all two, three and four year olds.
3. Make early education and childcare a legal entitlement for parents, bringing it in line with the right to a school place.
4. Amend the funding formula for free early education for two year olds, to make sure it meets the cost of provision in expensive areas such as London.
5. Overhaul the free early education funding formula for three and four year olds to make it more responsive to social factors.

But these measures alone will not fix the system. It needs radical reform and in the long-term we want to see all political parties commit to an independent review of childcare. This should aim to create a simple system that promotes quality, supports parents and delivers for children.

Policy background

Working parents with children use many different forms of childcare. Their choices depend on factors including family income, childcare availability, parental employment patterns and the age of their children. The 2012-2013 Childcare and Early Years Survey of Parents, covering England, suggested that 78 per cent of families with children aged 0-14 years used childcare, with 59 per cent of them paying for it (Department for Education, 2014b). The same statistics indicated that during the reference weeks of the survey, some 10 per cent of parents used a **day nursery**, with about 90 per cent of them run by private or voluntary sector (not-for-profit) businesses in England (Department for Education, 2014a). A further 5 per cent of families sent their children to a **pre-school**, or used a **sessional crèche,** both of which offer part-time provision. Some 10 per cent of families sent their children to **nurseries attached to primary schools** or to **nursery schools.** This public sector provision mostly runs during term-time and is usually for children over the age of three. Another 5 per cent of families use **registered childminders.**

When children start compulsory education, parents may use **out-of-school** and **holiday clubs**. In England, in 2013, some 6 per cent of families with children under 15 used **breakfast clubs** and 36 per cent used **after-school clubs** (Department for Education, 2014b). Over half (56 per cent) of after-school childcare is run by private or voluntary sector organisations, although 40 per cent is now run by schools (Department for Education, 2014a). Over the last three years since 2011, more schools have set up their own out-of-school childcare, an issue that we examine in greater detail later in this report. Other families use **childminders** to pick up their children after school.

Children of secondary school age still require some care and supervision, particularly during the school holidays. While the Childcare Act 2006 requires local authorities to provide sufficient childcare for working parents with children up to the age of 14[1], activities and supervision for this age group are not usually described as *childcare* in everyday speech. Moreover, most out-of-school clubs and play schemes do not provide activities that are appropriate for children of secondary-school age. Instead parents of 11-14 year olds may use arts, sports and leisure activities as *de facto* forms of childcare.

Other families rely on informal – unregulated -childcare, with over a quarter of families (27 per cent) using **grandparents'** care during term-time (Department for Education, 2014b). Older siblings, other relatives, friends and neighbours may also provide informal childcare. 'Shift-parenting' is another caring strategy, where parents work at different times and share care between them. Both informal childcare and shift-parenting are frequently used where parents have 'atypical' work patterns such as shift-work, as formal childcare may be difficult to find (Rutter and Evans, 2012).

There are broadly similar patterns of childcare in use in Scotland and Wales, although there are some small differences that are worth highlighting. In Wales there are fewer private and voluntary sector nurseries per head of population. This is because many more Welsh primary schools have nursery classes attached to them and when children are three they will tend to use this state provision. There is also a vibrant Welsh-medium pre-school sector in Wales - *cylchoedd meithrin* – which some parents use alongside other forms of childcare. In Scotland, too, there is proportionally more public sector nursery provision than in England. Larger proportions of Scottish parents also turn to grandparents to provide informal childcare than do so in England (Rutter and Evans, 2012).

Childcare is essential for families in Britain. It is an investment in the future of children, and also for parents as it enables them to 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.

As late as 1990, there were just 59,000 nursery places in England and Wales, compared with 1.7 million places today. Until the first tax reliefs for childcare in 1994, the state's role in childcare was largely confined to a discretionary role for local authorities in providing nursery education. But economic changes and greater gender equality, alongside campaigning by activists, forced a change in policy. Today, all the main political parties recognise parents' needs for affordable, flexible and high quality childcare.

The Nursery Education and Grant Maintained Schools Act 1996 was the first attempt by the state to increase the supply of childcare. 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). While the 1998 strategy brought in many changes, *Choice for parents, the*

1 "to the 1st September next following the date on which he attains the age of 14, unless disabled."

Policy background

best start for children, the 2004 strategy, was a more significant document in changing the direction of policy. Its recommendations covered four areas (i) work-life balance (ii) childcare supply (iii) quality and (iv) affordability. To date, it is the most comprehensive childcare strategy in its reach and ambition. The narrative the strategy described—placing childcare squarely in the context of both child development and parental employment—continues to define policy to the present day.

The 2004 strategy paved the way for the Childcare Act 2006. This legislation obliges English and Welsh local authorities to ensure that there is sufficient childcare for working parents and those undertaking training with the intention of returning to work, as far as it is practicable for them to do so. Local authorities also have a duty to ensure there is enough provision for children in receipt of free early education. Despite these legal obligations, there are still large gaps in some forms of childcare and we discuss childcare sufficiency in more detail later in this report.

Childcare affordability is another policy aim. Successive governments have opted to subsidise parents' childcare costs through both supply-side subsidies - to providers to deliver free provision - and demand-side subsidies to parents through tax credits and vouchers. This approach contrasts with that taken by many other developed countries where all or the majority of public subsidies go to providers as supply-side funding. In turn, providers deliver free or low cost childcare to families. Supply-side funding is generally more cost-effective than directing funding to parents and tends to be less inflationary (Ben-Galim, 2014; Stewart et al, 2013). Supply-side funding to providers can also be made conditional on meeting quality criteria, thus leading to improvements in childcare provision.

In the UK parents receive help with their childcare costs through free early education. In England, Scotland and Wales all three and four year old children receive some part-time free early education, usually provided by nurseries, with this provision recently being extended to certain groups of deprived two year olds (Table Eleven). In Northern Ireland free early education is restricted to four year olds. While free early education has the potential to support children's development and help parents return to work, there are still some challenges in delivering this provision which we discuss later in the report.

The current infrastructure of support also includes help with childcare costs through the childcare element of Working Tax Credit and employer-supported childcare vouchers. There are also some smaller schemes to help parents with their childcare costs, through housing benefit, Job Centre Plus and for parents who are students.

In April 2014 an estimated 8 per cent of UK families with dependent children under 12 – 436,000 families in total - received help with their childcare costs through the childcare element of Working Tax Credit (HM Revenue and Customs, 2014). 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 (meaning the parent gets 70 cent of this = £122.50). There is a limit of £300 per week help for two or more children (= £210 per week towards childcare). These levels were set in 2005 and have not been uprated since then, despite large increases in childcare costs over this period. Moreover, it is only those on the lowest incomes who receive this, 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 deducted. Although tax credit awards are affected by family circumstances, there were only 5,000 families with an annual income of £30,000-£39,999 who received Working Tax Credit in the 2013-2014 financial year (HM Revenue and Customs, 2014).

Not all those entitled to help with their childcare through tax credits take up this assitance and tax credits do not work well for parents with intermittent employment or variable childcare costs. Tax credits are 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 eventually be administered online and these two changes will enable greater flexibility for parents whose childcare costs vary from week to week. This is particularly important for parents who face fluctuating childcare costs caused by irregular work patterns and 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. There are, however, concerns that Universal Credit still has some of the problems associated with the childcare element of Working Tax Credit. In particular, it does not incentivise the second earner in a couple household taking on more hours of work - and thus moving out of poverty. In March 2013 the Government announced that it intends to increase the level of childcare support through Universal Credit support to 85 per cent of costs, up from 70 per cent of costs that parents receive today. This increase is due for implementation in April 2016.

Policy background

At present parents not in receipt of tax credit help with childcare costs are entitled to help with their childcare costs through employer-supported vouchers and tax relief on workplace nursery costs. An estimated 540,000 UK parents receive help with their childcare costs through employer-supported childcare schemes, most usually as vouchers, either as an additional benefit on top of their salary or as a salary sacrifice before they pay tax (House of Commons Library, 2014). 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. The disadvantages of childcare vouchers are that only five per cent of employers offer them and not all childcare providers, particularly out-of-school clubs, accept them.

In 2013 the Government announced that it will phase out the present employer-supported childcare voucher scheme and replace it with a tax-free 'voucher' of up to £2,000 per year in 2015 (HM Treasury, 2013). This will be an online system where parents bank their payments. For each £8 a parent pays in, the Government will add an additional £2 up to a maximum of £2,000 per year per child. In the 2014 Budget it was confirmed that this source of help would be open to all families with children under 12. This support will be available to all families outside the tax credit/Universal Credit system where parents work and whose household income is less than £300,000 per year (or £150,000 for a single parent).

This new help with childcare costs is welcome, although there are concerns about these changes. There will be some families who fall into a gap between Universal Credit and the tax- free childcare scheme. Some families who get help through tax credits may well be financially better off if they opt into the tax-free childcare scheme when it is introduced in September 2015. Conversely, there will be families who may be receiving help with their children costs through childcare vouchers or the new tax-free childcare scheme, who may be better off receiving tax credits or Universal Credit. Research undertaken by the Family and Childcare Trust suggests that at least 335,000 families may be affected by the interaction between the two demand-side subsidy systems (Rutter et al, 2014). Those who fall into this gap are most likely to be those whose gross household income is between £30,000 - £40,000 but whose childcare costs or income varies from month-to-month due to overtime, freelancing, self-employment or commission and bonuses. In these families, their tax credit support has tapered off, but they may still receive small amounts of help with their childcare costs and Child Tax Credit. Decisions about whether to opt for Universal Credit help with childcare costs or the new tax-free childcare are made much more difficult where income or childcare costs vary from week to week.

These are gaps and cliff-edges that could be mimimised if there was a single progressive online system of supporting childcare costs, merging the two systems: Universal Credit and tax-free childcare.

Another problem associated with demand-side funding to parents is that it has the potential to be inflationary, as providers see the extra money in families' pockets as an opportunity to increase their prices. In the UK childcare costs increased above the rate of inflation in 2005 and 2006 when tax credit support for childcare was increased and the Government brought in childcare vouchers. Outside the UK, increasing demand-side funding has also led to above inflation rises in childcare costs. The Australian government increased its demand-side subsidies for childcare from $500 million AUD in 1997 to $3.3 billion in 2007, but childcare costs increased by over 100 per cent during this period. Then in 2008 the childcare rebate parent subsidy was extended to over 50 per cent of costs (from 30 per cent) and prices went up by over 10 per cent in one year (Ben-Galim, 2014).

Some of these concerns have been articulated in the political arena. While the political parties have differences in their childcare policies, all the main parties support the same current approach of both supply-side (provider) and demand-side (parent) subsidies. But compared with many other developed countries, the public funding of childcare is complicated in the UK. It is complex and expensive to administer for governments. It is also complex for providers and parents. A new government has an opportunity for a root and branch review of childcare funding and to set in place changes that ensure simplicity, progressive levels of support, quality and accessibility. To these ends, the Family and Childcare Trust is calling for the next government to set up an independent review of childcare funding. We hope that the findings of the 2015 Childcare Costs Survey will inform the debate about childcare and remind policy makers and politicians of the importance of childcare, for children, for families and for the broader economy.

Methodology

The Family and Childcare Trust has carried out an annual survey of childcare costs and sufficiency since 2002. In November 2014 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. It is not possible to include Northern Ireland in our survey as neither its government nor its education boards have data about childcare costs and supply and demand for this service.

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 majority of day nurseries and many childminders offer care between 8am and 6pm which is 50 hours per week. This 25-hour figure is part-time childcare and represents 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 their free hours of early years' provision available in England[2].

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. We have not included nannies in our survey as fewer than 1 per cent of families use them (Department for Education, 2014b; Welsh Assembly Government, 2009).

In order to ensure that our calculations of childcare costs were reliable, we needed an adequate response rate in all the regions and nations of Britain. Freedom of Information Act requests were used to collect the information where the survey methodology had failed. Altogether, we received responses from 196 out of 206 local authorities, giving an overall response rate of 95 per cent and a minimum response rate of 90 per cent in all regions and nations of the UK.

When we were entering the survey data any figures that were statistical outliers were queried with the local authority in question. We also used the childcare costs on a sample of 22 local authority websites – two from each region or nation in Britain – to check the local authority calculations and also to ensure the reliability of our findings.

We used the survey data to calculate regional and national average costs for the different forms of childcare that parents use. This calculation takes into account patterns of nursery ownership. However, it is does not take into account the varied population size of each local authority, and the differing size of local government regions and nations. This year we also calculated nursery costs for a child aged two or under, weighted to take into populations.

It is important to emphasise that this survey does not ask childcare providers to estimate how much it costs to deliver childcare. 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 used by childcare providers. The survey also represents *average* costs to parents and there will be parents who have higher or lower costs than implied in the survey.

Alongside costs, many parents report gaps in childcare provision, despite the legal obligations of the Childcare Act 2006 and its Scottish equivalents that are described in the previous section. The survey looks at whether local authorities have sufficient childcare for different groups of children by asking them to draw on their most recent childcare sufficiency data and report if they had enough childcare for disabled children, working parents, parents in rural areas and parents with 'atypical' work patterns, for example, shift-workers.

2 The 2013 Childcare and Early Years Survey Parents suggests that the mean hours of childcare used for all families with children aged 0-2 was 20.6 hours per week.

Childcare costs

Under-fives childcare

The cost of sending a child under two to nursery part-time (25 hours) is now £115.45 per week in Britain, or £6,000 per year. Part-time care from a childminder now costs £104.06 per week or £5,400 per year.

Help with childcare costs through the childcare element of Working Tax Credit is set at a maximum of £175 per week for one child, meaning the parent gets 70 per cent of this = £122.50. There are five local authorities where the average cost of a part-time childminder exceeded £175 per week, all in London, and 11 where a part-time nursery is now more than £175 per week (8 in London and three in other English regions). Here, those parents who qualify for maximum levels of support through tax credits will find themselves out-of-pocket by a minimum of £52.50 per week – even for part-time childcare. While help with childcare costs is being increased to cover 85 per cent of costs under Universal Credit, this change will not be introduced until April 2016. Moreover, even when this happens, some of the poorest parents will still be paying substantial proportions of their income on childcare - a minimum of £1,365 per year in these 'high price' local authorities.

There will be some parents who pay for more than 25 hours childcare per week, particularly where both parents work full-time and where their children are too young to qualify for free early education. Table Two shows full-time childcare costs for a child under two in a nursery and for a childminder.

Table Two: Cost of full-time (50 hours) childcare per week for a child under two

	Nursery 50 hours	Childminder 50 hours
East of England	£212.25	£202.94
East Midlands	£213.58	£182.74
London	£283.66	£269.44
North East	£193.36	£183.85
North West	£177.06	£164.42
South East	£243.87	£218.19
South West	£223.17	£209.01
West Midlands	£197.14	£178.27
Yorks and Humberside	£184.66	£178.20
England regional average	**£214.31**	**£198.56**
Scotland	**£204.81**	**£196.04**
Wales	**£199.42**	**£178.96**
Britain average of regions and nations	**£212.09**	**£196.55**

Table Three presents price increases over the last year. In England part-time nursery costs for a child under two rose by 5.7 per cent and childminder costs by 4.5 per cent. This is well above the rate of inflation, which in December 2014 stood at 0.5 per cent, an historically low figure[3]. We think there are two likely explanations for these price rises in England. First, some nurseries and childminders have kept prices down in the recession, fearing an increase would mean that childcare is prohibitively expensive . They now sense that the economy is recovering and have put up their costs accordingly. Second, parents are now paying more per hour of childcare to subsidise free nursery places for two year olds, as some providers feel that they do not receive sufficient funding to cover their costs. This assertion is backed by a recent survey from the National Day Nurseries Association (NDNA) which argues that "nurseries are being forced to increase their fees to parents who pay for additional hours, or for younger children not eligible for funded places to make up the funding shortfall" (NDNA, 2015). The latter explanation for price increases would also account for the lower rates of increase in Scotland and Wales. In Scotland a small proportion of two year olds qualify and they are more likely to attend public sector provision. In Wales free early education for this group attracts a funding rate of £7.20 per hour, compared with an average of £4.85 in England, so Welsh nurseries have less of a need to cross-subsidise free places.

An analysis of how childcare costs have changed in the last Parliament is presented later in the report.

3 Consumer Price Index rate of inflation available on ons.gov.uk

Childcare costs

Table Three: Changes in childcare costs between 2014 and 2015

Eurostat Region	Nursery 25 hours (under 2)	Nursery 25 hours (2 and over)	Childminder 25 hours (under 2)	Childminder 25 hours (2 and over)	After-school club 15 hours	Childminder after-school pick up
England regional average	5.7%	5.2%	4.5%	2.6%	-1%	0.7%
Scotland average	3.7%	-2.1%	5%	2.5%	-1%	-17%
Wales average	1.1%	1.1%	2.7%	2.7%	8.2%	7.8%
Britain average of regions and nations	**5.1%**	**4.1%**	**4.3%**	**2.5%**	**0%**	**-0.7%**

Table One gives regional and national breakdowns of costs for Britain, with Table Four showing a sub-national breakdown in Scotland. Here, under-fives childcare is most expensive in the Highlands and Islands and North East Scotland[4]. This probably reflects the greater provider costs of delivering childcare in sparsely populated rural areas. It also highlights a trend observable across the UK of under-fives childcare being more expensive in prosperous areas (This region includes Aberdeen). The majority of daycare providers are private sector businesses which will charge prices that the market will stand, that is to say what parents will pay.

Table Four: Childcare costs at a sub-national level, Scotland, 2015.

Eurostat Region	Nursery 25 hours (under 2)	Nursery 25 hours (2 and over)	Childminder 25 hours (under 2)	Childminder 25 hours (2 and over)	After-school club 15 hours	Childminder after-school pick up
Eastern Scotland	£112.14	£97.80	£98.35	£98.23	£45.53	£67.33
Highlands and Islands and NE Scotland	£117.43	£111.24	£111.29	£110.67	£44.12	£73.03
South Western Scotland	£104.88	£95.68	£96.25	£95.63	£53.09	£62.32
Overall Scotland average	**£110.01**	**£99.93**	**£100.37**	**£99.30**	**£49.03**	**£64.57**
Britain average of regions and nations	**£115.45**	**£109.83**	**£104.06**	**£103.04**	**£48.18**	**£64.65**

Table One shows that there are substantial regional price differences in England, with under-fives childcare being most expensive in London and the South East. Part-time nursery care for a child under two costs an average of £152.06 in London, 32 per cent more than the British average. During the course of the year a London family who used this provision would expect to pay £1,900 more than the 'average' parent in Britain. Even London families that receive the maximum levels of support through the childcare element of Working Tax Credit – those on the lowest gross incomes – would have to pay an average of £45.62 for part-time nursery care, or £2,400 per year. This is a substantial barrier to work.

The price of nursery care in London has also increased at a rate above the British average; over the last year there was an 8.5 per cent increase in a part-time nursery place for a child under two in London, compared with the 5.1 per cent rise nationally. Maternal employment in London is 15 percentage points lower than UK average and high childcare costs are one of the main reasons for this gap. There are a number of studies that show it is not just low-skilled parents who are deterred from returning to work by London's high childcare costs, but many skilled parents too, for example, teachers and nurses (Rutter and Lugton, 2014). This has an impact on families, but also essential public services and the London economy.

Some campaigners have also argued that tax credits and the new Universal Credit should have a London weighting to reflect higher childcare costs. There is some precedence for regionally-weighted childcare support. The Care to Learn scheme, which offers funding for young parents for childcare, offers up to £175 per week in London compared with up to £160 a week in the rest of the country.

4 This region includes Aberdeen.

Childcare costs

The Family and Childcare Trust is sympathetic to arguments for a London weighting for childcare costs. However, there are also legitimate concerns about how such a scheme would be administered, boundary issues, and fairness issues for families elsewhere in the country who also face high childcare costs. Indeed, one of the trends that is observable in our 2014 and 2015 surveys is that a growing number of local authorities in all parts of Britain have under-fives childcare prices that rival London and the South East, with 13 local authorities outside these two regions with part-time nursery costs for an under two in excess of £130 per week. A few of these are sparsely populated but prosperous rural local authorities, but the vast majority are prosperous urban areas.

Variations in under-fives childcare costs

As Table One and Table Four show, there are substantial variations in price between the different regions and nations of Britain. But there are also differences in price between different local authorities *within* regions and also within local authorities themselves. Within London a parent in the most expensive local authority would pay £123 more per week or £6,400 per year for a part-time nursery place for an under two, compared with a parent in the cheapest local authority. Even in the North East of England, which is a more economically homogenous region, childcare costs for a part-time nursery place for a child under two is £49.96 more expensive per week - or £2,600 per year - in the most expensive local authority compared with the cheapest.

During the last year we have started to examine these price differences in more detail, prompted by our market analysis which shows greater stratification within the day nursery sector. We have mapped prices and quality in a number of London local authorities and we have found that the private and not-for-profit day nursery market comprises four distinct types of business:

- A small number of 'luxury' nurseries, some of which are single settings and others run by large national nursery chains. They charge high prices and offer extra services, for example, early starts or organic food. Many of them have opted not to take two year children who qualify for free early education. As might be expected, these nurseries are the most expensive and are almost always located in prosperous areas.
- 'Standard' day nurseries which offer 8am – 6pm childcare but few extra services. They comprise the largest group of nurseries and are found in all areas. They have maintained quality and generally offer places to two, three and four year olds who qualify for free early education. This group of providers includes single settings, smaller regional chains of 2-10 nurseries, as well as some of the larger privately-owned day nursery chains. While the care they offer is similar across this group, there is a considerable variation in the prices they charge.
- Social enterprises, which are often run by charities, or sometimes by not-for-profit companies, employer or user-owned mutuals and cooperatives. Some of these nurseries have a defined social mission and some are located in deprived areas. Some children's centre nurseries that were formerly run by local authorities are now run as social enterprises. They are more likely to offer high quality provision and their business model enables them to offer income-contingent fees for parents. This means that low income or targeted parents receive fee discounts.
- The 'strugglers' which comprise about 15 per cent of nurseries and are disproportionately located in deprived areas. While their fees tend to be lower, they may face quality or profitability problems.

We asked each local authority the price of the most expensive and cheapest nursery for part-time childcare for a child under two. As might be expected, the most expensive nursery in Britain was located in London and costs £494 per week for 25 hours of care. This is almost certainly an example of a 'luxury' nursery in a prosperous part of Britain. The biggest price variations are in London, where extremes of wealth and poverty are often found in the same area, and where there is the type of stratification described above. But there are also considerable price variations within more homogenous areas, and among 'standard' nursery provision. Table Five presents data on the average local authority price variation between the cheapest and most expensive nursery for part-time childcare for a child under two. Across the North East, for example, the average price variation between the most and least expensive nurseries for the 12 local authorities in this region was £66.02 per week for part-time care for a child under two. Over the course of one year, this represents a difference in price of £3,433 to a family.

Childcare costs

Table Five: Average local authority price variations between the most expensive and cheapest nurseries 2015

	Average local authority price variation between most and least expensive nursery for 25 hours childcare for a child under 2 per week
East of England	£91.38
East Midlands	£107.02
London	£131.81
North East	£66.02
North West	£54.64
South East	£85.33
South West	£63.60
West Midlands	£84.25
Yorkshire and Humberside	£63.25
Scotland	£61.98
Wales	£45.84

These price variations are sometimes a consequence of the stratification described above. Differences in pay and other operating costs can also cause price variations. There are other reasons: in some areas there is much more subsidised public sector provision in some local authorities than in others. As public sector provision is generally less expensive, this factor can account for price variations: in London, for example, nursery provision for a child under two is £25.98 per week more expensive in the private and voluntary sector.

There is also a link between childcare supply and its cost, which can also contribute to price variations. Childcare operates on a regulated free-market principle. Increased demand is meant to increase supply and help keep prices competitive and affordable. If prices increase, the implication is that supply is lower than demand, which our survey shows is the case in some parts of Britain. (Childcare supply is discussed later in this report).

Differing levels of public subsidy also cause price variations. Central government gives money to providers to deliver free early education to two, three and four year olds. There are variations in the hourly rate that providers receive, an issue we discuss later in this report. Within the North East, for example, the hourly rate allocated by the Government for three and four year olds in 2014-2015 ranges between £3.49 and £4.67 per hour[5]. Over the course of one year, a nursery getting the higher level of funding will get £673 more to deliver free provision than one receiving the lower level. Where the money nurseries receive from local authorities does not cover costs, nurseries rely on working parents to purchase extra hours on top of their existing free provision, and at a higher price, in order to cover costs. This can make childcare expensive and also accounts for price variations for nursery provision.

Early years' providers also operate other cross-subsidies which can cause price variations. The parents of three and four years olds may cross-subsidise childcare for babies, where higher staffing requirements can make childcare too expensive for local families.

These price variations are important and matter to families, because they mean that parents in neighbouring areas have large differences in their childcare costs that cannot be offset by differences in wages. Price variations also matter to the Government which subsidises the childcare costs of low income families through Working Tax Credit. This means the Government is subsidising childcare costs that are caused by poor policy-making: shortages of provision and poorly-executed funding mechanisms for free early education. This is money that could be saved and re-invested in improving the quality and availablity of childcare. It also shows the childcare system is not working effectively and is an argument for childcare reform and a greater channelling of state subsidies directly to providers.

Over-fives childcare

In Britain about a third of parents use after-school childcare. Table One shows that the average cost of an after-school club is now £48.18 per week in Britain. A family with two children that uses an after-school every day during term-time faces a bill of £3,700 every year.

Some families with children aged between 5 and 11 use childminders to pick them up from school. This is often a favoured arrangement if parents 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 after-school childcare from a childminder is now £64.65 per week (Table One). A family with two children using a childminder for after-school care would expect to pay £4,900 every year.

5 Early Years Benchmarking Tool, Department for Education

Childcare costs

Prices have remained stable for after-school childcare over the last year, with no increase in the price of after-school clubs and a small drop (0.7 per cent) in the cost of after-school childminder care. This is most likely due to an expansion of places and the greater use of school premises for after-school childcare clubs. In the local authorities that provided data in both 2014 and 2015, there were an extra 318 clubs in England and 73 in Wales. Clubs that are located in schools, whether run by the school itself, or by a private or not-for profit organisation are likely to receive the free use of premises and equipment. This enables them to keep down costs.

As with under-fives childcare, prices are highest in London and the South East of England. There are also differences in prices between local authorities within a region. For after-school childcare, price variations are often caused by differing levels of local authority and school subsidy for after-school provision. After-school clubs sometimes receive direct grants from the local authority, school or another public body, or indirect subsidies through free use of premises and equipment. This again means that parents in neighbouring local authorities may have very different costs for after-school clubs that cannot be offset by regional differences in wages, indicative of a childcare postcode lottery.

Childcare costs and inflation

Table Three shows that there has been above inflation increase in under-five childcare costs over the last year, with a 5.1 per cent rise in part-time nursery costs in this year's survey following an increase of 3.3 per cent last year. Indeed, in most years since we started our survey under-fives childcare has risen above the rate of inflation. In 2006, an after-school club cost an average of £40 per week, a part-time nursery place £72.50 per week and part-time (25 hours) childminder some £66 per week. Nursery prices have thus increased by 59 per cent and childminder prices by 58 per cent over this period, at a time when real wage growth has remained static. Yet most of the cost of childcare are staff costs, and childcare wages, too, have not increased. For this reason, the increase in the costs of childcare is surprising, so this year we have decided to look at the links between childcare prices and inflation in more detail.

Our surveys have always considered ownership patterns in calculating the average costs of nursery provision. (In England, private and not-for-profit nursery provision tends to be more expensive than public sector provision. Within local authorities, however, the proportions of private and not-for profit nursery places vary and ownership patterns need to be considered when calculating averages). But one of the historic criticisms of our survey methodology is that it does not take population size into account in its calculation of the average costs of childcare in regions and nationally. For example, the contribution of Rutland, a local authority with a small population, has an equal weight in the calculation of average costs of childcare in the East Midlands to that of Northamptonshire, a local authority with a much larger population. If we do not consider population distribution, we risk our calculation of childcare costs is not an accurate reflection of what parents are paying. This year we have weighted our survey to take population size into account. Mid-year population estimates for the 0-5 population were used to weight our survey, with Table Six showing unweighted and weighted costs for 2010 and 2015.

Table Six: Changes in unweighted and weighted nursery costs for a part-time place for a child under two, 2010-2015

Region/Nation	*Nursery 25 hours (under 2) unweighted 2010*	Nursery 25 hours (under 2) weighted 2010	*Nursery 25 hours (under 2) unweighted 2015*	Nursery 25 hours (under 2) weighted 2015	Percentage change 2010-2015 weighted averages
East of England	*£89.73*	£88.59	*£110.93*	£111.15	25.5%
East Midlands	*£85.55*	£84.45	*£118.82*	£115.44	36.7%
London	*£109.47*	£110.16	*£152.06*	£152.07	38.0%
North East	*£75.45*	£75.19	*£110.49*	£109.49	45.6%
North West	*£74.40*	£76.84	*£106.14*	£106.40	38.5%
South East	*£107.63*	£107.58	*£133.27*	£132.97	23.6%
South West	*£87.16*	£85.30	*£114.72*	£115.25	35.1%
West Midlands	*£76.87*	£74.15	*£112.77*	£112.60	51.9%
Yorks and Humberside	*£84.00*	£84.81	*£96.47*	£96.82	14.2%
England regional average	*£87.81*	Weighted £90.88	*£117.30*	Weighted £120.82	32.9%
Scotland average	*£83.83*	£86.56	*£110.01*	£109.94	27.0%
Wales average	*£77.86*	£77.00	*£104.32*	£107.80	40.0%
Britain average of regions and nations	***Unweighted £86.54***	**Regionally weighted £89.91**	***Unweighted £115.45***	**Regionally weighted £119.39**	**32.8%**

Sources: Family and Childcare Trust[6] annual costs surveys, 2010-2015

6 As Daycare Trust until 2013.

Childcare costs and inflation

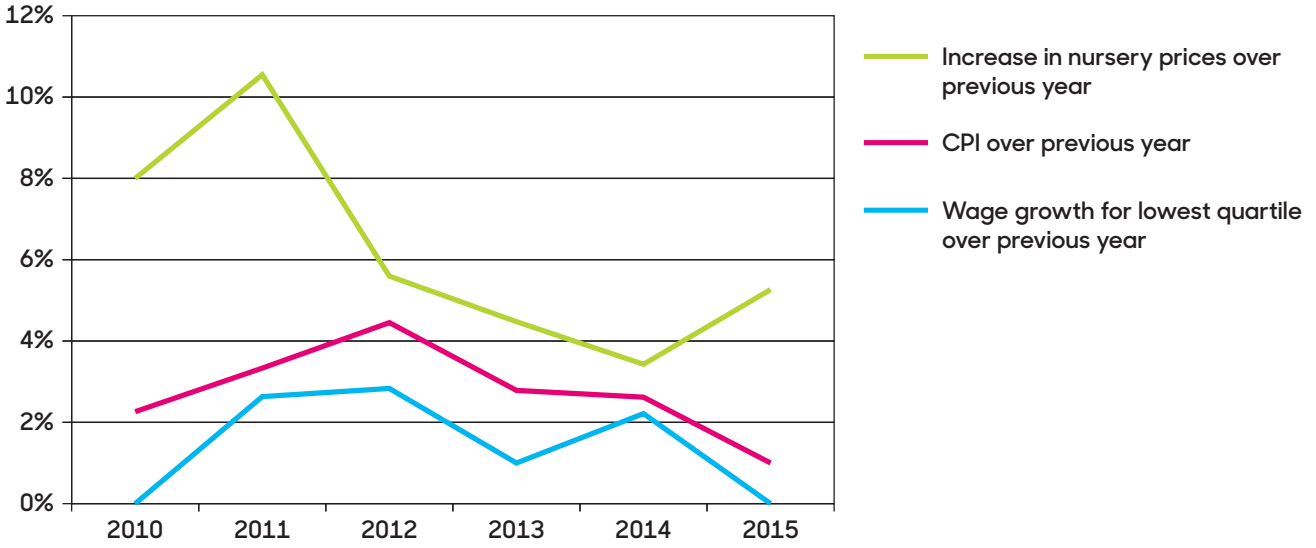
It can be seen that since 2010 the price of a part-time nursery place for a child under two has increased by 32.8 per cent in Britain. Table Seven outlines year-on-year changes since 2010 and shows that nursery costs are rising much faster than the rate of inflation (Figure Eight). Part-time nursery care for children aged two and over also rose - by 36.2 per cent between 2010 and 2015. For childminders, the increase was 28.2 per cent for children under two, and 27.6 per cent for children aged two and over. The rate of increase for after-school clubs was less: a 7.6 per cent increase between 2010 and 2015. These increases raise two questions. First, what is driving above inflation price increases? Second, are childcare costs fully reflected in measures of inflation, in particular the Consumer Price Index?

Table Seven: Year-on-year change to the weighted cost of a part-time nursery place for a child under two

	Nursery 25 hours (under 2) Regionally weighted cost, Britain	Increase from previous year, weighted costs
2010	£89.91	8.0%
2011	£99.45	10.6%
2012	£104.99	5.6%
2013	£109.70	4.5%
2014	£113.42	3.4%
2015	£119.39	5.3%

Sources: Family and Childcare Trust[7] annual costs surveys, 2009-2015

Figure Eight: Changes in nursery prices 2010-2015



Sources: Family and Childcare Trust annual costs surveys, 2010-2015 and ONS data

Drivers of price changes

As already noted, wages, National Insurance and pensions for staff make up most of the costs of delivering childcare, despite early years and childcare staff being one of the most poorly-paid occupations in the UK. A one-off survey for the Department for Education (2012) indicated that staff costs amount to 77 per cent of the running costs of group-based childcare, with rental/mortgage (7 per cent of costs) and materials/food (7 per cent) being the next largest items of expenditure. Given the contribution of wages to overall childcare costs, we might expect childcare costs to follow the same direction as wages. Figure Eight shows that there is some relationship, but nursery price increases have been higher than wage growth.

7 As Daycare Trust until 2013.
8 ibid.

Childcare costs and inflation

Ben-Galim (2014) argues that international evidence suggests that demand-side subsidies to parents have the potential to be inflationary, although in the period 2010-2015 shown in Figure Eight, tax credit support was cut through changes to the taper and a reduction of the childcare element of Working Tax Credit from 80 per cent of costs to 70 per cent in April 2011. The reduction of this support may be linked to a fall in the rate of increase in nursery costs in 2011-2012 shown in Table Seven.

Other factors that drive price increases include a changing landscape of public funding to deliver free nursery provision for two, three and four year olds. As already noted in the previous section on childcare costs, we believe that post-2013 shortfalls in funding for free early education for two year olds have driven up the costs of under-fives childcare over the last year.

Another factor that can drive up prices are shortages of childcare. Within a regulated free market increased demand is meant to increase supply and help keep prices competitive and therefore affordable. However, new entrants are not setting up to meet this unmet demand, perhaps because business start-up costs are too high. This year, nursery costs for part-time provision for a child under two were 7.4 per cent higher in areas with insufficient childcare than those that had enough.

Inflation and the value of help

In recent years childcare costs have risen far above the rate of inflation and the rate of wage growth, as shown in Figure Eight. This means that families are being forced to spend greater proportions of their disposable income on childcare, impacting on their overall standard of living. Moreover, high childcare costs affect families at the point in time when they are also faced with high housing costs, perhaps because they have just bought their first family home.

Successive governments have recognised the pressure that high childcare costs place on families. In 2013, the Government announced increased help with childcare costs through Universal Credit and the new tax-free childcare scheme. But above inflation increases in childcare prices have the potential to erode the value of this extra assistance, particularly in London and the South East where parents' childcare costs may easily reach the £8,000 annual maximum level for help. In London, a part-time nursery for a child under two now costs £7,907 per year. Table Nine sets out prices rises to 2020 of this provision, assuming a year-on-year five per cent increase in price. We used a five per cent figure in this calculation as it represents a mid-point of the increases we have seen since 2009 (Table Seven). Our calculation shows the impact on childcare costs of the tax-free childcare scheme to be introduced in September 2015 and indicates that the value of this extra help will be eroded by 2019.

Table Nine: Future trends in childcare affordability for a family using a part-time nursery place in London

Year	Price of a part-time nursery place for a child under two, assuming a 5 per cent increase in price	Value of tax free childcare help	Annual cost to parents of childcare
2015	£7,907	£0 – September 2015, then £396 of help after implementation	£7,511
2016	£8,302	£2,000	£6,302
2017	£8,717	£2,000	£6,717
2018	£9,153	£2,000	£7,153
2019	£9,611	£2,000	£7,611
2020	£10,092	£2,000	£8,092

Childcare costs and inflation

Childcare in the calculation of the Consumer Price Index

The Consumer Price Index (CPI) is the Government's preferred measure of the rate of inflation. This hugely important statistic informs the direction of monetary policy – index-linked government bonds and National Savings. Trade unions will also turn to CPI in negotiations for pay rises.

The CPI calculates how the price of a 'basket' of goods and services varies from month-to-month. The items that are chosen and how they are weighted are meant to represent the consumption patterns of the 'average' household (Office for National Statistics, 2013; 2014). In determining the CPI, greater weight is put on items that are more expensive or more important in the average household's budget. Thus, greater weight is put on electricity and gas prices than on tea, as everyone buys the former and they tend to be expensive.

The price of childminders and nursery care is included in the CPI, although after-school clubs were removed from the calculation for 2014. Moreover, the weighting for the group of services in which childcare is included has also changed, with this group now only contributing 0.12 per cent towards the CPI basket, down from 0.14 per cent in 2013. We question the rationale for these two changes, given growing use of childcare and its ever increasing cost.

There have been other criticisms of the CPI which argue that it does not accurately reflect people's experiences (Johnson, 2015; New Economics Foundation, 2014). Within the context of these debates we would like the Office for National Statistics to review how it weights and determines childcare costs within the CPI calculation.

Childcare supply

The Childcare Act 2006 obliges all local authorities in England and Wales to ensure that there is sufficient childcare – as far as is practicable – for working parents and those undertaking training or education with the intention of returning to work. They also have to ensure that there are enough free early education places and to have regard for the childcare needs of disabled children. In discharging these duties, however, the local authority is the provider of last resort and can only step in to deliver childcare where no private or not-for-profit provider is willing or able to organise childcare. Today, childcare, unlike schooling, is provided by a regulated free market of public, private and not-for-profit sector provision.

There is no equivalent legislation to the Childcare Act 2006 in Scotland, although the 2008 Early Years' Framework requires that local authorities in Scotland 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 was strengthened with the Children and Young People (Scotland) Act 2014, which outlines a new duty on local authorities to consult and publish plans for childcare, for both under-fives and out-of-school care.

In order to ensure they have sufficient childcare, local authorities need to know about any gaps they might have. In England and Wales the Childcare Act 2006 and its statutory guidance require local authorities to audit their supply of childcare and to see if it satisfies parental demand. These audits are usually called childcare sufficiency assessments or reports. In Wales, they are undertaken every three years, with an annual update between the three-yearly reporting period. In England, statutory guidance has recently been changed and local authorities are now required to produce an annual report to elected council members and parents on how they are meeting their duty to provide sufficient childcare (Department for Education, 2014c). This annual report should include an action plan to show how gaps will be filled. It should also make:

> *"specific reference to how [local authorities] are ensuring that there is sufficient childcare available to meet the needs of: disabled children; children from families in receipt of Working Tax Credit or Universal Credit; children with parents who work irregular hours; children aged two, three and four taking up early education places; school age children; and children needing holiday care"* **(Department for Education, 2014c).**

Our survey asked local authorities to use their most recent childcare sufficiency data to estimate if they had enough childcare for different groups of children. However, we were concerned to find that 46 local authorities in England had not undertaken any childcare sufficiency analysis since 2013, and not published an annual childcare sufficiency report in either 2013 or 2014. London local authorities were least likely to fulfil their legal obligations to undertake an annual childcare sufficiency report, with 17 of the capital's 33 local authorities not having done so in 2013 or 2014. While all local authorities in Wales have fulfilled their legal obligations to undertake childcare sufficiency assessments, eight local authorities in Scotland had no data on childcare supply and demand. Childcare sufficiency reports need not be lengthy or elaborate exercises, but if local authorities have little knowledge about the supply of and demand for childcare, they cannot effectively intervene to fill gaps in provision.

The survey data showed under half (43 per cent) of local authorities in England and an even smaller proportion in Scotland and Wales reported sufficient childcare for working parents (Table Ten). This is despite the legal obligations of the Childcare Act 2006 to ensure there is enough childcare for this group. Just 23 local authorities (21 in England, 1 in Scotland and 1 in Wales) reported enough childcare in rural areas, compared with 27 local authorities in 2014. Moreover, as Table Ten shows, the proportion of local authorities reporting gaps in provision for working parents and parents of disabled children has also increased since 2014.

Table Ten: Percentage of local authorities who report sufficient childcare for particular social groups

Region/ Nation	*Parents who work full-time 2015*	Parents who work full time 2014	*Parents with a disabled child, 2015*	Parents with a disabled child, 2014	*Parents with atypical work patterns, 2015*	Parents with atypical work patterns, 2014
England	*43%*	54%	*21%*	28%	*15%*	14%
Scotland	*15%*	23%	*7%*	18%	*4%*	9%
Wales	*18%*	28%	*9%*	6%	*0%*	6%

Childcare supply

Free places for three and four year olds who qualify for free early education

Our survey suggests that in some parts of the country there are not enough places to take three and four year olds who qualify for free early education. This is a new trend which we will be examining in greater detail in a report that will come out later this spring (Rutter and Butler, 2015, forthcoming). In 2013, Government statistics[9] indicated that 94 per cent of three year olds used free provision, but 40,000 missed out. In 30 out of 152 local authorities more than 1 in 10 three year old children did not take up a free early education place in 2013.

Some families do not use free provision because they do not want to. But in some places the low take-up is because there are not enough places for children, or places at the right time of day that parents can use.

Our analysis showed 23 local authorities reported a lack of provision for three and four year olds who qualify for free early education. In these local authorities nearly 6,000 children could be potentially missing out on this vital universal service (Rutter and Butler, 2015, forthcoming). Many of the local authorities that lack free early education places are rural areas or deprived areas where early education can be more expensive to deliver, and where funding from the government does not cover costs. We discuss the funding of free early education later in this report.

Disabled children

Table Ten shows persistent gaps in childcare for disabled children, an issue that we have highlighted in all our recent surveys. The Family and Childcare Trust is particularly concerned about the lack of progress in filling this gap and we supported a Parliamentary Inquiry into childcare for this group of children. The Inquiry evidence suggested that out-of-school and holiday childcare for disabled children is in shortest supply. Providers are sometimes reluctant to take on some older children, particularly those with challenging behaviour or physical impairments (Contact a Family, 2014). Filling this gap requires different solutions, including staff training, and the financial means to provide equal access. In some cases childcare for disabled children is more expensive to deliver. It is for this reason that we welcome the recent decision to increase the level of financial help that parents of disabled children get with their childcare costs through the new tax-free childcare scheme. The increase, to cover 40 per cent of costs, rather than 20 per cent that is received by other qualifying parents, will enable a market-driven expansion of provision for disabled children.

Childcare for parents with atypical work patterns

Our survey shows that there has also been little progress in increasing provision for parents who have 'atypical' work patterns. Given that the proportions of workers who are self-employed has grown to 15 per cent of the workforce and those on zero hours contracts are at an all-time high, a lack of childcare for this group is a significant omission. While many parents with atypical work patterns rely on shift-parenting or informal childcare, not all can do so.

There are models of formal childcare for parents with atypical work patterns. Ensuring that nurseries and childcare for school-aged children are open between 7am and 7pm is an adjustment that can help some parents. More sessional crèche provision is needed for student parents and those who have irregular hours of work. These provide part-time flexible childcare, often for a few hours every week, but are often oversubscribed. 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. But in all parts of Britain childminder numbers have decreased year-on-year: in the 11 months between 30 September 2013 and 31 August 2014, childminder numbers fell by 6.3 per cent in England[10]. The Family and Childcare Trust believes that the Government needs to act on this decline, as part of a bigger strategy of meeting the childcare needs of parents who have atypical work patterns.

Out-of-school childcare

This year our survey asked some specific questions about childcare for 5-11 year olds. We asked about the numbers of after-school clubs and who runs them. We are pleased to report that in local authorities that provided data in both 2014 and 2015, there were an extra 318 clubs in England and 73 in Wales. However, we also asked if all primary schools were served by an after-school club, either provided on the premises or an organisation that picks up children from a particular school. There were only 17 local authorities in England, 3 in Scotland and 1 in Wales where all primary schools were served by an after-school club. This is indicitive of continued gaps in provision.

9 Provision for Children Under Five statistics, January 2014.

10 Ofsted Early Years and Childcare Providers and Places data available on ofsted.gov.uk

Childcare supply

Filling the gaps

Our survey highlights growing gaps in provision since 2014 and we are concerned that the problem of insufficient childcare provision is getting worse not better. It means that children are missing out on vital early education and parents cannot work. We think that there are three explanations why gaps have grown over the last year. First, as the economy has grown, the numbers and proportion of women in work has increased. In the period September – November 2014 some 68.2 per cent of the female working age population was employed, compared with the 67.1 per cent in the same period in 2013[11], amounting to an extra 382,000 women in the UK labour market. This has undoubtedly created extra demand for childcare to which the market has not yet responded.

Second, and most acutely in England, local government market management has focused on increasing the number of places for two year olds who qualify for free early education. Other aspects of childcare market management may have been neglected, including places for three and four year olds, disabled children and out-of-school care. Third, in some areas, two year old children receiving free early education may have displaced other groups from nursery provision, particularly in popular children's centre nurseries.

Gaps in provision need to be filled, but there are reasons why this is not happening. Local authorities need to know about the local market so they can intervene effectively and, as already noted, not all local authorities are undertaking childcare sufficiency reports. These audits also need to pinpoint accurately any gaps in provision and to have realistic action plans to fill them. But some childcare sufficiency reports are poor quality documents, with undeveloped action plans and no definition of what *sufficiency* means (Rutter and Butler, 2015, forthcoming). We think that the Government could provide guidance on best practice in compiling these annual reports. It should also set out a definition of sufficiency that would provide a baseline against which local authorities could assess their childcare supply, as well as hold to account those local authorities who fail to discharge this duty.

But there are other, more deep-rooted reasons why the supply of childcare does not match demand. As already noted, the Childcare Act 2006 only allows a local authority to be a childcare provider of last resort where no other organisation fills that gap. Yet there may be many situations where private and voluntary sector providers do not step in to fill gaps. These include the high costs of entry into the nursery market (particularly where rents are high and suitable premises are 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. But 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 sensitivity, as they need to break even. Economies of scale can help providers reduce costs and the number of national and regional nursery chains is growing in England.

There might be services that meet mainstream needs but not specific requirements, for example, extended nursery hours or provision for disabled children, as these might be seen as insufficiently profitable to justify offering these services. Similarly, some childcare providers have been reticent about expanding into deprived neighbourhoods or sparsely-populated rural areas, because provision there is seen as less profitable.

Difficulties securing capital funding may also put off new investors and prevent existing providers from increasing their places, although successive governments have attempted to address this through additional capital funding and start-up grants for early education, out-of-school childcare and childminders. In England, childcare providers were granted an extra £108 million of capital funding in 2012 and 2013 to increases places for two year olds who qualify for free early education. In 2014 the Childcare Business Grant Scheme was extended to 2016 with an extra £2 million funding. There are also sources of funding that could be tapped to provide activities for 11-14 year olds that function as *de facto* childcare. In England, the Department for Education and the Department for Culture Media and Sport could work more effectively together to plan and identify funding for out-of-school activities for 11-14 year olds.

11 Labour Force Survey data made available on nomisweb.co.uk.

Childcare supply

But perhaps the most important reason there has been little progress in addressing gaps in provision is that it is not a priority for local authorities. There is often a lack of political will to fulfil the legal obligations of the Childcare Act 2006 and no sanctions for those who fail to do so. To remedy this we would like childcare – including free early education provision - to be an entitlement for parents enshrined in law, bringing it in line with an entitlement to a school place. This would enable parents to hold local authorities to account if they cannot find childcare. We would also like the Government to enforce the sufficiency duty outlined and the Childcare Act 2006 and support local authorities to fill gaps in provision. This will require continued capital and revenue funding streams from government.

It is unrealistic to expect local authorities to expand childcare places without some additional public funding. Critics may argue that the country cannot afford this investment. But there are economic impacts if parents leave the labour market because childcare is not available, through a loss of tax revenues and skills, alongside increased benefit payments. Thompson and Ben-Galim (2014) calculate that even a one per cent increase in maternal employment would result in a net gain to the exchequer of £200 million per year. This is a powerful argument for investing in childcare provision.

Free early education

High quality early education helps children's development and means they are better prepared to start school at five. Contact with teachers and nursery nurses can ensure the earlier identification of special educational needs or other problems. Importantly, high quality early education has been shown to narrow the developmental gaps between the poorest children and their peers (Mathers et al, 2014; Melhuish, 2004). And it also helps working parents, as it means that they have a significant proportion of their childcare costs covered. Recent research has shown that when free early education was expanded to include three year olds, this intervention led to a rise of about 3 percentage points in the employment rate of mothers whose youngest child was three, with a further 3 per cent starting to look for work after their child received this provision (Brewer et al, 2014).

It is for these reasons that the Government funds part-time early education places. In England all three and four year olds receive some free early education, with this provision recently extended to target groups of deprived two year olds as outlined in Table Eleven.

Through the Barnett formula, the Treasury transfers about the same level of funding for free early education to the devolved governments in Northern Ireland, Scotland and Wales as set aside in England. But as shown in Table Eleven there are differences in the amount of provision across the four nations of the UK.

Table Eleven: Free early education entitlement for two, three and four year olds

	Entitlement to free early education for three and four year olds	Entitlement to free early education for two year olds
England	570 hours per year for all three and four year olds, amounting to 15 hours per week over 38 weeks of the year	570 hours per year for the 40 per cent most income deprived two year olds and certain other groups such as looked after children
Northern Ireland	One year of part-time (12.5 hours per week) free early education for four year olds only, in the year before school and only during term-time	None
Scotland	600 hours per year for all three and four-year-olds	600 hours per year for children in workless households, extended in August 2015 to take in children in families receiving free school meals and other benefits such as Working Tax Credits. This will cover about 27 per cent of the age cohort
Wales	A minimum of 10 hours per week for all three and four year olds	Part-time free early education for 36,000 disadvantaged children living in deprived areas delivered through the Flying Start programme

Free early education

Uptake of free early education

In England, 96 per cent of three and four year olds are now receiving part-time free early education, although take-up in London is lower. This provision was extended 2014 to cover the 40 per cent of the most income-deprived two year olds, plus certain other target groups[12] with a target date of September 2014 for full implementation. Free early education for two year olds is an ambitious programme that has the potential to make a real difference to the lives of Britain's most deprived children. Many local authorities have set aside considerable resources to find eligible children and place them in high quality early education settings. A number of them have achieved excellent results, sometimes in areas that lack nurseries or where qualifying numbers are high. But from the start, other local authorities have struggled to secure enough places for children, or to persuade parents to take-up this new service (Rutter and Lugton, 2014). For this year's survey we asked all local authorities in England, Scotland and Wales to give the proportions of eligible two year old children who were taking up free early education as of 24 November 2014.

The results for England are given in Table Twelve, showing an overall take-up rate of 60 per cent, but also large differences between local authorities in the proportions of children they have placed. Uptake is particularly low in London. On a 60 per cent take-up rate, about 110,000 two year olds who are eligible were not receiving free early education in November 2014.

In Scotland, there are also large variations between local authorities in the uptake of free early education for two year olds living in workless families, with uptake as low as 10-20 per cent of eligible children in some local authorities. In Wales, the uptake of free early education among children who qualify for Flying Start provision is high – above 80 per cent in most local authorities with the exception of Cardiff. But there are some significant differences between the Flying Start programme and the two year old offer in England. Early education through Flying Start is restricted to those who live in target areas, and is part of a larger package of assistance, including enhanced health visiting, parenting support and other targeted help. Significantly, in 2014-15 the Welsh Government has allocated £7.20 per hour to deliver free early education for two year olds compared with a flat rate of £4.85 per hour for most English local authorities outside London.

Table Twelve: Proportions of eligible two year olds who were receiving free early education in November 2014 in England

	Government estimate on numbers of 2 year olds who will qualify for free place by September 2014, excluding children in need	Average percentage of children in place in November 2014, based on September 2014 eligibility figures	Local authority highest percentage placement rate, November 2014	Local authority lowest percentage placement rate, November 2014
East of England	24,600	66%	84%	48%
East Midlands	23,100	55%	100%	42%
London	50,400	50%	85%	36%
North East	15,100	64%	76%	52%
North West	43,000	64%	94%	38%
South East	32,400	63%	87%	45%
South West	20,900	71%	87%	55%
West Midlands	35,200	53%	67%	35%
Yorks and Humberside	31,200	66%	100%	55%
England Total	275,900	60%	100%	35%

12 These include looked after children, children who have left care through adoption orders, residence orders or special guardianship, asylum-seekers, those with a current Statement of Special Educational Needs or an Education, Health and Care Plan, or who receive Disability Living Allowance.

Free early education

There are a number of reasons why uptake of free early education is low in some places. Parents might not know about this provision or be confused about their entitlement. Others may feel that their children are too young for a nursery.

In some areas there are simply not enough nursery and pre-school places available. Some providers report not being able to recruit the staff they need to expand their settings. A shortage of space in urban areas has sometimes prevented new nurseries from being set up, or existing provision from expanding. There is also a spatial mismatch between supply and demand. There has always been less nursery provision in deprived areas, as this there is less demand here. So local authorities have had to find provision in areas where there is already less provision.

In some instances early years' providers have decided not to take part in the programme. The National Day Nurseries Association's annual survey (2015) suggests that 12 per cent of nurseries are not offering places for eligible two year olds. While 8,520 private and not-for-profit day nurseries and 8,230 pre-schools were offering free early education places for three and four year olds in January 2014, only 6,370 nurseries and 4,900 pre-schools offer free places for two year olds[13]. Some providers have opted out because they believe 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.

Funding free early education

We have sympathies with providers' concerns about under-funding and it is essential that they receive enough money to deliver high quality education, as it is only quality provision that helps narrow gaps between disadvantaged children and their peers. We believe that there are a number of solutions that may help channel funding more equitably to providers.

First, and within present budgets, there are improvements to early years funding mechanisms that could distribute existing funding so that more money reaches those providers who need it most. In England, central government allocates money to local authorities for free early education through the Early Years' Block of the Dedicated Schools Grant. For three and four year olds, the rate per pupil is largely determined by historical precedent, although from April 2015 providers will get a £300 Early Years' Pupil Premium per child where they are providing early education for specified groups of disadvantaged children. For two year olds, the rate that local authorities get from the Department for Education is fairer and more transparent. Local authorities get a flat hourly rate per child (£4.85), supplemented by an area cost adjustment in places where wages are higher (Department for Education, 2013). Local authority Schools Fora then decide how much money they will distribute to individual early education providers (as well as schools), with these groups made up of representatives of the local authority, schools, the local community and early education providers.

13 Department for Education Statistics on Provision for Children Under Five, 2014.

Free early education

For two, three and four year olds, a Schools Forum is allowed to use four criteria to allocate additional funding to providers, on top of the basic rate per child and within an overall set budget. All Schools Fora must allocate extra money on the basis of deprivation. They also have three optional criteria to determine extra funding, namely:

- The flexibility of provision, for example, if it is spread over the whole year
- The quality of provision, with high quality settings sometimes given more funding to incentivise improvements
- Business sustainability with new or small settings granted more money.

How a Schools Forum decides to allocate its money varies considerably between local authorities. This can lead to large differences in hourly funding rates for providers[14], within and between local authorities.

We think that reform is needed to early years' funding. For two year olds there is a need to review the funding formula to make sure that it meets the costs of providing high quality early education in expensive areas such as London. For three and four year olds, more extensive reforms are needed. As noted above, the amount that local authorities receive for them within the Early Years Block is not based on the actual characteristics and needs of children, rather on historical levels of funding. Early years' funding differs in this respect from school funding, where money is allocated on the basis of a larger number of criteria, which include pupil numbers , deprivation, looked after-children, attainment levels, the number of English language learners and some geographically-based cost adjustments (Department for Education, 2014d). Within a local authority, a Schools Forum is also allowed to allocate funding to schools on the basis of a larger number of social criteria than for early education.

We believe that improvements are needed in the early years funding mechanism, bringing it closer into line with schools' funding. This would ensure funding better matched children's needs – and the cost to providers of providing early education for them. This will require changes to the Department for Education's funding formula for early years, and change to the guidance issued to local authorities.

In the long-term we would also like the Government to consider extending free early education, although this will require extra money. We would recommend it be extended to cover all two year olds and for 48 weeks of the year. International evidence suggests that universal early education provision ensures greater uptake than targeted provision for specific disadvantaged groups[15]. There are a number of reasons for this; there is no stigma attached to the use of universal provision and it is easier to disseminate messages about entitlements. Universal free early education for two year olds would also extend support to more families who are struggling. At present for two year olds, the cut-off point for receiving free early education is set at a gross household income of £16,190 per year, unless a child qualifies because the he or she has another specific need. Extending free provision beyond the 40 per cent cohort would reach families in difficult circumstances whose incomes are just above the existing threshold. Universal provision would also 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.

There are also arguments for extending free early education from 38 to 48 weeks of the year. It helps working parents who need childcare over the whole 12 months of the year. Once a minimum threshold of hours per week has been reached, the number of hours per week of free early education does not have a significant effect on children's outcomes at five. However, the time over which early education is received and regularity of attendance are more important[16]. Thus, an expansion beyond 15-20 hours per week is difficult to justify in terms of improving children's developmental outcomes, although providing early education to all two year olds or extending provision to 48 weeks of the year might do so. We recommend that the Government look at this option in the context of a root and branch review of early education and childcare funding.

14 See The Department for Education's Early Years Benchmarking Tool.

15 Stewart et al, 2014.

16 Lloyd and Potter, 2014

Fixing the childcare system

Our 2015 survey shows that while the price of out-of-school childcare is stable, under-fives childcare prices have continued to rise. In the course of this Parliament, nursery costs for under-twos have increased by 32.8 per cent, at a time when real wages have remained largely static.

While childcare represents a significant outlay to parents, it is important to remember that childcare by its very nature will always be expensive. It is not fair to suggest that high childcare costs are the result of providers charging high fees to hard-pressed parents. The reality is more complex. The need to ensure safety for children and deliver high quality childcare rightly means that childcare cannot – and should not – be provided 'on the cheap.' Interventions to ensure that childcare is affordable must not compromise its quality.

But high childcare costs have a negative impact on families, on the community and the wider economy and for this reason the Government needs to take action. For some parents, usually mothers, the cost of childcare is a barrier to work and they leave the labour market when they have children. This move can push some families into poverty.

Other parents remain in employment but opt to work part-time. However, in many organisations part-time jobs are often of a lower status than full-time employment and are less likely to lead to promotion. Parents may also 'trade down' their work, where they move to a job below their skills and experience because it fits in with their caring responsibilities. Over a longer period of time there is a 'motherhood penalty' associated both with interrupted employment and part-time work. This wage disadvantage is proportionally higher for better qualified women, but studies show that even women who lack higher level qualifications are disadvantaged[17].

Although successive governments have increased their help with childcare costs, parents in Britain are still paying a higher proportion of their income on childcare than do most other developed countries. As a consequence maternal employment levels for those with children under five – particularly for the least well qualified – are low, compared with many other developed countries[18]. Women's skills are lost and families are forced to depend on benefits, rather than contribute to the economy as tax payers.

There are other problems with the UK's childcare system. Some providers struggle to break even and there are gaps in care that are not being filled. All this is indicative of a childcare system that is not working. The priority must be to fix these problems and ensure that parents throughout the UK have access to affordable and high quality childcare.

Throughout this report we have argued for policy changes that move the UK towards world-class childcare provision. We have five recommendations, which we call on any incoming Government to implement in the next Parliament:

1. Merge Universal Credit support for childcare with the tax-free childcare scheme to create a single progressive system.
2. Extend free early education to cover all two year olds and for 48 weeks of the year for all two, three and four year olds.
3. Make early education and childcare a legal entitlement for parents, bringing it in line with the right to a school place.
4. Amend the funding formula for free early education for two year olds, to make sure it meets the cost of provision in expensive areas such as London.
5. Overhaul the free early education funding formula for three and four year olds to make it more responsive to social factors.

But these measures alone will not fix the system. It needs radical reform and in the long-term we want to see all political parties commit to an independent review of childcare. This should aim to create a pathway to a simple system that promotes quality, supports parents and delivers for children.

17 Stewart, 2013.
18 Ben-Galim, 2014.

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