



**Family and  
Childcare Trust**

Creating a family friendly UK

# Childcare Costs Survey 2013



# Introduction

Every year Family and Childcare Trust gathers information about childcare costs and availability in Britain. The data – collected from local authority Family Information Services – makes it possible to monitor changes in childcare costs and availability from year to year. It also identifies differences in childcare provision across the regions and nations of Britain. This year's survey, the 12th in the series, has found **above inflation rises** in costs in England at a time when wages are stagnant.

This survey is released at a time of heightened debate around the cost and quality of childcare among politicians, providers and – of course – parents who most acutely feel this squeeze. Family and Childcare Trust remain concerned about rising costs and the availability of childcare for families in these challenging times. Childcare matters socially and educationally and it also matters economically because it enables parents to work.

For families with children, childcare continues to be a significant percentage of family expenditure and this survey lends weight to describing costs as equivalent to a 'second mortgage'. This is, of course, an issue multiplied for families with more than one child and this survey highlights that although parents of school-age children may have lower overall childcare expenditure, costs of after-school care are also rising and must not be forgotten.

The childcare costs survey asks local authorities to report the price that parents pay for different forms of childcare in their area. It does not intend to represent the cost to providers of delivering early years education and childcare. Yet, the survey makes clear that – from a parent's perspective – childcare costs are increasingly difficult to manage which is a finding that should concern us all.



## Key findings

### Childcare costs

- ▶ The average cost of a nursery place for a child under two is now **£4.26 per hour across Britain**. A parent buying 50 hours of childcare per week for a child under two would face an average annual bill of around £11,000 per year.
- ▶ London, the South East and the South West are the regions with the most expensive under-fives childcare. In London, nursery care for children under two is 25 per cent more expensive than the average across Britain.
- ▶ In London, the average cost of a nursery place for a child under two is now **£5.33 per hour**. A parent in London buying 50 hours of childcare per week for a child under two would face an average annual bill of nearly £14,000 per year.
- ▶ The average cost of a childminder looking after a child under two is now **£3.93 per hour across Britain**. Childminders who pick up children after school charge on average **£72.78 per week**.

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## Key findings

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- ▶ Nursery costs for three and four year olds in England are only 1.9 per cent cheaper than are costs for children aged two and under, where different staffing ratios apply. This suggests that changing staffing ratios for nurseries and childminders would not make childcare significantly cheaper for parents.
- ▶ The most expensive nursery costs £408.75 for 25 hours childcare per week. Over the year, a part-time place (25 hours) in this nursery would cost over £21,000 per year and a full-time place (50 hours) would cost £42,000.
- ▶ The average cost of an after-school club is now **£49.67 per week** across Britain. A parent with two children in an after-school club for 15 hours per week would have an annual bill of nearly £4,000 during term time.
- ▶ The East Midlands, Yorkshire and Humberside and the South East have the most expensive after-school clubs.

### Year-on-year changes

The Childcare Costs Survey asks local authorities to estimate an average price that parents pay for different forms of childcare. It is important to note that this survey does not look at what providers estimate their services actually cost which is likely to be a different amount because of complex systems of cross-subsidy and the array of business models that different providers will employ.

We look at nursery provision and childminder provision over 25-hour blocks per week; and after school pick up arrangements and after-school clubs over 15-hours blocks per week.

The survey shows that childcare prices are rising at significantly above the rate of inflation in England. Costs for after-school clubs, nursery and childminder places for the over-tuos rose by more than 5 per cent over the last 12 months. A nursery place for a child under-2 rose by 5.2 per cent in England in the last year, with no region seeing a fall in prices. This comes at a time when annual inflation is at 2.7%, wages are stagnant and increases in Working Tax Credit payments (which include the childcare tax credit) have been pegged at one per cent.

The East of England and the South East are the regions that have seen the biggest rise in childcare costs over the last year. Here childcare costs are converging with London, which has traditionally been the most expensive region for under-fives childcare.

In contrast childcare costs for the under-fives have seen no increase in Scotland. This may be the result of new providers entering the market in Scotland in advance of childcare legislation to go through the Scottish Parliament in 2013.

Over a ten year period, a nursery place for a child aged two or under is now 77 per cent more expensive than it was in 2003. However, average earnings in real terms are now at similar levels to those of 2002-03<sup>1</sup>. Childcare is therefore now taking an increased proportion of parents' income.

### Childcare supply

- ▶ Despite the legal obligations of the Childcare Act 2006 to provide sufficient childcare for working parents in England and Wales, the survey found that there are still significant gaps in provision.
- ▶ Only 20 per cent of local authorities in England and 25 per cent in Wales reported enough childcare for children aged two and under.
- ▶ There are also major gaps in provision for older children, disabled children and parents who have atypical work patterns, such as shift workers. Gaps in provision increased in the last 12 months.



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1 Annual Survey of Hours and Earnings data 2002-2012.

## Key findings

Table 1: Average weekly childcare costs by region and nation, 2012-13

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	£106.55	£104.60	£106.90	£105.90	£50.74	£66.53
East Midlands	£104.91	£103.50	£86.40	£85.67	£56.51	£49.24
London	£133.17	£124.73	£131.08	£128.34	£48.06	£92.86
North East	£101.61	£96.00	£92.80	£90.34	£47.57	£47.63
North West	£92.22	£89.81	£84.13	£82.52	£46.60	£55.63
South East	£125.16	£131.34	£112.76	£111.73	£52.65	£84.09
South West	£113.32	£110.77	£98.96	£98.85	£44.11	£57.41
West Midlands	£96.92	£98.26	£91.64	£86.98	£49.86	£73.48
Yorkshire and Humberside	£102.71	£99.63	£86.11	£85.10	£53.29	£72.57
England regional average	£108.51	£106.52	£98.98	£97.27	£49.71	£72.79
Scotland average	£101.19	£94.35	£93.22	£92.92	£50.46	£79.63
Wales average	£92.36	£90.49	£95.61	£95.02	£48.46	£68
Britain average of regions and nations	£106.38	£103.96	£98.15	£96.67	£49.67	£72.98



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## Background

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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 2011, 78 per cent of families<sup>2</sup> with children under 15 years used childcare with 8 per cent of them using a **day nursery**, most of which are run by private or voluntary sector (not-for-profit) organisations. A further five per cent of families sent their children to **sessional pre-schools**, which offer part-time provision. Some five 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 four 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, which usually ends at about 3.30pm. 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<sup>3</sup>. In England in 2011, some 4 per cent of families with children under 15 were using breakfast clubs and 35 per cent were using after-school clubs. Other families use **childminders** to pick up their children after school, with four per cent of families with children aged between five and seven using this form of childcare. Families may also use **holiday childcare**, particularly during half-term periods and over the summer holidays (Family and Childcare Trust, 2012). 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 (26 per cent) using **grandparents** to provide childcare during term-time, 4 per cent using older siblings, 5 per cent using other relatives and 7 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 many 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. But 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<sup>4</sup> committed government to increasing the availability and affordability of early childhood education and childcare in England and Wales. A further ten-year childcare strategy was published in 2004 which paved the way for the Childcare Act 2006. The Childcare Act 2006 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 present there is no equivalent legislation in Scotland, although the Early Years' Framework (2008) 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'.

The sufficiency duty, outlined in the Childcare Act 2006, obliges local authorities in England and Wales to 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 research – and Family and Childcare Trust Annual Childcare Costs Surveys – still shows gaps in provision.

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<sup>2</sup> All family childcare use data comes from the most recent Childcare and Early Years Survey of Parents (Department for Education 2012a).

<sup>3</sup> Source: Department for Education, 2012b.

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<sup>4</sup> Department for Education and Employment and Department for Social Security, 1998.

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## Background

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In the years since implementation of the childcare strategies and the Childcare Act 2006, a number of initiatives have also helped make childcare more affordable. The current infrastructure of support includes the subsidy of parents' childcare costs through the childcare element of Working Tax Credit. The Government presently spends £1.5 billion on tax credit support for childcare<sup>5</sup>. Currently, working parents on low incomes can receive up to 70 per cent of their childcare costs up to a maximum of £175 per week for one child in childcare and £300 per week for two or more children. From April 2013 tax credits will be merged into the single Universal Credit, but the structure of childcare support will remain broadly similar to Working Tax Credit. Parents will still receive a percentage of their childcare costs up to a weekly maximum which is likely to remain at £175 per week for one child. However, there are potentially some positive developments when Universal Credit is implemented. Parents working less than 16 hours per week will be able to receive help with their childcare costs, removing the benefits 'cliff edge'. Maximum childcare costs will be calculated monthly, which will enable greater flexibility for parents whose childcare costs fluctuate from week to week.

Initiatives have also aimed to increase employer support for childcare, with this aspect of support now receiving £800 million Government investment per year<sup>6</sup>. This is often in the form of childcare vouchers, either as an additional benefit on top of parents' salary or as a salary sacrifice. Those receiving childcare vouchers can enjoy exemptions on tax and national insurance contributions on 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 saved up over time and used at a time when childcare costs may be particularly high.

Parents also receive help with childcare costs through free part-time early education. In England, the Department for Education is presently spending about £2 billion on free early education with all three and four year old children receiving 15 free hours per week for 38 weeks of the year, having increased from 12.5 hours per week in September 2010. This entitlement will be extended to the 40 per cent most disadvantaged two year olds by 2014. Children in Scotland may soon be entitled to 600 hours free early years education per

year after legislation proposed for 2013 is passed. In Wales, all three and four year old children are eligible for a free part-time Foundation Phase place, typically offered as ten hours per week during the school year, although some local authorities offer more.

As a result of these interventions the number of childcare places has expanded since the 1990s. Yet surveys show that securing affordable childcare still remains a barrier to work for many parents, particularly those on low and modest incomes. Childcare continues to be a high profile political issue and in the summer of 2012 the Government launched a Childcare Commission, tasked to improve the quality, flexibility and affordability of childcare. Although plans to change the staffing ratios in England for the under-fives have been announced<sup>7</sup>, the Childcare Commission had not reported when this survey was published.

While the Government's commitments to childcare are welcome, they must also be seen against a backdrop of public spending cuts and stagnant wage growth. The amount of help that parents can claim from Working Tax Credit (and in future Universal Credit) to cover their childcare costs was reduced from a maximum of 80 per cent back to 70 per cent in April 2011. This resulted in an average loss of £10.47 per week for families, or £544 per year, a sizeable amount for a family on a low income<sup>8</sup>. From 2014, the annual increases in all the components of Universal Credit, including the support for those in work, will be capped at one per cent, whatever the rate of inflation.

At the same time, reductions in local authority and school budgets have resulted in fewer subsidies to after-school childcare. Some of this provision was previously subsidised by local authorities or by schools, as part of their 'extended' school offer and pressure on budgets means that these subsidies have been reduced or removed. Business rates and rents have been increased. The rises reported in this survey indicate that the additional costs to after-school clubs have inevitably been passed on to parents.

Family and Childcare Trust's 2013 Childcare Costs Survey provides an analysis of the impact of these changes on childcare costs.

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5 Department for Education, 2013.

6 Department for Education, 2013

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7 Department for Education, 2013

8 HMRC Child and Working Tax Credit Statistics, live tables

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# Methodology

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Family and Childcare Trust has carried out an annual survey of childcare costs and sufficiency since 2002. In December 2012, a survey was sent to 208<sup>9</sup> local authority Family Information Services in England and Wales and Children's Information Services, their equivalent in Scotland. Details were requested 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 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.

From the data we received, the average cost per hour was calculated for different types of childcare: nurseries, childminders and after-school clubs. This calculation was based on the price asked of parents who were buying 25 hours of childcare per week.

It is important to emphasise that this survey does not ask providers to estimate what services actually cost them to deliver – this is likely to be a different amount than the prices information we request because of complex systems of cross-subsidy and the array of business and funding models that different providers will employ. The Childcare Costs Survey asks local authorities to report the price that parents pay for different forms of childcare in their area. It does not represent the cost to providers of delivering early years education.

It is also important to note that the figures given below are average costs. This means that significant numbers of parents face even higher costs than are implied in this survey and some may also pay extra for additional services.

We also asked for the average price for 15 hours childcare in an after-school club. This year, however, we asked some additional questions about the availability of childcare for school-age children, as we have become increasingly concerned about reports of price increases in after-school childcare, as well as significant and continuing gaps in provision in some parts of Britain.

We also asked local authorities if they had sufficient childcare for particular groups of children. As noted, this is data that local authorities in England and Wales are obliged to collect, though annual childcare sufficiency audits. In responding to this survey most local authorities in England and Wales used their annual childcare sufficiency audits as their source of information. (There is no legal obligation for local authorities in Scotland to assess whether they have sufficient childcare and nearly half (46 per cent) of local authorities in Scotland were unable to provide us with information about childcare sufficiency.)

In order to ensure 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. Responses were received from 178 local authorities, a response rate of 86 per cent and a minimum response rate of 70 per cent in all regions and nations of the UK.

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<sup>9</sup> The Isles of Scilly and the City of London were not sent a survey due to the small size of these local authorities.

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## Methodology

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### Childcare costs for the under-fives

The average cost of a nursery place for a child under two is now £4.26 per hour across Britain and £5.33 per hour in London. A parent who buys 25 hours of childcare every week for a child aged two or under has a weekly bill of £106.38 and a parent buying 50 hours of childcare per week would face an annual bill of nearly £14,000 per year.

London, the South East and the South West are the regions with the most expensive under-fives childcare. In London, nursery care for children under two is 25 per cent more expensive than the average across Britain. The North West is the region with the cheapest nursery care; here it is 13 per cent cheaper than the British average for child aged two or under.

Across Britain, 25 hours care in a nursery for a three or four year old costs an average of £103.96 per week. Nursery costs for this age group in England are only 1.9 per cent cheaper than are costs for children aged two and under, where different staffing ratios apply. This suggests that changing staffing ratios for nurseries and childminders would not make childcare significantly cheaper.

The most expensive nursery costs £408.75 for 25 hours childcare per week. Over the year, a part-time place (25 hours) in this nursery would cost over £21,000 per year and a full-time place (50 hours) would cost £42,000.

Registered childminders are also used by some parents, particularly for younger children. According to the most recent figures from Ofsted, there were 56,085 registered childminders working in England in the year to August 2012, a decrease of 3.1 per cent from the previous year. The average cost for 25 hours of childcare from a childminder is now £98.15 per week across Britain for a child aged two or under. For a three or four year old the cost is £96.67 for 25 hours of childcare from a childminder. London and the South East are the most expensive regions for childminder care and the North West is the cheapest.

Childcare provided by a registered childminder is generally a little cheaper than nursery care – an average of 8.4 per cent cheaper across Britain for the under-tuos. However, in London, where there are the fewest registered childminders per head of the under-fives population<sup>10</sup>, this relationship does not apply, with childminder costs being 1.6 per cent cheaper.

### Childcare costs for school-age children

Parents of school-age children use a range of childcare when their children are not in school, including breakfast and after-school clubs, childminders, friends, relatives and a range of sporting and leisure activities that act as childcare. As with under-fives childcare, there was a significant expansion of childcare for older children in the years after 2000. In 2011, there were an estimated 10,000 after-school clubs in England, compared with 4,900 in 2001<sup>11</sup>, with a similar expansion in Scotland and Wales. Some of this expansion was a result of the moves to develop 'extended' schools.

Childminders who pick up children after school charge on average £72.78 per week. The average cost of an after-school club is now £49.67 per week across Britain. A parent with two children in an after-school club would have a bill of nearly £4,000 during term-time, often alongside additional holiday childcare costs. While there has been much media focus on the costs of childcare for the under-fives, there has been much less debate about the affordability of childcare for older children. Yet £4,000 is a considerable financial outlay for a family on a modest income who may receive little help through Working Tax Credits.

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<sup>10</sup> Rutter and Evans, 2012.

<sup>11</sup> Source: Department for Education Childcare and Early Years Providers Surveys, 2007-2012.

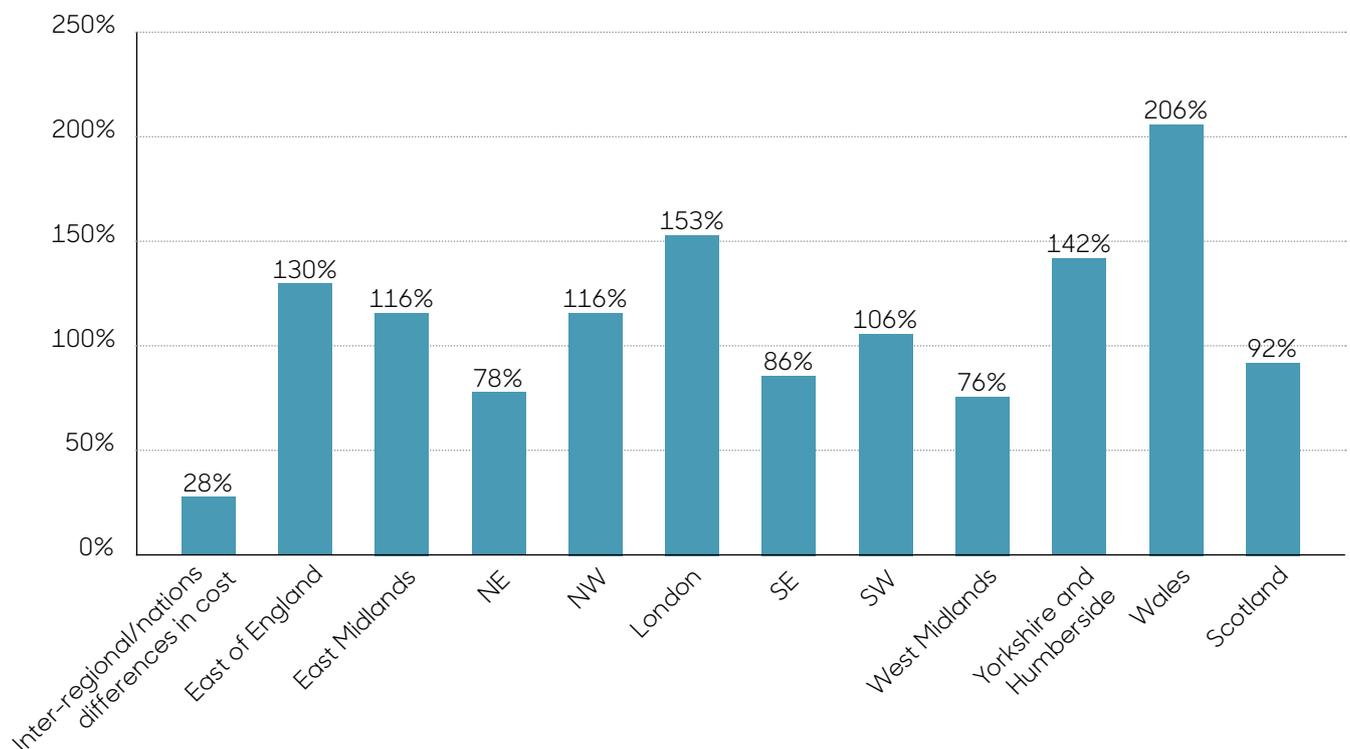
## Methodology

The East Midlands, Yorkshire and Humberside and the South East have the most expensive after-school clubs. After-school clubs are cheapest in the South West and North West. In London, the region with the highest costs for under-fives childcare, after-school clubs are 3 per cent cheaper than the average for Britain. This is because many London schools and local authorities continue to subsidise wrap around childcare for older children, by providing rent-free premises or by subsidising staff costs.

Analysis of the costs for after-school clubs also shows that there are considerable differences between local authorities in the same region in relation to the costs of after-school clubs. For nurseries and childminders, differences in costs across Britain are largely regional and national. London, the Home Counties and the South West have expensive childcare costs for the under-fives, the Midlands, Wales and Northern England

have lower costs with Scotland lying between. For under-fives, cost differences are largely associated with regional differences in wages. Here higher average wages can offset some of the higher costs of childcare. But for after-school childcare there is no such inter-regional pattern in costs. Rather, the differences in costs are mostly intra-regional and most probably relate to different levels of local authority subsidies within a region/nation, as well as levels of supply and also market failure. The survey showed that the difference in costs between the most expensive region/ nation of Britain and the least expensive was 28 per cent. Yet differences in costs within regions amounted to over 75 per cent in all cases (Figure 2). Parents in neighbouring local authorities may have different costs for after-school clubs and costs that cannot be offset by regional differences in wages, indicative of a childcare postcode lottery.

Figure 2: Intra-regional differences in costs between most expensive and least expensive after-school club, 2012-13



Source: Family and Childcare Trust Annual Childcare Costs Survey, 2013

## Changes in costs

During the last 12 months, nursery costs have increased in all parts of Britain apart from Scotland, with the East of England seeing the highest increase (Table 3). Overall, the East of England and the South East are the regions that have seen the biggest rise in childcare costs over the last year. Here childcare costs are converging with London, which has traditionally been the most expensive region for under-fives childcare.

In contrast, childcare costs for the under-fives have seen no increase in Scotland. This is a likely result of new providers entering the market in Scotland in advance of childcare legislation to go through the Scottish Parliament in 2013.

While the costs of after-school clubs have increased across Britain, looking at regional and local authority data, a much more complex picture emerges. Some regions have seen a big increase in costs, the East Midlands and the East of England, for example. In other regions there has not been a significant increase in costs. Decisions by some local authorities and schools to keep subsidies to breakfast and after-school childcare may account for the more complex picture in relation to changes in childcare costs for older children.

**Table 1: Average weekly childcare costs by region and nation, 2012-13**

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	9.2%	8.70%	34.30%	32.80%	38.20%
East Midlands	1.10%	5.90%	-4.70%	-2.20%	28.50%
London	5%	11.10%	1.20%	-.50%	1.20%
North East	5.90%	1.50%	4.40%	3%	-14.30%
North West	0.40%	0.10%	4.10%	2.70%	-2.70%
South East	5%	18.50%	9.40%	9.80%	9.90%
South West	6%	4.70%	6.10%	6%	-4.10%
West Midlands	6.50%	13.80%	8.90%	4%	16.00%
Yorkshire and Humberside	7.50%	5.60%	3.30%	2.10%	19.50%
England regional	5.20%	7.90%	6.90%	5.90%	8.50%
Scotland	0%	0%	0.10%	0.10%	3.90%
Wales	0%	1.30%	2.90%	3.20%	21%
Britain change: average across regions and nations 2012-2013	4.20%	6.60%	5.90%	5.20%	9%

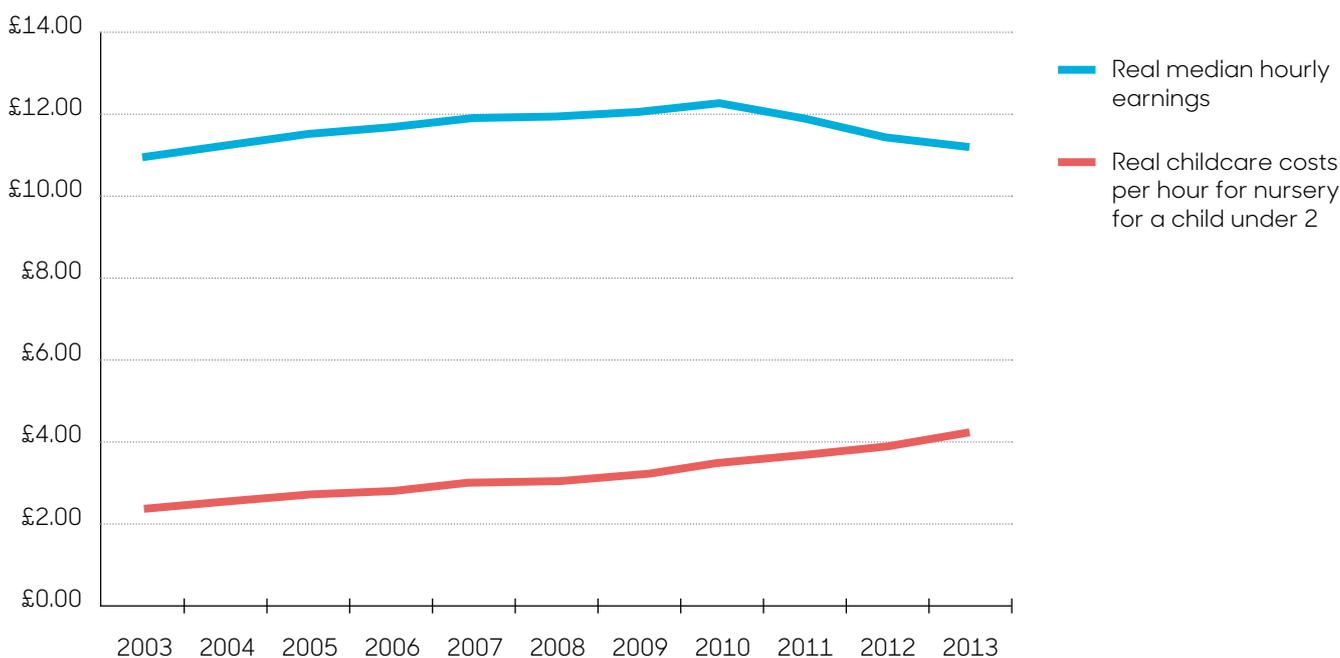
## Changes in costs

Over a ten year period from 2003–2013, childcare costs have increased significantly. A nursery place for a child aged two or under is now 77 per cent more expensive in real terms than it was in 2003, with similar rates of increase for children cared for by childminders. An after-school club is now 88 per cent more expensive in real terms than it was in 2003.

At the same time as these increases, parents' wages have remained stagnant. Recent data from the Office for National Statistics shows that average earnings in

late 2012 real terms are now at similar levels to those of 2002–03. Average real median hourly earnings for the UK were £11.24 in real terms in 2003 and were £11.21 in 2012. Childcare is therefore now taking an increased proportion of parents' income. Figure 4 shows real median hourly earnings and real childcare costs – where inflation is accounted for – for the ten year period from 2003–2013. It can be seen that real earnings have fallen, but real childcare costs have increased.

Figure 4: Real median hourly earnings and real childcare costs, 2003–2013



Sources: ONS Consumer Price Index datasets, ONS Annual Survey of Hours and Earnings datasets and Family and Childcare Trust Annual Childcare Costs Surveys

## 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. The same legislation, alongside statutory guidance, also requires local authorities to assess childcare supply. In England, local authorities are required to report annually to elected council members on how they are meeting their duty to secure sufficient childcare (Department for Education, 2012d).

At present 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' 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'.

Despite the obligations of the Childcare Act 2006 and the Scottish Early Years' Framework, there are still big gaps in provision across Britain (Table 5). Nearly two-thirds (60 per cent) of local authorities in England do not have sufficient childcare for working parents, despite the very clear obligations of the Childcare Act 2006. The survey results suggest that local authorities are failing to comply with sufficiency duties in the Childcare Act 2006 and that parents and central government need to hold local authorities to account for this.

Parents in 36 per cent of local authorities in England and Wales have reported a lack of childcare to their Family Information Service over the last year.

In England and Wales there has been very little change in relation to these gaps in provision over the last four years since the sufficiency duties of the Childcare Act 2006 were implemented, and in some cases gaps in provision have worsened. In 2009, 39 per cent of local authorities in England and Wales had enough childcare for 5-11 year old children and 17 per cent had enough for disabled children. Today, these figures are 31 per cent and 14 per cent respectively.

In Scotland, local authority duties to provide sufficient childcare are weaker. Although the Early Years' Framework requires that they take a 'strategic view of childcare accessibility', local authorities do not have to assess childcare supply. Our survey showed that nearly half - 12 out of the 26 local authorities in Scotland - did not know if they had sufficient childcare for different groups of children.

Childcare in Scotland, as in the rest of Britain, operates on regulated free-market principles, with local authorities obliged to intervene in local markets where there are gaps in supply. But if local authorities do not know they have gaps in provision and do not understand childcare supply and demand in their local areas, they are not equipped with the evidence to intervene. These local authorities are far from achieving the requirements of the Early Years' Framework.

**Table 5: Percentage of local authorities reporting sufficient childcare for particular groups of children, 2012-13**

Children aged two and under	20%	25%
Three and four year olds	53%	38%
5-11s	31%	13%
12-14s	16%	0%
Disabled children	14%	0%
Children of working parents	40%	25%
Children of parents with atypical work patterns, for example, shift workers	9%	0%

## Why is childcare so expensive?

While childcare is expensive for parents, it is 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 costs of childcare are due to staff costs, with recent Government research suggesting that 77 per cent of group-based (nursery and club) childcare costs were staff costs (Department for Education, 2012c). 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 high quality childcare does, inevitably, mean that childcare cannot – and should not – be provided 'on the cheap.'

In England, the Department for Education recent set out the view that because staff costs make up the greatest proportion of providers' costs, allowing staff to care for more children will reduce costs to parents (Department for Education, 2013). The current and proposed ratios are set out in Table 6 below.

Childcare providers and many parents have voiced concern about the impact of changing staffing ratios on the quality of childcare, in particular the quality of staff interaction with children. Evidence from

academic research suggests that staffing ratios are strongly associated with high quality provision and thus children's later social and educational outcomes (Sammons et al, 2008; Thomas Coram Research Unit, 2002).

Few parents are in favour of reducing ratios. Focus group research conducted by the Family and Childcare Trust in 2012 showed that parents across all social groups attach high importance to low ratios and, without prior knowledge of regulatory ratios, generally suggest equal or lower staff minimums than are actually in place. A 2012 Family and Childcare Trust and Mumsnet childcare survey showed that only 5 per cent of parents supported a reduction in the number of childcare staff, even if it meant that costs were reduced for them.

The economic case for the proposed changes to ratios is also not supported by evidence from Family and Childcare Trust's Annual Childcare Costs Surveys. These show that over the last 10 years childcare costs have continued to rise above the rates of inflation, regardless of ratios remaining the same. There is little evidence to show that childcare providers, many of whom have extremely tight margins, will pass on any savings to parents.

**Table 6: Staff to child ratios in England, current and proposed in More Great Childcare**

	Under	1	2	3-5
<b>NURSERIES</b>				
Current	1:03	1:03	1:04	1:8 or 1:13 (if led by qualified teacher)
Proposed (with EYE qualification)	1:04	1:04	1:06	1:8 or 1:13 (if led by qualified teacher)
<b>CHILDMINDERS</b>				
Current	1:01	1:03	1:03	1:03
Proposed (with EYE qualification)	1:02	1:04	1:04	1:04

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## Why is childcare so expensive?

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Moreover, *More Great Childcare*<sup>13</sup>, the Department for Education's most recent childcare strategy, states that higher qualifications will be a prerequisite for changing staffing ratios. Increased margins caused by changing staffing ratios may then be eroded by increased training and wage costs.

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 care and 67 per cent of after-school clubs are delivered by the private and not-for-profit sectors in England. Most private and not-for-profit 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,

2012c). 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 Childcare Costs Survey showed that nursery provision for a child under two is £0.59 per hour 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 2). This means that some parents have more costly provision than others.



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## Why is childcare so expensive?

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In other cases working parents also cross-subsidise free part-time early education in nurseries. Central government, via local authorities, funds early years providers to deliver free early education, with the average (mean) funding per hour allocated by local authorities in England to providers being £3.80 in 2012-13. But many nurseries and sessional pre-schools argue that this level of funding does not cover costs. In order to break even, early years providers then charge working parents a higher rate for additional hours that they purchase. Early years providers in some areas also operate other cross-subsidy systems, with the parents of three and four years 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 are higher in the childcare market, the implication is that supply is lower than demand but that new entrants are not setting up to meet this unmet demand, this is a symptom of market failure in our childcare system.

There are differences in childcare costs within the regions and nations of Britain (and also within local authorities). For example, in the east of England nursery costs in the most expensive local authority are 56 per cent higher than in the cheapest; in all regions of England the difference in nursery costs between the most expensive and the cheapest local authority is in excess of 45 per cent. As already noted, the intra-regional differences in costs for after-school clubs are far higher (Figure 2). The big differences in costs in between neighbouring local authorities suggests market failure, with new providers not entering the market in the most expensive areas.

But 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 sensitivity. 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 high market presence in England and Wales. The current economic climate and difficulties securing credit may put off new investors or entrepreneurs.

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 or 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.

A further reason that childcare is expensive in Britain is that funding mechanisms for subsidising childcare are also complex. Parents receive financial help directly, through the childcare element of Working Tax Credit and through childcare vouchers. Other subsidies go from the Government directly to the childcare provider through the free early education offer. For nurseries, there are some administrative costs involved in delivering the free early education offer. There is considerable potential to simplify funding streams, enabling less to be spent on administering extremely complex funding systems.

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# Conclusion

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The Childcare Costs Survey 2013 highlights some significant trends, including the high costs of under-fives provision across all parts of Britain, now £4.26 per hour or £5.33 per hour in London. A parent buying 50 hours of childcare per week for a child under two now faces an annual bill of nearly £11,000 per year or £14,000 per year in London.

While parents of school-age children may have lower overall childcare costs, their needs must not be forgotten. The average cost of an after-school club is now £49.67 per week across Britain. A parent with two children in an after-school club would have a bill of nearly £4,000 during term-time. This is a significant cost for parents on modest incomes who do not qualify for support through Working Tax Credits, or, in future, through the Universal Credit.

Childcare costs are rising at significantly above the rate of inflation in England. Over a ten year period, a nursery place for a child aged two or under is now 62 per cent more expensive than it was in 2003. However, average earnings in real terms are now at similar levels to those of 2002-03<sup>14</sup>. Childcare is therefore now taking an increased proportion of parents' income.

In the run-up to the next general election, ways of reducing childcare costs are likely to remain high on the political agenda. There are no easy answers but lessons can be learned from experience outside Britain, where affordable and high quality childcare has been achieved more efficiently.

Family and Childcare Trust believe that major root and branch reforms are needed to create a childcare system that gives children the best start in life and that supports parents to work. In our view this consists of a simplified, more efficient public funding mechanism for childcare provision; a universal extension of the free offer of childcare; transparent costs, prices and information on local childcare options provided to families; a simple financial offer to working parents to ensure childcare costs are never a barrier to employment; enhanced out of school provision to help parents with children in school; and a strategy to enhance provision of childcare to parents whose children have a disability or special needs, who are served poorly by the current system. The current economic climate means we must be realistic about the pace of such reforms but it must remain our ambition to create world-class childcare in this country.

Above all else, securing affordable, accessible childcare must not compromise its quality. Increasing the number of children for which early years' workers may care risks compromising quality and safety in early years' provision, while bringing no additional financial benefits to parents. As the recent Nutbrown Review of Qualifications has noted, the early years' sector is an under-qualified sector in the UK with only nine per cent of early years' workers in England having degree level qualifications in 2011. However, we must not forget the role of poor pay that prevents the recruitment and retention of the best qualified and most skilled early years' workers. The Department for Education's own survey showed that average pay for non-supervisory staff in a nursery was £6.60 in 2011, just above minimum wage. Pay and conditions must also be addressed in moves to reform childcare.

The childcare needs of families with school-age children must not be forgotten. Better use could be made of school premises, where an extended school model could be used to deliver high quality childcare, alongside services for children, their families and the wider community<sup>15</sup>. In England the Department for Education committed all schools to deliver extended provision by 2010, but this initiative has not become a reality. It is now time to revisit the extended school model alongside the dramatic educational reforms underpinning We also need to look at the childcare needs of parents who work outside normal office hours and cannot turn to partners or relatives to provide childcare. The 2013 Childcare Costs Survey has shown that there is a major gap in the provision of this type of childcare. Family and Childcare Trust has long argued for local authorities to run brokerage schemes to put parents in contact with registered carers who can provide home-based care. And we need to ensure that more parents benefit from family friendly work practices, such as flexible working and term-time work contracts. At present, those most likely to benefit from family friendly working are highly qualified parents who have the most power in negotiations with employers.

Hopes remain high that, when it publishes its findings, the Childcare Commission will address some of the affordability, quality and flexibility challenges facing the childcare system. But whatever it reports, this survey confirms that childcare is likely to remain a high profile issue in the foreseeable future.

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<sup>15</sup> Department for Education and Skills (DfES) (2005) *Extended Schools: Access to opportunities and services for all*, a prospectus, London: DfES

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<sup>14</sup> Annual Survey of Hours and Earnings data 2002-2012.

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