

2016 Childcare Survey

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Since last year, the number of English local authorities reporting a shortage of free early education places for three and four year olds has more than doubled. More than a third of councils are now struggling to meet demand. These gaps mean that children are missing out from free early education, parents are prevented from working and the Government may find it more difficult to deliver on its pledge of expanding free childcare in 2017.



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1. 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 more affluent peers. Given how important childcare is to all of us, the Government is rightly spending both time and effort in making sure it works.

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

The publication of this year's survey, the 15th in the series, coincides with significant changes in childcare policy and funding. It shows that price rises have slowed compared with last year and are now increasing in line with inflation, although childcare remains a substantial item of family expenditure.

However welcome this slow down may be to parents, it is questionable whether the trend will continue, as the National Living Wage, pension auto-enrolment and new funding arrangements may put new financial pressures on childcare providers in the near future.

The survey's findings also reveal some serious cracks in our childcare system. High costs remain a barrier to parental employment. Parents often still struggle to find the flexible childcare that enables them to work. We do not have enough childcare for disabled children and those in rural areas. The workforce is poorly paid, yet many childcare providers struggle to make ends meet. With additional pressure on the system, these cracks may well widen.

Key findings

Childcare costs

- ▶ The price of sending a child under two to nursery part-time (25 hours) is now £116.77 per week in Britain, or £6,072 per year, which is a 1.1 per cent rise since 2015.
- ▶ A registered childminder now costs £104.27 per week for part-time care for a child under two, compared with £104.06 last year, a price increase that is similar to the rate of inflation¹.
- ▶ A family with one child under two in part-time childcare and one child aged five at an after-school club can now expect to pay £7,933 per year for childcare, over 28 per cent of median household income².
- ▶ When prices are weighted to take population distribution into account, part-time nursery prices for a child under two fell by 0.3 per cent last year, much in line with the rate of inflation. This is the first time that nursery price rises have tracked inflation since 2008.

1 The Consumer Price Index rate of inflation was 0.2 per cent in December 2015, the highest it had been since January 2015.

2 ONS data: median equivalised disposable household income for non-retired households in the UK = £28,092 in 2014-15.

Key findings and areas for action

- ▶ The poorest parents get help with their childcare costs through Working Tax Credit, although there is a maximum cap on the money they can get. This year there are 11 local authorities where the average cost of part-time childcare exceeds this cap, leaving the poorest working parents having to pay an average of £81.53 per week or £4,240 per year out of their own pocket.

Childcare supply

- ▶ The Childcare Act 2006 requires local authorities in England and Wales to make sure that there is sufficient childcare for working parents, but this year only 45 per cent of councils in England had enough childcare for parents who work full-time.
- ▶ Just 9 per cent of English local authorities had enough after-school childcare for 5–11 year old children, a gap that has widened significantly since 2011, when 28 per cent of local authorities had enough childcare for this age group.
- ▶ Gaps in childcare in Scotland, Wales, in rural areas and for families with disabled children have not narrowed since last year, with just 15 per cent of English local authorities having enough childcare for disabled children, compared to 21 per cent in 2015.

Free early education

- ▶ An estimated 41,300 three year olds are missing out on free early education in England. The survey indicated that 59 local authorities do not have enough free early education places for three and four year olds, up from 23 local authorities in 2015.
- ▶ There are big differences between areas in the number of childminders per 1,000 children under five, from four childminders per 1,000 children in Hull to 24 per 1,000 children in Bromley. This is important, as childminders often provide flexible childcare and will be needed to make the 2017 extension to free early education work for parents.

Areas for action

This year's survey shows persistent problems with childcare provision in the UK. It is expensive and fails to deliver for too many working families, particularly those who are on low incomes, for parents who work atypical hours, and for parents of disabled children. There are also too many children missing out on their free early education places. Unless these problems are addressed urgently, they will jeopardise the success of the extension to free early education in 2017, limit the effectiveness of other Government support and prevent families from moving into work and out of poverty.

Drawing from the findings of this year's survey, we have six immediate recommendations. We call on the Government to:

- ▶ Make an early education place a legal entitlement for children, bringing it in line with a school place.

Key findings and areas for action

- ▶ Strengthen parents' rights by bringing in a fair and transparent admissions code of practice for childcare provision.
- ▶ Integrate all the financial support into one simple, transparent and progressive system for parents, that delivers help to those who need it most.
- ▶ Require every local authority to develop a funded childcare inclusion plan to address gaps in access to care for children with special education needs and disabilities.
- ▶ Help providers expand to fill gaps by offering grants for start-up costs and publish guidance on market management for local authorities.
- ▶ Make sure childminders are able to offer free early education provision by providing small grants to help with compulsory training costs, insurance and equipment.

But these measures alone are short-term and will not fix a system that too often does not work for children, for parents, for providers, for employers and the Government. Recent policy initiatives have simply been add-ons to a system that needs radical overhaul to reflect today's modern, working families. Childcare funding needs comprehensive reform and the creation of a simple and efficient system that encourages quality, promotes child development, supports working parents and delivers for employers and the economy.

Table 1: Average weekly childcare costs by region and nation, 2016

| 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 | £113.51 | £110.88 | £104.13 | £104.08 | £51.89 | £63.04 |
| East Midlands | £116.63 | £109.15 | £98.79 | £98.74 | £44.80 | £58.65 |
| London | £158.73 | £148.74 | £148.12 | £146.81 | £54.39 | £88.17 |
| North East | £109.49 | £102.20 | £97.76 | £97.29 | £48.20 | £59.68 |
| North West | £102.44 | £101.08 | £88.67 | £88.21 | £45.80 | £55.95 |
| South East | £137.88 | £133.32 | £117.58 | £116.86 | £50.81 | £71.49 |
| South West | £116.24 | £111.63 | £104.77 | £103.53 | £51.49 | £63.49 |
| West Midlands | £110.80 | £106.91 | £95.43 | £93.06 | £46.92 | £59.64 |
| Yorkshire and Humberside | £97.42 | £93.60 | £92.71 | £91.16 | £45.78 | £55.56 |
| England regional average | £118.13 | £113.06 | £105.33 | £104.42 | £48.90 | £63.96 |
| Scotland average | £111.13 | £104.06 | £102.50 | £102.02 | £53.21 | £65.98 |
| Wales average | £110.16 | £109.07 | £96.51 | £96.53 | £45.40 | £57.16 |
| Britain average of regions and nations | £116.77 | £111.88 | £104.27 | £103.48 | £48.97 | £63.53 |

2. Policy background

Working parents with children use many different forms of childcare, with their choices dependent on factors that include family income, employment patterns, parental preferences, childcare availability and the age of their children. The *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). During the reference weeks of this survey, some 10 per cent of parents used a **day nursery**, with 91 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 **nursery schools**, public sector provision mostly running during term-time and usually for children over the age of three. Another 5 per cent of families used **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). 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 14³, activities 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 –

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

Policy background

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). *Choice for parents, the best start for children*, 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, the 2004 strategy was a more significant document in changing the direction of policy. Its recommendations covered four areas (i) work-life balance (ii) increasing the supply of childcare (iii) improving quality and (iv) making childcare more affordable for families. 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 requires local authorities in England and Wales to secure sufficient childcare as far as is 'reasonably practicable' for working parents and those undertaking training with the intention of returning to work. Councils are also obliged to have regard for disabled children and make sure there are enough free early education places. While day nursery places increased by 46 per cent between 2006 and 2013 in England, childminder numbers and places in pre-schools and sessional creches have declined since the 2006 legislation. (The big increase in childcare places largely occurred before 2006 in all parts of the UK). Despite the legal obligations of the Childcare Act 2006, there are still large gaps in some forms of childcare, which is examined in Section Six of this report.

Policy background

Help with childcare costs

Childcare affordability is another policy aim. Successive governments have opted to subsidise parents' childcare costs through both supply-side subsidies – to providers – and demand-side subsidies to parents, for example, through tax credits (Table Two). 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 who, in turn, 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). Provider funding can also be made conditional on meeting quality criteria, thus leading to improvements in provision that boost children's development.

Table 2: Summary of sources of help with childcare costs

| | Level of support | Recipient group | Date available | Where available |
|--|---|---|--|--|
| Childcare element of Working Tax Credit | 70% of childcare costs up to a maximum of £175 per week for 1 child or £300 per week for 2 or more children. Families receiving housing or council tax benefit get extra help, amounting to about 96% of costs in England | Nearly 400,000 low income working families | Present | UK-wide |
| Universal Credit | 85% of childcare costs, with same maximum levels as Working Tax Credit, although no extra help for those receiving housing benefit | Low income working parents | From April 2016 | UK-wide |
| Childcare vouchers | Worth up to £55 per week for basic rate tax-payers | Working parents, but not self-employed and usually excludes those receiving tax credits | Presently available, but will not accept new applicants after 2017 | UK-wide |
| Tax Free Childcare | 20% of childcare costs up to a maximum of £2,000 per year. Families of disabled children receive help up to a maximum of £4,000 per year | Working parents not in receipt of tax credits/ Universal Credit whose gross household income is higher than a specified minimum threshold but less than £100,000 per parent | From early 2017 | UK-wide |
| Care to Learn | £175 in London and £160 per week outside | Parents under 20 at school or in further education | Presently available | Care to Learn applies to England, but equivalent schemes elsewhere in UK |

Policy background

| | | | | |
|---|--|--|----------------------|--|
| Further education Discretionary Learner Fund | Discretionary | Parents over 20 in further education | Presently available | This fund applies to England, but equivalents elsewhere in UK |
| Higher Education Childcare Grant | £155.24 a week for 1 child up to £266.15 a week for 2 or more children | Parents in full-time higher education who are eligible for student finance | Presently available | This fund applies to England, but equivalents elsewhere in UK |
| Free early education | 570 hours per year, usually 15 hours per week in term time | All 3 and 4 year olds and the 40% most income deprived 2 year olds | Presently available | England, but 3 and 4 year olds elsewhere in the UK also receive free early education |
| Free early education extension | 1,140 hours per year = 30 hours per week during term-time | 3 and 4 year old children of working parents falling within same income thresholds as Tax Free Childcare | After September 2017 | England, but a similar commitment in Scotland |

In the UK parents receive help with their childcare costs through free early education. All three and four year old children receive some part-time free early education, usually provided by nurseries, with specific groups of disadvantaged two year olds also getting this provision in England, Scotland and Wales (Table 14). From September 2017, about half of three and four year olds in England will see their hours of free early education doubled, to cover 1,140 hours every year, the equivalent of 30 hours per week during term-time. At the time of writing, the Childcare Bill 2016 was in Parliament, with the expectation that it will be given Royal Assent by Easter 2016. This provides the legal under-pinning for the increased hours. Other preparations for the extension to free early education in 2017 include a funding review for free early education and local pilots of the expanded provision starting in September 2016. There are also commitments to increase free early education to 30 hours per week in Scotland and Wales. These expansions have been welcomed by parents, although there will be some challenges in delivering this additional provision, which we discuss later in this report.

Tax credits and Universal Credit

The current infrastructure of support also includes help with childcare costs through the childcare element of Working Tax Credit and employer-supported childcare vouchers. As Table Two shows, there are also some smaller schemes to help parents with their childcare costs, for example, for parents who are students.

In April 2014 an estimated 7 per cent of UK families with dependent children under 12 – 392,000 families in total – received help with their childcare costs through the childcare element of Working Tax Credit (HM Revenue and Customs, 2015). As Table Two shows there is a cap on the amount of help that parents can receive, set at £175 per week for one child (meaning the parent gets 70 cent of this = £122.50) and £300⁴ for two or more children. These levels were set in 2005 and have not been updated since then, despite large increases in childcare costs over

4 Parents will get 70 per cent of this = £210.

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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 6,000 families with an annual income of over £30,000 who received any Working Tax Credits in the 2013–2014 financial year (HM Revenue and Customs, 2015).

Tax credits are now being merged into the single Universal Credit, with 2018 now 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 fluctuate from week-to-week, for example, because of irregular work patterns or 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. However, payments will be made a month in arrears, making the up-front costs of returning to work difficult to pay. Up to 100,000 families in receipt of housing or council tax benefit will see a reduction of an average of £1,196 per year in their help with childcare costs when they are moved into Universal Credit. The majority of them are living in southern England and presently receive 96 per cent of their childcare costs through the tax credit system (Children's Society, 2012). This additional source of help will end under Universal Credit.

In March 2013 the Government announced that it intends to increase the level of childcare support through Universal Credit to 85 per cent of costs, up from 70 per cent of costs that parents receive today. This increase will be implemented in April 2016, when it was hoped that many more families would have been switched from tax credit support to Universal Credit. The delays to Universal Credit roll out mean that many families still getting Working Tax Credit support will continue to receive a lower rate of help for many months from now.

Vouchers and Tax Free Childcare

At present, parents not in receipt of tax credits 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.

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In 2013 the Government announced that it will phase out the present employer-supported childcare voucher scheme and replace it with the Tax Free Childcare scheme. 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. Families of disabled children receive help with their childcare costs to a maximum of £4,000 per year. Eventually, Tax Free Childcare will cover all families with children under 12, if they meet the required work and income criteria. There will be an upper income limit per parent of £100,000 to qualify, and a minimum weekly income level per parent equivalent to 16 hours (worked at the National Living Wage) (HM Treasury, 2015). The Tax Free Childcare scheme is now due for implementation in 2017.

This new help with childcare costs is welcome, although there are concerns about these changes. Essentially, by about 2018 there will be two demand-side childcare support systems in operation: Universal Credit and Tax Free Childcare. The qualification criteria relating to children's age and family size differ between the two systems, potentially creating confusion (Rutter et al, 2014). Some families who get help through Universal Credit may well be financially better off if they opt into Tax Free Childcare. Additionally, there is a large 'cliff edge' between the two systems, where moving from Universal Credit support to Tax Free Childcare can mean annual losses of thousands of pounds. Such sudden drops in income can disincentivise moves to increase a family income, by working more hours or seeking promotion. This issue is examined in the next section of this report.

The future direction of childcare subsidies

Successive governments have gradually increased their spending on childcare. By 2017, UK spending on it will have reached nearly £7.5 billion, made up of:

- ▶ Support for free early education - approximately £2.99 billion for existing levels of provision, plus £990 million from 2017 for the 30 hour extension and an increase in the average rate allocated to local authorities for free childcare.
- ▶ The childcare element of Working Tax Credit and Universal Credit - £1.59 billion in the UK (approximately £1.3 billion in England)
- ▶ Tax-free childcare - £845 million in the UK (approximately £700 million in England)
- ▶ Legacy support for childcare vouchers and tax relief on workplace nurseries - £850 million in the UK (approximately £705 million in England)

About 44 per cent of public subsidies for childcare will be demand-side funding by 2017 and 56 per cent are supply-side subsidies to providers. Compared with many other developed countries, the public funding of childcare is complicated in the UK, as Table Two illustrates. While there will be greater investment in supply-side provider funding after 2017 and the extension of free early education, the same underlying system remains. This is a system that has seen piecemeal additions and is complex and expensive to administer. It is also complicated for

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parents and the cliff edges between the different parent subsidies can discourage them from taking on extra work or seeking promotion.

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 that target those most in need, high quality and accessibility in all parts of the UK. We hope that the findings of the 2016 Childcare Costs Survey will highlight the need for radical reform, and remind policy makers and politicians of the importance of childcare, for children, for families and for the broader economy.

3. Methodology

In November 2015 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 prices charged to parents for different types of childcare and its availability 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 prices 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 the price of childcare and whether there is enough to meet local demand – its sufficiency. Local authorities were asked to provide prices 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 families with children under five use in the UK (Department for Education, 2014b). The prices exclude factors such as sibling discounts or additional charges for items such as meals.

We also asked for the average price for 15 hours childcare in an after-school club and the prices charged by 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 prices 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 online survey had failed. Altogether, we received responses from 197 of 206 local authorities, giving an overall response rate of 96 per cent and a minimum response rate of 90 per cent in all regions and nations of the UK. (Excluding the sparsely populated highlands and islands of Britain, the local authorities that did not respond were Lewisham, Telford and Wrekin, Falkirk and North Lanarkshire).

The data was used to calculate average prices for day nurseries, childminders and after-school clubs in each region or nation of Britain. However, these averages do not take into account the varied population size of each local authority, and the different population sizes of Britain's regions and nations. We also calculated childcare prices, weighted to take into account the size of the 0-4 and 5-11 population in each area. The weighted price is a more accurate reflection of what the 'average parent' is paying.

We also checked a sample of 22 survey returns – two in each part of Britain – manually, by checking prices with providers in those areas. This enabled us to make sure that local authority data was reliable.

Methodology

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 price that parents are charged, because of the complex systems of cross-subsidy and the array of business models use by childcare providers. The survey also represents *average prices* to parents and there will be parents who have higher or lower costs than implied in the survey.

Alongside costs, the survey also examines childcare supply and looks at whether local authorities have sufficient childcare for different groups of children. In England, Scotland and Wales, local authorities are required to assess childcare supply and map it against local demand. (The legal requirements that underpin this duty are discussed in Section Six of this report). The survey asked local authorities to draw on their most recent childcare sufficiency data and report if they had enough childcare for children aged two or under, three and four year olds, children who qualify for free early education, 5–11 year olds, 12–14 year olds, disabled children, children who live in rural areas, parents who work full-time and parents who have atypical work patterns such as shift workers.

This year we also asked an additional question on registered childminders, as national data indicates a downward trend in their numbers over the last 10 years. As childminders will be needed to deliver some of the additional hours of free early education in 2017, we felt it was important to understand trends in childminder numbers.

4. Childcare prices

Under-fives childcare

The price of sending a child under two to nursery part-time (25 hours) is now £116.77 per week in Britain, or £6,072 per year (Table One). This represents a 1.1 per cent rise since 2015, without taking population into account. A registered childminder now costs £104.27 per week for part-time care for a child under two, compared with £104.06 last year, a price increase that is similar to the rate of inflation⁵. At 2016 prices, childminder care now costs £5,422 per year, excluding extras such as meals. As children get older, nursery care becomes a little less expensive, with average prices for children aged two or over some 4.2 per cent lower than for the under twos. However, parents see less of a price reduction with childminders, as they tend to have hourly, half-day or weekly rates, rather than set their prices by age.

There will be some parents who pay for more than 25 hours childcare per week, particularly where both parents work full-time, have long commuter journeys or where their children are too young to qualify for free early education. Table Three shows full-time childcare costs for a child under two – 50 hours per week – in a nursery and for a childminder.

Table 3: Price of full-time (50 hours) childcare per week for a child under two, 2016

| | Nursery 50 hours | Childminder 50 hours |
|---|------------------|----------------------|
| East of England | £212.32 | £204.07 |
| East Midlands | £224.40 | £181.25 |
| London | £302.17 | £286.48 |
| North East | £198.58 | £188.82 |
| North West | £188.20 | £172.32 |
| South East | £252.90 | £225.35 |
| South West | £229.58 | £205.65 |
| West Midlands | £201.55 | £185.50 |
| Yorkshire and Humberside | £188.23 | £185.43 |
| England regional average | £221.99 | £203.87 |
| Scotland | £203.46 | £199.08 |
| Wales | £191.84 | £190.46 |
| Britain average of regions and nations | £217.57 | £202.22 |

The majority of daycare is delivered by private and not-for-profit sector nurseries in Britain, with 91 per cent of providers in England coming from the private or not-for-profit sectors (Department for Education, 2014a). In many local authorities, however, there are some places in public sector nurseries, for example, those based in children's centre nurseries or primary schools. Until very recently, public sector daycare has been less expensive than that offered by the private and not-for-profit sector: in 2011, part-time public sector provision for a child under

⁵ The Consumer Price Index rate of inflation was 0.2 per cent in December 2015, the highest it had been since January 2015.

Childcare prices

two cost £89.07 per week, while private and not for profit provision cost £98.15 (Daycare Trust, 2011). These price differences are a consequence of (i) policies to offer subsidised childcare to disadvantaged families and (ii) lower non-staff operating costs in public sector provision. Although staff wages are higher in the public sector – and staff better qualified – school nurseries do not have rental or mortgage costs, and management costs can be shared with the school. Moreover, public sector nurseries do not aim to make a profit or operating surplus.

This year, public sector provision is still less expensive than that offered in the private and not-for-profit sectors. For a child under two, public sector provision costs £107.33 per week, while that in the private and not-for-profit sector costs £117.14. However, there are three regions where public sector provision is now more expensive than in the private and not-for-profit sector for both the under twos and those aged between two and five (Eastern England, the East Midlands and the South West of England). In 23 local authorities in England, four in Wales and two in Scotland, public sector daycare is more expensive than that run by the private and not-for-profit sector. This may be a consequence of spending cuts which have forced a reduction in subsidised places, or forced public sector nurseries to charge full costs, rather than operating hidden cross-subsidies.

Regional and local price variations for under-fives childcare

Table One shows that there are substantial regional price differences in England and Table Four sets out regional price variations in Scotland. London remains the most expensive part of Britain for childcare, with part-time nursery prices for a child under two now 35.9 per cent more expensive than the national average. This means that the 'average' London parent paying for part-time childcare for a child under two would pay £2,182 more per year than the 'average' parent in Britain.

Table 4: 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 | £113.95 | £106.74 | £101.83 | £100.88 | £53.97 | £67.85 |
| Highlands and Islands and NE Scotland | £113.41 | £111.63 | £101.88 | £101.88 | £52.35 | £64.24 |
| South Western Scotland | £107.34 | £102.10 | £103.44 | £103.22 | £53.09 | £65.46 |
| Overall Scotland average | £111.13 | £104.06 | £102.50 | £102.02 | £53.21 | £65.98 |
| Britain average of regions and nations | £116.77 | £111.88 | £104.27 | £103.48 | £48.97 | £63.53 |

The cost of delivering childcare is higher in London, as rent, rates and staff costs are usually higher (Laing and Buisson, 2014). But there is evidence that London prices are pulling away from the rest of Britain, as five years ago part-time nursery care for a child under two was

Childcare prices

22.9 per cent more expensive than the average for Britain, compared with 35.9 per cent today (Daycare Trust, 2011). Part-time childminder provision for a child under two in London is now 42.1 per cent more expensive than the British average, compared with 32.2 per cent in 2011.

Some campaigners have 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, for example, 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. The Family and Childcare Trust is sympathetic to arguments for a London weighting, but there are legitimate concerns about how such a scheme would be administered, and boundary and fairness issues for families elsewhere in the country who also face high childcare costs.

Local price variations

As well as price variations between regions, there are also substantial childcare price variations within regions and within individual local authorities themselves. In London, for example, nurseries and childminders are more expensive in inner London than in most suburbs. Childcare also tends to be more expensive in west London than in the less prosperous eastern local authorities. A parent in the most expensive London local authority would pay £9,117 more per year for a part-time nursery place for a child under two, compared with a parent in the cheapest area.

In most of Britain's big cities, childcare for the under-fives tends to be more expensive than in the surrounding areas. Even in the North East of England, which is a more economically homogenous region than London, childcare costs for a part-time nursery place for a child under two is £3,871 per year in the most expensive local authority compared with the cheapest.

There are significant price differences *within* local authorities. We asked each local authority the price of the most expensive and cheapest nursery for part-time childcare for a child under two. Table Five shows that the average price variation between the most expensive and least expensive nursery in England was £83.41 per week with smaller differences in Wales and Scotland.

Table 5: Average price variations between the most and least expensive nurseries in a local authority area, 2016

| | Average local authority price variation between most and least expensive nursery for 25 hours childcare for a child under 2 per week |
|----------|--|
| England | £83.41 |
| Scotland | £56.82 |
| Wales | £45.73 |

There are a number of reasons why there may be large price variations within local authorities. Some childcare providers have higher unit costs to deliver childcare and some offer a wider range of activities to children. A nursery that offers music and foreign language lessons will

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usually be more expensive than one that does not; in recent years there has been increased segmentation in the nursery market, with the emergence of a small number of expensive 'luxury' nurseries charging more for additional services, as well as nurseries that offer basic 'no frills' services (Laing and Buisson, 2014). As we have already discussed, public sector provision is sometimes less expensive and this factor can account for price variations. Differences in pay and other operating costs can also cause price variations. Differences in the local funding rates to deliver free early education can also cause price variations, an issue discussed in Section Five. Where providers make losses on free early education, they tend to recoup their costs by charging parents more for the additional hours of care that they purchase, on top of their free hours. Early years' providers also operate a varied range of 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.

Where there are shortages of childcare, providers are generally able to charge more for this service. 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 (see Section Seven).

These price variations in under-fives childcare 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 families through Working Tax Credit, childcare vouchers, and in future, through the Tax Free Childcare scheme. 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 availability of childcare. It also shows the childcare system is not working 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 providing 15 hours of care is now £48.97 per week in Britain, or £1,861 per year. This represent a 1.6 per cent price increase compared with last year.

Some families with children aged between 5 and 11 use childminders to pick children up from school. This is often a favoured arrangement if parents work after six o'clock; childminders are usually more flexible than after-school clubs and can often provide extra hours of childcare. Table One shows the average costs in Britain for school pick-up and 15 hours of after-school childcare from a childminder is now £63.53 per week, compared with £64.65 in 2015 (Family and Childcare Trust, 2015a).

Childcare prices

As with under-fives childcare, prices are highest in London and the South East of England. In London for example, after-school clubs are 11.1 per cent more expensive than the average price for Britain and childminder prices some 38.8 per cent more expensive (Table One). Although the impact of these higher childcare prices is less severe than for under-fives childcare, the average London family using a childminder for after-school care will pay £936 more every year than the average British family.

Help with childcare costs through tax credits and Tax Free Childcare

As shown in Table Two, parents now receive help with their childcare costs through Working Tax Credit or childcare vouchers. Targeted at those on the lowest incomes, 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. But this year there are now 11 local authorities where the average cost of part-time childcare for a child under two exceeds this cap, leaving the poorest working parents having to pay an average of £81.53 per week or £4,240 per year out of their own pocket. Nine of these local authorities are in London and two are located in the South East of England.

While childcare may become a little less expensive when children reach two, there are still eight local authorities where the average price of a part-time nursery places exceeds £175 per week for a child over two.

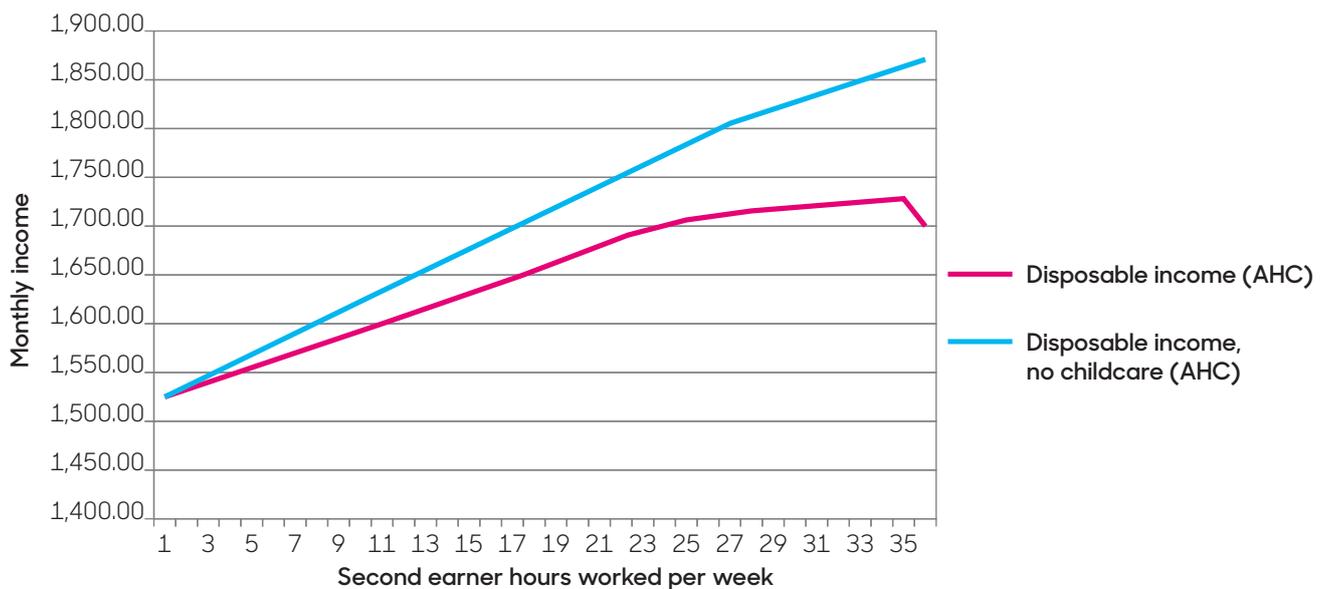
The present rates of support through the childcare element of Working Tax Credit were set in 2005. Since then, the price of a part-time nursery place for a child under two has increased by 67.1 per cent and a part-time childminder place by 65.2 per cent. While help with childcare costs is being increased to cover 85 per cent of costs under Universal Credit in April 2016, delays to its roll out will mean that many families will not receive this extra help in the near future. Even when the extra help is made available, the poorest parents in the 11 local authorities above the £175 cap will be paying an average of £43.63 per week or £2,269 per year out of their own pocket for part-time nursery care. The Family and Childcare Trust believes that the Government must review the support that it offers, including looking at the overall £175/£300 support caps.

Two further problems with tax credit and Universal Credit support are upfront costs and second earner disincentives. Under Universal Credit, help with childcare costs will be paid one month in arrears. But most nurseries and many childminders require parents to pay for childcare one month in advance, as well as pay a deposit. Based on this year's prices, a parent who is returning to work and now using part-time childcare for a child under two would have to pay £470 upfront, plus any deposit, one month before wages and Universal Credit help is received. (Those who qualify for support under Universal Credit are least likely to have savings). While there is a budget advance facility within Universal Credit, restrictions on this loan mean that most parents will not qualify for it (Citizens Advice Bureaux, 2014).

Childcare prices

As Figure Six shows, Universal Credit also discourages a second earner from taking on more hours of work. The analysis is based on a family of two parents earning the National Minimum Wage and paying for 25 hours of childcare for a child aged one and 10 hours for a child aged three, using this year's average prices. When the second earner works more than 25 hours per week, the family's disposable income only increases very marginally and above 34 hours it starts to decline. This means that taking on extra work simply does not pay.

Figure 6: Disposable income (after housing costs) under Universal Credit, 2016 childcare prices



Tax Free Childcare

At present, most parents not in receipt of tax credits are entitled to help with their childcare costs through childcare vouchers. From 2017, vouchers will be phased out and replaced with the Tax Free Childcare scheme. This online system enables parents to pay providers, but with the Government topping up their payments. For each £8 a parent pays in, the Government will add an additional £2, up to a maximum of £500 per quarter year per child⁶. Effectively this means that any family paying more than £153.85 per week per child will not receive any extra help with their childcare costs as prices increase. But a year before the roll out of Tax Free Childcare there are already 24 local authorities (22 in England and two in Wales) where the price of a part-time nursery place for a child under two exceeds this £153.85 cap. In these areas, any increase in the price of childcare will erode the value of extra help through Tax Free Childcare.

⁶ Families of disabled children receive help to a maximum of £4,000 per year.

Childcare prices

A further problem associated with Tax Free Childcare is its interaction with tax credits. Essentially, by 2018 there will be two demand-side childcare support systems in operation: Universal Credit and Tax Free Childcare. The qualification criteria relating to children's age and family size differ between the two systems, potentially creating confusion (Rutter et al, 2015). Some families who get help through Universal Credit may well be financially better off if they opt into Tax Free Childcare. Additionally, there is a large 'cliff edge' between the two systems. Under Universal Credit, a family will receive help with 85 per cent of their childcare costs. But when family earnings exceed about £30,000, Universal Credit help with childcare falls away steeply. Many of these families will find that extra earnings gained through promotion or working overtime take them out of Universal Credit support (at 85 per cent of costs) and into Tax Free Childcare help set at 20 per cent of costs. Using this year's prices for part-time nursery care, this sudden drop amounts to a loss of £3,947⁷ per year for families whose household income may well be little more than £30,000, annually. This cliff edge may disincentivise working extra hours or career advancement gained through promotion.

7 Using part-time nursery costs of £6,072, up to £5,161 support will be available under Universal Credit and £1,214 under Tax Free Childcare

5. Price trends over time

Table Seven presents price increases over the last year. A part-time nursery place for a child under two rose by 1.1 per cent over the last year, an increase above the rate of inflation, which stood at 0.1 per cent in the 12 months to November 2015. Childminder prices have increased by 0.2 per cent since 2015, much closer to the rate of inflation.

There are a number of possible explanations for this low price rise. With inflation close to zero and wage increases low, providers' expenditure is much the same as last year. Another explanation for the low price rise is that a run of year-on-year above inflation increases may simply be pricing parents out of the market – if families cannot pay for childcare, providers have less business. Nurseries, pre-schools, childminders and clubs may have simply decided to keep their prices down this year, to safeguard their customer base.

Table 7: Changes in childcare costs between 2015 and 2016

| | 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 | 0.7% | 1.3% | 0% | 0.2% | 2.1% | -1.9% |
| Scotland average | 1.0% | 4.1% | 2.1% | 2.7% | 8.5% | 2.2% |
| Wales average | 5.6% | 5.4% | 0.3% | 0.3% | -8.7% | -4.7% |
| Britain average of regions and nations | 1.1% | 1.9% | 0.2% | 0.4% | 1.6% | -1.7% |

Trends over five years

While price increases have slowed this year, there have been significant increases in the price of childcare since 2011. A part-time nursery place for a child under two rose by 20.0 per cent between 2011 and 2016, when the survey data was weighted to account for population distribution (Table Eight).

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 varies and ownership patterns need to be considered when calculating averages). But one of the 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 prices 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 actually paying. So we also weight our survey to take population size into account, using mid-year population estimates for the 0-5 population (Table Eight).

Price trends over time

Table 8: Changes in unweighted and weighted nursery costs for a part-time place for a child under two, 2011-2016

| Region/Nation | Nursery 25 hours (under 2) unweighted 2011 | Nursery 25 hours (under 2) weighted 2011 | Nursery 25 hours (under 2) unweighted 2016 | Nursery 25 hours (under 2) weighted 2016 | Percentage change 2011-2016 weighted averages |
|---|--|--|--|--|---|
| East of England | £89.92 | £88.82 | £113.51 | £113.74 | 28.1% |
| East Midlands | £89.57 | £91.27 | £116.63 | £118.05 | 29.3% |
| London | £118.54 | £120.20 | £158.73 | £155.30 | 29.2% |
| North East | £90.96 | £92.36 | £109.49 | £110.87 | 20.0% |
| North West | £82.70 | £82.18 | £102.44 | £101.04 | 22.9% |
| South East | £115.82 | £114.78 | £137.88 | £133.38 | 16.2% |
| South West | £96.15 | £94.08 | £116.24 | £107.27 | 14.0% |
| West Midlands | £97.77 | £99.14 | £110.80 | £107.12 | 8.0% |
| Yorkshire and Humberside | £88.80 | £89.07 | £97.42 | £99.06 | 11.2% |
| England regional average | £96.69 | £97.20 | £118.13 | £120.25 | 23.7% |
| Scotland average | £99.58 | £97.67 | £111.13 | £109.74 | 12.4% |
| Wales average | £90.82 | £91.31 | £110.16 | £110.30 | 20.8% |
| Britain average of regions and nations | £96.42 | £99.20 | £116.77 | £119.00 | 20.0% |

Sources: Family and Childcare Trust⁸ annual costs surveys, 2011-2016

Drivers of price increases

Table Nine and Figure Ten outlines year-on-year changes since 2010. It can be seen that until this year, nursery costs have risen faster than the rate of inflation. To understand these trends it is important to know about the breakdown of providers' income and expenditure. All childcare providers aim to break even, even those in the public sector. Private providers also aim to make a profit, while not-for-profit providers usually aim for an operating surplus which they can use as a reserve, or for finance expansion. A provider's annual income thus needs to equal or exceed their annual expenditure. Where this does not take place, a provider may either reduce their expenditure or recoup their losses by increasing fees to parents.

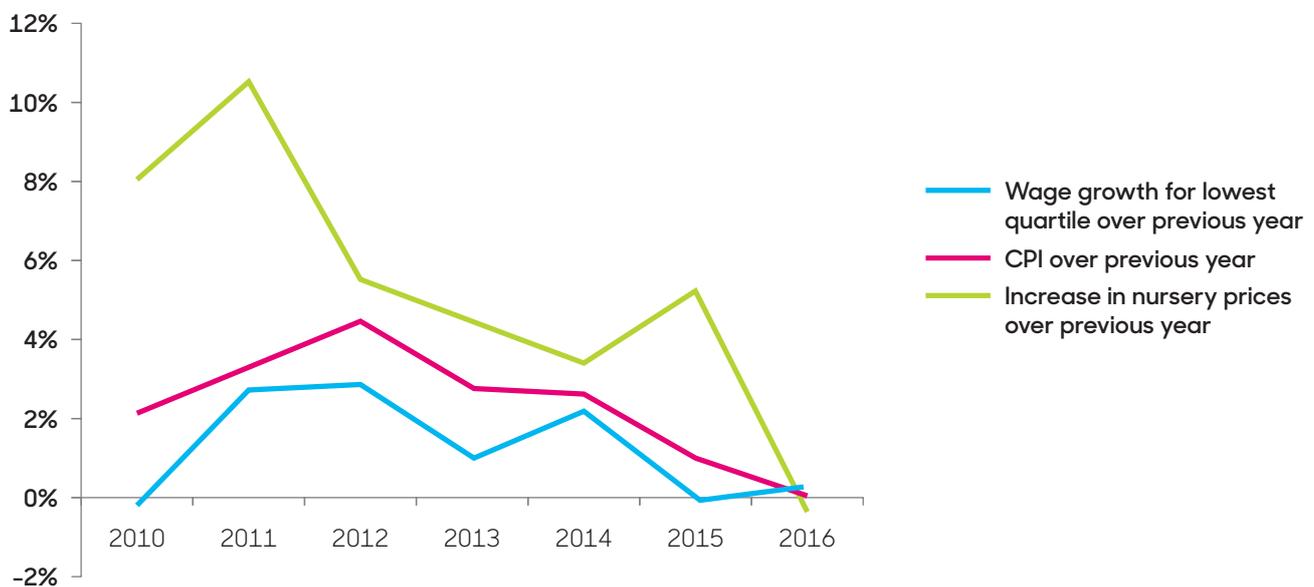
Price trends over time

Table 9: 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% |
| 2016 | £119.00 | -0.3% |

Sources: Family and Childcare Trust⁹ annual costs surveys, 2009–2015

Figure 10: Changes in nursery prices, 2010–2016



Sources: Family and Childcare Trust annual cost surveys, 2010–2016 and ONS data

Income

The daycare sector is diverse and there is a significant variation in nursery incomes, with a large number of small, single site providers with an annual income of less than £40,000, to large national nursery chains such as Busy Bees which now runs nearly 250 UK nurseries and has an annual revenue of over £100 million. While the majority of nurseries operate from one site, recent years have seen the growth of small regional chains operating from 5–10 sites.

Price trends over time

The most recent childcare providers' survey from the Department for Education indicated that nurseries offering full daycare had a median income of £86,300, 51 per cent came from parents' fees and 49 per cent from the local authority, mostly for delivering free early education (Department for Education, 2014a). Any change to hourly funding rates for free early education or occupancy rates will impact on profits/surpluses as well as fees charged to parents.

Expenditure

There are a number of recent studies that have attempted to understand nursery expenditure and the cost of delivering childcare and free early education, with Figure Eleven giving the analysis from a one-off study by the Department for Education (2012). Other recent studies have backed up these findings and put staff costs at between 70 and 75 per cent of total expenditure (KPMG, 2015; Lloyd, 2015). It can be seen that staff costs make up the largest item of expenditure and any large change in employee costs will impact on profitability as well as prices charged to parents.

Figure 11: Different input costs in group-based childcare



Price trends over time

Drivers of price increases

Changes to income

Changes to the hourly income for free early education places
Ratio of free places to paid-for childcare
Occupancy rates
Cross subsidy systems
Gaps in supply
The ability of parents to pay for childcare

Changes to staff costs

Pay bill for care staff
Pay bill for support staff
Staff to child ratios
Staff qualification profiles
Pension obligations
Use of agency staff
Market segmentation and offer to parents

Changes to other operating costs and overheads

Food, materials and equipment
Rent, mortgage repayments, building work and upkeep
Business rates, insurance and charges
Other overheads
Size of setting and economies of scale
Decisions about profits or operating surplus

Four factors have the greatest potential to impact on provider profitability and prices to parents – funding rates for free early education, cross subsidy systems, occupancy rates and staffing costs. Other factors, such as rent, rates and economies of scale have a lesser impact on prices and profitability. This is not to dismiss them – one of the characteristics of childcare provision in the UK is that most nursery providers operate from one site and have high overheads per unit of childcare delivered. The average number of registered places in nurseries offering full daycare is 45 and increasing the size of nurseries and promoting mergers may result in greater economies of scale and lower prices (Department for Education, 2014a; 2015b).

Price trends over time

Funding and cross-subsidies

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 hourly rate for local authorities is still largely determined by historical precedent, with big variations in allocations to local authorities. The average allocation for three and four year olds in England is £4.51 per hour for the 2015–2015 financial year, but Camden, in London, receives most money – £9.17 per hour – while Solihull gets just £3.24.

The Government will consult on a new early years and school funding system in early 2016, with a view to providing a more equitable system. It has also announced the average funding rate for the 2017 extension for free early education, which will be set at £4.88 per hour in England. Although this includes the Early Years Pupil Premium, it represents a £0.32 per hour increase in average Government funding for three and four year olds. There will be winners and losers in this funding review, although the Government has committed to setting up dampening mechanisms to cushion losses of funding.

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.

Local authorities then distribute Government funding to individual early years providers, including schools. Decisions about how much money each provider will receive are made by the local Schools Forum, a group made up of representatives of the local authority, schools, the local community and early education providers.

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 settlements 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 providers¹⁰, within and between local authorities. Providers in Bradford receive the highest average rate (£5.23 per hour) to deliver free early education for three and four year olds, while those in Shropshire receive the lowest (£3.24 per hour)¹¹. This means that providers in Bradford get an average

¹⁰ See The Department for Education's Early Years Benchmarking Tool.

¹¹ Section 251 return workbooks, Department for Education

Price trends over time

of £1,134 more per child each year to deliver free early education than those in Shropshire. These differences can affect the quality of provision and also prices charged to parents. Where providers make losses on free early education, they tend to recoup their costs by charging parents more for the additional hours of care that they purchase, on top of their free hours.

Although it is hoped that the funding review will remove some of the inequalities in the amount that providers receive, the Family and Childcare Trust has concerns about the extension of free early education in 2017. The extension to 30 hours will limit the opportunity of providers to cross-subsidise loss-making free early education. If they do not get extra funding to deliver the free hours, they will have to increase the price of purchased hours for parents, ration free places or make losses.

Occupancy rates

Vacancies mean that a provider's income is reduced and many settings have low occupancy rates, with a 77 per cent occupancy needed for a day nursery to break even (Department for Education, 2012). The average occupancy rate for a nursery was 80 per cent in 2013. There is little difference in rates between deprived and less deprived areas. Rather, differences in nursery occupancy seem to be more closely associated with parental perceptions about quality, with high quality provision tending to have fewer vacancies (KPMG, 2015).

Staff costs

Staff costs make up the majority of expenditure, both for care staff and those with support roles such as office managers, cooks and cleaners. For all staff working in private and not-for-profit nurseries and pre-schools, pay levels are low compared with public sector. Nursery nurses and assistants were paid a gross median rate of £7.44 per hour in 2015, while childcare workers were paid £8.26¹². In some parts of the UK, the National Minimum Wage is the *de facto* pay scale for nursery staff without supervisory responsibilities, although pay is higher in London and the South East. Some providers also reduce their staff costs by employing apprentices or staff under 21, where lower minimum wage rates apply.

Pension auto-enrolment and the introduction of the National Living Wage have the potential to increase staffing costs. From April 2016, the National Living Wage will be set at £7.20 per hour and will rise to £9 per hour by 2020, although it will not apply to those under 25. Research suggests that the new minimum wage will disproportionately affect smaller providers in the north of England where wages are lower (Department for Education, 2015b). It may also encourage the employment of younger workers.

In all parts of the UK, regulations set out minimum ratios of staff to carers, as well as setting qualification levels. In England these regulations apply to children younger than eight in early years and childcare settings. For example, there should be one member of staff to three

Price trends over time

children under two in a group setting and the nursery manager must possess a Level 3 (A-Level equivalent) childcare qualification. These regulations help set a minimum cost of delivering nursery provision.

In Scotland every nursery manager will be required to have a childcare degree by 2018, and every nursery in the most deprived areas will have an additional qualified teacher or childcare graduate. Such changes to qualification regulations may well increase quality, but will inevitably increase the unit costs of early education and childcare.

Can childcare be delivered at a lower price?

Over the last ten years a number of studies have examined ways in which childcare costs might be reduced (Department for Education, 2015b; House of Lords Select Committee on Affordable Childcare, 2015; Rutter, 2016 forthcoming). All of them have concluded that there is no magic bullet. While childcare represents a significant outlay to parents, it is important to remember that by its very nature it will always be expensive. The need to ensure safety for children, adhere to regulations and deliver high quality childcare rightly means that childcare cannot – and should not – be provided ‘on the cheap.’ Using more parent volunteers has been proposed as a way of reducing costs, but there are many challenges in deploying them while still providing quality care and sticking to staffing ratios (Rutter, 2016 forthcoming). Analysis for the Department for Education (2015b) suggested that providers can reduce their costs by more efficient use of staff in terms of staffing ratios, cutting 15 per cent of providers’ unit costs. We think that while some providers may be able to deploy staff more efficiently, others will struggle to do this.

However, mergers and business collaboration can save on some overheads and back-office costs in nursery businesses, promoting greater economies of scale. As noted above, the last five years have seen the the growth of smaller ‘regional’ nursery chains of five to ten nurseries. One of the financial advantages of regional chains is that settings are close to each other and they can easily share some of their running costs, particularly bank staff, payroll and administrative costs and the bulk ordering of food and materials. As these regional settings are located near each other, bank staff to cover absences can be deployed in a number of settings.

There are also a growing number of multi-service childcare providers. Here, a private or not-for-profit organisation may provide nursery care alongside other childcare services such as after-school, holiday or out-of-hours care. Staff are deployed across all of the services and there are other economies of scale.

The success of regional nursery chains and multi-service childcare providers points to the potential for local business collaboration. This is a development we think the Government should explore as part of its planning for the 2017 extension to free early education.

6. Is there enough childcare for families?

The Childcare Act 2006 obliges all local authorities in England and Wales to secure sufficient childcare, as far as is practicable, for working parents and those undertaking training with the intention of returning to work. They also have to make sure 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.

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 fill gaps, local authorities in England and Wales have to audit their supply of childcare and to see if it satisfies parental demand. These audits are usually called childcare sufficiency assessments. In England, regulations require that these audits are carried out annually and 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).

These annual childcare sufficiency audits have to be presented to councillors and made available to parents. In Wales, local authorities have to undertake a childcare sufficiency assessment every five years, with a three-yearly 'refresh' and annual updates (Butler and Rutter, 2015).

Survey findings

The 2016 survey asked local authorities to use their most recent childcare sufficiency data to estimate if they had enough childcare for different groups of children, with the results shown in Tables 12 and 13.

The survey data showed that under half (45 per cent) of local authorities in England and similar proportions in Wales reported that they had enough childcare for working parents. While gaps appear to have narrowed in Wales, many of its local authorities and those in England are still not meeting the obligations of the Childcare Act 2006. The proportions of Scottish local authorities who believe they have enough childcare for working parents has not increased since 2015. Just 18 local authorities (14 in England, four in Scotland and none in Wales) reported enough childcare in rural areas, compared with 23 local authorities in 2015.

Is there enough childcare for families?

Table 12: Percentage of local authorities reporting sufficient childcare for particular family types, 2015 and 2016

| Region/Nation | Parents who work full-time 2016 | Parents who work full-time 2015 | Parents with a disabled child, 2016 | Parents with a disabled child, 2015 | Parents with atypical work patterns, 2016 | Parents with atypical work patterns, 2015 |
|---------------|---------------------------------|---------------------------------|-------------------------------------|-------------------------------------|---|---|
| England | 45% | 43% | 15% | 21% | 7% | 15% |
| Scotland | 13% | 15% | 9% | 7% | 0% | 4% |
| Wales | 40% | 18% | 9% | 9% | 0% | 0% |

Disabled children

Table 12 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 in 2014. The Inquiry evidence suggested that out-of-school and holiday childcare for disabled children were in particularly short supply. Providers are sometimes reluctant to take on some older children, particularly those with challenging behaviour or physical impairments (Contact a Family, 2014). Disabled children are much more likely to receive their free early education in public sector provision which tends to be less flexible in relation to the hours of care that working parents are offered (Family and Childcare Trust, 2015b).

Responding to these issues 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. We are glad to note that the Government has responded to these concerns, and when the Tax Free Childcare scheme is implemented in 2017, the parents of disabled children will receive help up to a limit of £4,000 per year, twice the cap available to those without disabilities. We were also pleased to note the focus on children with special educational needs and disabilities in the pilots of the extended three and four year old offer. We are hopeful that these measures will enable some market-driven expansion of provision for disabled children, particularly in the after-school and holiday childcare sectors. However, the Family and Childcare Trust is still campaigning for other policy changes, which include changes to the Early Years Single Funding Formula, covering free early education. We would like to see a mandatory supplement for children with additional needs such as a disability. We also want every local authority to develop a funded childcare inclusion plan to address gaps for disabled children.

Is there enough childcare for families?

Age gaps

Some local authorities have childcare gaps for specific age groups, although this year's survey indicates¹³ that among the under-fives these gaps have narrowed, particularly in Wales and Scotland (Table 13). The main reason for this is that there are more places for under-fives in some local authorities this year. While full day places grew by 1.8 per cent in Wales between 2014 and 2015¹⁴ in England, this increase in places has been much more uneven.

Where places have increased, this has often been a result of more interventionist approaches by local authorities to childcare market management. The drive to increase the number of free early places and additional capital funding to do this has acted as a catalyst, with more places also created for parents who want to purchase childcare.

Table 13: Percentage of local authorities reporting sufficient childcare or out-of-school activities for specific age groups, 2015 and 2016

| Region/Nation | 0-2s, 2016 | 0-2s, 2015 | 3-4s, 2016 | 3-4s, 2015 | 5-11s, 2016 | 5-11s, 2015 | Activities for 12-14s, 2016 | Activities for 12-14s, 2015 |
|---------------|------------|------------|------------|------------|-------------|-------------|-----------------------------|-----------------------------|
| England | 49% | 35% | 56% | 41% | 9% | 12% | 7% | 4% |
| Scotland | 35% | 7% | 31% | 22% | 12% | 11% | 4% | 4% |
| Wales | 41% | 9% | 41% | 14% | 9% | 5% | 5% | 0% |

While gaps in under-fives provision may have narrowed, this year's survey indicates persistent gaps in childcare provision for those families who have school-aged children. Just 25 local authorities (17 in England, five in Scotland and three in Wales) reported that all primary schools were served by an after-school club, compared with 21 last year (17 in England, three in Scotland and one in Wales).

On a more optimistic note, analysis of childcare sufficiency assessments suggests that more schools are now running their own after-school childcare. As this does not have to be registered with Ofsted, there are no statistics on any growth in provision. The Family and Childcare Trust is also pleased that in England parents will soon be given the right to request that their children's schools provide breakfast clubs, after-school and holiday childcare. This right will apply to parents of children from Reception Class age up to Year Nine. The Department for Education (2015c) has recently issued a consultation, outlining proposed procedures that will apply to make sure that parents' requests are considered fairly.

¹³ Ofsted Providers and Inspections datasets, 2014 and 2015.

¹⁴ Care and Social Services Inspectorate Wales, 2015.

Is there enough childcare for families?

12 – 14 year olds

It remains to be seen whether the parental right to request 'childcare' will help fill the gap for children aged 12–14. Older children often fall into a 'childcare gap', particularly during the school holidays. Holiday childcare clubs are generally targeted at those in the 5–11 age range and young people usually do not want to attend clubs whose activities they perceive as being age inappropriate. But it is not desirable to leave teenagers unsupervised for protracted periods of time. Many parents of older children resort to a range of strategies to supervise children of secondary school age over school holidays, which includes 'shift' parenting, where holiday leave is taken at different times and informal childcare from friends and relatives.

Children may also attend arts, sports and leisure activities that function as surrogate forms of childcare. Such activities are not usually described as childcare when their user group is older. As a consequence many local authorities do not consider these activities in their childcare sufficiency analysis. The survey indicated that 55 local authorities in England and two in Wales had not considered this age group in their childcare sufficiency assessments.

Over the last five years there have been major cuts to youth services arts and leisure budgets, with more cuts planned during the next financial year as a consequence of further reductions to local authority budgets. In many parts of Britain there has been a reduction in the activities that function as *de facto* childcare for older children. Inevitably, this will mean that more teenagers are left alone at home while their parents are at work, particularly in the school holidays.

We have no robust data on the proportions of children in Britain who are unsupervised while their parents work, but research from the United States suggested that every day 77 per cent of all teenagers return home to an empty house, with 'latch key kids' at greater risk of depression, loneliness, alcohol and drug abuse, early sexual activity and smoking (Belle, 1999). The same research suggests that children in single parent households are most likely to be left unsupervised for protracted periods of time.

It is essential that all local authorities account for older children in their childcare sufficiency analysis and fill gaps where they exist. The Family and Childcare Trust would like central government departments – particularly Education and Culture, Media and Sport – to work together to promote more activities for older children, and work with local authorities and third sector organisations to make sure there is a sufficient range of provision for teenagers in the school holidays.

Is there enough childcare for families?

Filling the gaps

While more local authorities report that they have enough childcare for the under-fives, this year's survey showed that there has been little progress in filling many of the chronic gaps in childcare: free early education places (see Section Eight), childcare for school-aged children, disabled children and those who live in rural areas. Despite the legal obligations of the Childcare Act 2006, less than half of local authorities have enough childcare for parents who work full-time.

There are a number of reasons why these gaps have not been filled. First, not all local authorities are aware of local market conditions. This is not a problem in Wales, but this year's survey showed that 40 local authorities in England have not undertaken annual childcare sufficiency reports since 2013. In Scotland, 16 local authorities had no information about local childcare supply and parental demand for it. Childcare sufficiency assessments or market analysis need not be lengthy or elaborate exercises, but if local authorities and providers have little knowledge of local market conditions, they cannot intervene to fill gaps in provision.

Childcare sufficiency reports also require a consistent definition of *sufficiency*, so local authorities can use this reference point to judge if they have enough childcare. But there is no agreed definition of *sufficiency* in law or statutory guidance (Butler and Rutter, 2015). A further shortcoming of childcare sufficiency reports is that not all of them have effective action plans attached to them and there is no consensus about good market management.

Local authorities also have limited powers to intervene in childcare markets. Most childcare is provided by the private and not-for-profit sectors and not by the state. The Childcare Act 2006 only allows a local authority to be a provider of last resort where no other organisation fills a gap. Yet there may be many situations where private and not-for-profit providers do not step in and fill gaps. Difficulties securing capital funding and credit may also put off new providers or prevent the expansion of existing provision.

The childcare market is also bound by rules to determine its quality. These requirements, rightly, influence minimum costs for providers. But most for-profit childcare providers operate on low profit margins that are highly sensitive to small changes in income or outgoings (Department for Education, 2015b). Not-for-profit providers experience similar sensitivity as they need to maintain an operating surplus. In some cases, it does not make sense from a business perspective to expand into a new area or extend existing provision. It is for these economic reasons that there are usually fewer private and not-for-profit childcare places in deprived areas.

Is there enough childcare for families?

Given this, local authority market management has usually comprised of a limited range of activities that include:

- ▶ 'Light touch' measures such as advice offered by Family Information Services. Broadly, markets operate more efficiently if parents have more information about local childcare options. The local authority role is also critical in promoting the take-up of financial help, for example tax credits, which, in turn, helps to promote demand for childcare.
- ▶ Engagement with childcare providers, for example, bringing them together to highlight gaps, giving start-up or business advice, running childminder networks or promoting partnerships between providers to improve local services.
- ▶ Limited direct support for providers, such as subsidised training, rent or business rate amnesties, the identification of suitable premises, free premises, smoothing the planning process and small grants for adaptations.
- ▶ Capital funding for existing or new providers to enable them to expand places.
- ▶ Revenue funding used to support provision in areas where it is not financially sustainable, usually because there is an insufficient proportion of working parents.

However, the role of local authorities in market management is being compromised by both a lack of practice guidance and by a lack of grant funding to expand provision, something that past experience from programmes such as the Neighbourhood Nursery Initiative has been shown to be necessary to expand places (Butler and Rutter, 2015; 2016). With the exception of the extension of free early education to two year olds in 2013-2014, central government has not empowered English local authorities to fill gaps in supply.

This is an unsatisfactory situation, particularly as shortages of childcare are jeopardising the ability of the Government to deliver on the ambitious programme of extending free early education. The Family and Childcare Trust calls on the Department for Education and the Welsh Government to enforce the sufficiency duty and support local authorities to fill gaps in provision through guidance and grant funding for place expansion. We believe that the £50 million capital funding to be made available for the 2017 extension of free hours is insufficient to meet providers' needs. While there may be a need for both revenue and capital funding to support new childcare provision, the alternative is that children do not receive free early education and parents leave the labour market because childcare is not available.

7. 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). Free early education also helps working parents, covering a significant proportion of their childcare costs. It is for these reasons that the Government funds part-time early education places. In all parts of the UK 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 14.

There is also a commitment to extend free early education in England and Scotland. From September 2017, all parents of three and four year olds who meet the income and work hours criteria will see their hours of free early education doubled to 1,140 per year in England, the equivalent to 30 hours per week during term-time. As already discussed, the Department for Education is preparing for this extension with an early years funding review, and extra £50 million capital funding (equivalent to £3,400 per group setting). It will also make £13 million available for pilots that will start in September 2016 and run in eight local authorities, plus a further £4 million for 25 small projects that will focus on specific issues, for example, improving provision for disabled children. The Scottish Government also plans to increase free early education to cover 1,140 hours by 2020¹⁵.

In March 2016, the Welsh Labour Party, if returned to government, promised to increase free early education for the three and four year old children of working parents. In Wales, eligible children would get 30 hours per week over 48 weeks of the year, 300 hours more every year than for children in England.

Table 14: Free early education entitlement for two, three and four-year-olds in 2016

| | Entitlement to free early education for two year olds | Entitlement to free early education for three and four year olds |
|-------------------------|---|---|
| England | 570 hours per year for the 40 per cent most income deprived two year olds and certain other groups such as looked after children | 570 hours per year for all three and four year olds, amounting to 15 hours per week over 38 weeks of the year |
| Northern Ireland | None | The equivalent of 12.5 hours per week in term-time for three and four year olds |
| Scotland | 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. The 2015 extension covers about 27 per cent of the age cohort | 600 hours per year for all three and four year olds |

¹⁵ <http://www.gov.scot/Publications/2015/12/4790>

Free early education

| | | |
|-------|--|--|
| Wales | 12.5 hours per week over 39 weeks, plus additional holiday childcare for about 6,500 disadvantaged children living in deprived areas delivered through the Flying Start programme. This provision is funded at a higher rate (£7.20 per hour) than comparable provision in England | A minimum of 10 hours per week for all three and four year olds during term-time, although some local authorities offer more hours |
|-------|--|--|

By 2020 the annual government spend on free early education will amount to nearly £4 billion. This includes money channeled to Northern Ireland, Scotland and Wales through the Barnett formula, where the Treasury transfers about the equivalent level of funding for free early education to the devolved administrations as it sets aside in England.

Uptake of free early education

In England, the uptake of free early education among eligible two year olds stood at 58 per cent in January 2015, although, at 46 per cent, it was much lower in London (Department for Education, 2015a). In Wales, the uptake of Flying Start provision for two year olds stood at 86 per cent in 2015, with only two local authorities (Cardiff and Torfaen) where it fell below 80 per cent (Welsh Government, 2015). The Scottish Government's early years and childcare statistics do not enable us to monitor the uptake of free early education.

In England, some 94 per cent for three year olds received free early education in January 2015, as did 99 per cent of four year olds. Unlike Wales, where the majority of three and four year olds receive their free provision in nurseries and reception classes attached to primary schools, 58 per cent of three year olds and 19 per cent of four year olds received their free early education from private and not-for-profit providers.

In 2015 some 41,300 three year olds did not receive any free early education (Department for Education, 2015a). At 68 per cent of eligible three year olds, uptake is lowest in the City of Westminster local authority. There are still 36 local authorities where at least one in ten three year old children are missing out on free early education. Many of the three year olds who do not receive early education come from disadvantaged families. If they do not receiving early education, these children are likely to be further disadvantaged when they start school. The Family and Childcare Trust believes that the Government must address the low uptake of free early education among three year olds as an immediate priority.

Free early education

Local authority areas with an uptake of free early education among three year olds at 90 per cent or below, 2015

| | | |
|----------------------|------------------------|----------------|
| Barking and Dagenham | Hackney | Poole |
| Barnet | Hammersmith and Fulham | Reading |
| Birmingham | Haringey | Rochdale |
| Bracknell Forest | Harrow | Slough |
| Brent | Hounslow | Southwark |
| Camden | Islington | Sutton |
| City of London | Kensington and Chelsea | Stoke-on-Trent |
| Coventry | Kingston upon Thames | Tower Hamlets |
| Croydon | Lambeth | Waltham Forest |
| Ealing | Lewisham | Wandsworth |
| Enfield | Manchester | Westminster |
| Greenwich | Newham | |

Source: Department for Education, 2015a.

There are a number of reasons why uptake 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.

Policy aims of free early education

Free early education has the explicit policy aims of promoting child development and school readiness, as well as narrowing the gaps between disadvantaged children and their peers. In extending the hours that are offered to parents in 2017, the Government also wants to boost parental employment (HM Treasury, 2015). However, there are four reasons why these policy objectives will not be achieved in all parts of Britain.

First, as discussed above, **uptake** of free early education is lower than it should be in some areas and disadvantaged children are missing out.

Second, and related to low uptake, this year's survey indicated that there are **not enough free places** in some areas, and that gaps in provision for three and four year olds are growing (Table 15). In England, 59 local authorities reported that they do not have enough free early education places for three and four year olds this year, compared with 23 local authorities in 2015. Place shortages are caused by a number of factors, some of which have been discussed in the previous section of this report. For disadvantaged two year olds there is a spatial mismatch between supply and demand, as there has always been less nursery provision in deprived areas – there is less demand here – but it is here that free places are needed most. In some instances early years providers have decided not to offer free early education places, or ration the number of places they offer, arguing that funding rates do not enable them to break even

Free early education

(National Day Nurseries Association, 2015). (At least 6,000 nurseries and pre-schools are not offering two year old places in England).

As might be expected, our survey shows that there is an association between uptake of free early education and the availability of places. In areas reporting enough places for three and four year olds, uptake stood at 95.4 per cent of eligible children, but where there were gaps in provision uptake was lower at 91.9 per cent.

Table 15: Local authorities reporting insufficient free places 2015 and 2016

| Number of local authorities reporting insufficient provision | Number of local authorities reporting insufficient places 2015 | Number of local authorities reporting insufficient places 2016 |
|--|--|--|
| Free places for two year olds in England | 142 | 103 |
| Free places for three and four year olds in England | 23 | 59 |
| Free places for 2,3 and 4 year olds Scotland | No data | 8 plus 8 don't knows or no responses |
| Free places for two year olds through Flying Start in Wales | No data | 12 |

Third, the way that free early education is offered by public sector providers does not help some parents move back into work. In particular, school-based provision is most usually offered in three hour blocks every day, rather than over two or three days (Department for Education, 2014b). This lack of **flexibility** is an even larger problem in Wales and Scotland, where a higher proportion of free provision is offered in schools than in England. Free early education is delivered by school nurseries (usually over five days in a week) or 'partnership nurseries' in the private and not-for-profit sector in Scotland, where hours are more flexible. But in some areas there are not enough places in partnership nurseries to meet the needs of working parents. While increasing the flexibility of free early education is a policy priority in England and Wales¹⁶, there is little evidence to suggest that this issue is being addressed in Scotland.

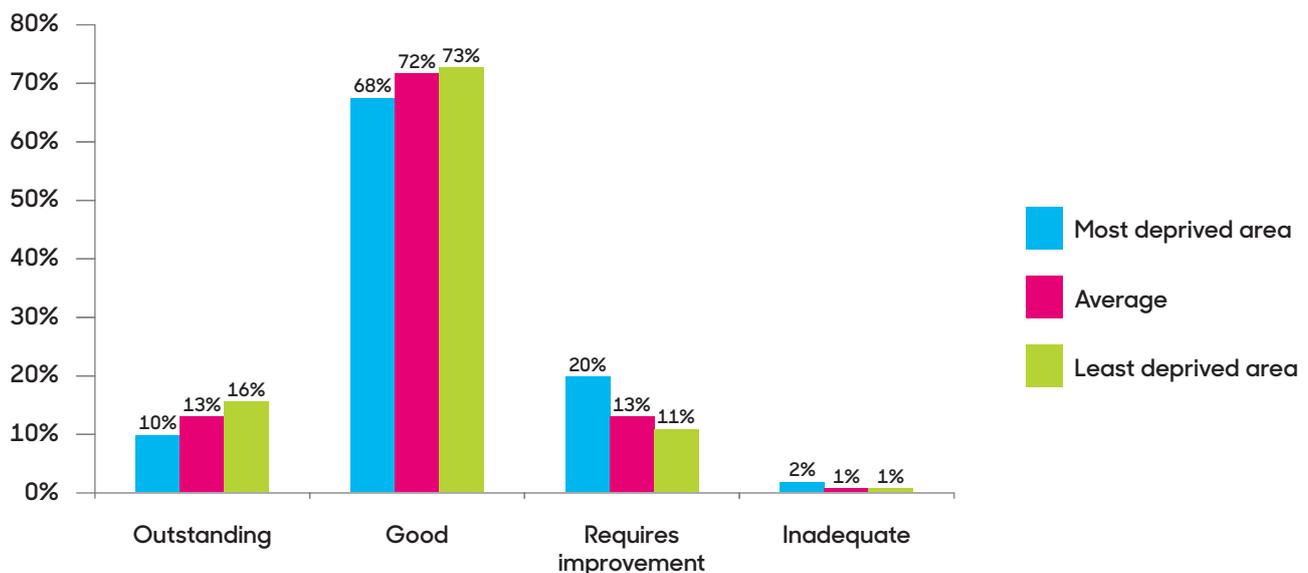
Fourth, the **quality** of some early years provision is not always of sufficiently high enough to improve the outcomes of disadvantaged children. The UK has successfully established a funding and regulatory regime that makes very poor quality or unsafe provision a rare occurrence. To improve outcomes, however, early education must meet a high standard that includes: well-qualified, experienced staff able to identify and respond to children's needs; a good social mix of children; a proactive approach to supporting home learning; and strong links with early intervention services (Butler and Rutter, 2016; Mathers et al, 2014).

¹⁶ See Welsh Government, 2013.

Free early education

Some 15 per cent of two year olds and 15 per cent of three and four year olds received their free provision in settings deemed to require improvement¹⁷ by Ofsted or to be inadequate in January 2015 in England. Gambaro et al (2013) show that children living in the most deprived areas are more likely to receive their free early education in graduate-led school nurseries. But as Figure 16 shows, private and not-for-profit provision in deprived areas tends to be of lower quality. This leaves working parents in these areas with a difficult choice: balancing the quality of less flexible school-based provision, against the flexibility of lower quality provision in the private or not-for-profit sector.

Figure 16: Outcomes of Ofsted inspections of nurseries and pre-schools in 2015, by area deprivation



Over the next five years, parents in England and Scotland will see their hours of free early education increase. While this will make a big difference to family budgets, it is essential that that central government, local authorities and providers address existing problems associated with free early education, including low uptake, a lack of places, flexibility and the quality of provision. In particular, the Family and Childcare Trust calls on the Government to take immediate action to address a low uptake of free early education among three year olds in some parts of England. We would also like to strengthen parents' rights with an admissions code for free early education and make a place a legal entitlement, bringing free early education in line with a right to a school place.

¹⁷ Replaces grade descriptor of 'satisfactory'.

8. Registered childminders: a case of policy neglect

About five per cent of families in Britain turn to registered childminders to provide childcare, using them to care for a child under five, or to pick up their children after school (Department for Education, 2014a; Welsh Assembly Government, 2009). While many families now prefer nursery provision for three and four year olds, parents often want younger children to be cared for in the intimacy of a home environment and use a childminder (Vincent and Ball, 2006). Parents who have long commuter journeys or have atypical work patterns may also choose a childminder over group provision, as childminders can often be more flexible in the hours that they offer.

Despite a continued role for childminders, their numbers have seen steady decline in England since 2000, although this has not happened in Wales, where places and childminder numbers have recently increased¹⁸. In England, childminder numbers fell from 55,281 in 2013 to 47,936 in 2015, a drop of 13.3 per cent, although places did not fall so steeply, indicating more childminders are working with assistants or providing care to school-aged children where different care ratios apply.

There are a number of reasons for this decline, which include changing parental preferences, as nurseries are felt to offer a more stimulating environment (Vincent and Ball, 2006). The age profile of childminders shows a disproportionately large proportion of women in their fifties who are now starting to retire (Simon et al, 2015). Additionally, childminder incomes are low: a median of £8.75 per hour in 2015¹⁹ and they also bear economic risks if places are unfilled. A potential childminder now has to pay for her own training and Ofsted registration in many cases, as well purchase equipment. Low wages, start-up costs and business risks have made other jobs more attractive and childminders have moved to work in nurseries and as classroom assistants in schools.

Some families, however, continue to use childminders and the fall in their numbers is a serious problem. As already noted, childminders they are usually more flexible in the time of day that they offer care and can often meet a parent's request to provide extra hours of care at the beginning or end of the day. The loss of childminder places is one of the reasons that there is such a shortage of childcare for parents with atypical work patterns (Table 12).

The 30 hour extension

Shortages of childminders may also compromise the Government's plans to offer parents additional hours of free early education in 2017 (Table Two). While many parents will want to take their extra free hours in the same setting, it is uncertain whether all providers will be able to accommodate additional parental demands. At present 58 per cent of three and four year olds receive their free early education in public sector provision, most usually in nursery and

¹⁸ CCSIW statistics show a 5.3 per cent increase in childminder places between March 2012 and March 2015.

¹⁹ Annual Survey of Hours and Earnings

Registered childminders: a case of policy neglect

reception classes attached to primary schools. Limited physical space for expansion, a lack of capital funding and the 'baby-boom' – leading to competing demands for 5-11 place growth – may act to prevent schools from expanding their nurseries. Without premises expansion, it is likely that many schools will be unable to offer more than 15 hours of free early education per week, and probably would not want to do so, as this would mean halving the number of children to whom they offer high quality early education places. For example, a school would face a decision to offer 15 hours free early education to 100 three year olds, or 30 hours to 50 three year olds.

Some parents may also want to take some of their extra free hours outside the hours of a 9am – 3pm school day. We are thus likely to see many more parents using a combination of a school nursery and a childminder for their free hours, or a sessional pre-school and a childminder. However, the Family and Childcare Trust is concerned that in some areas there are insufficient childminders to cope with these extra demands. This year's survey asked local authorities in England for their numbers of working childminders which we have mapped against the population of under-fives in each area. It shows that there are big differences between areas in the number of childminders per 1,000 children under five, from four childminders per 1,000 children in Hull to 24 per 1,000 children in Bromley (Figure 17). There are ten local authorities where there are five or fewer childminders per 1,000 children.

Government policy

The importance of providing a range of different types of childcare was recognised in the 1998 and 2004 childcare strategies and in subsequent workforce development plans (Department for Education and Employment, 1998; HM Treasury, 2004). In the past, many local authorities supported childminders through recruitment drives and offered them free training. (Prior to registration childminders have to complete a number of compulsory courses). Other support has included business advice and small grants to cover equipment, insurance and the cost of registration with Ofsted. Many local authorities also ran drop in-groups and 'childminder networks' which offered on-going training, advice and the opportunity to meet other childminders. However, spending cuts since 2010 have meant that fewer and fewer local authorities are running childminder networks or offering grants and subsidised training.

In England, the Government took action in 2014 to increase childminder numbers, through a small-scale childcare business grant scheme and its proposed childminder agencies. It was planned that these bodies would take over childminder registration²⁰ and inspection from Ofsted, and also provide training and other forms of support such as business advice. It was

20 Groups representing parents, including the Family and Childcare Trust, raised safety concerns about changes to the inspection regime – whether childminder agencies would be able to offer an inspection regime that was consistent and comparable with Ofsted.

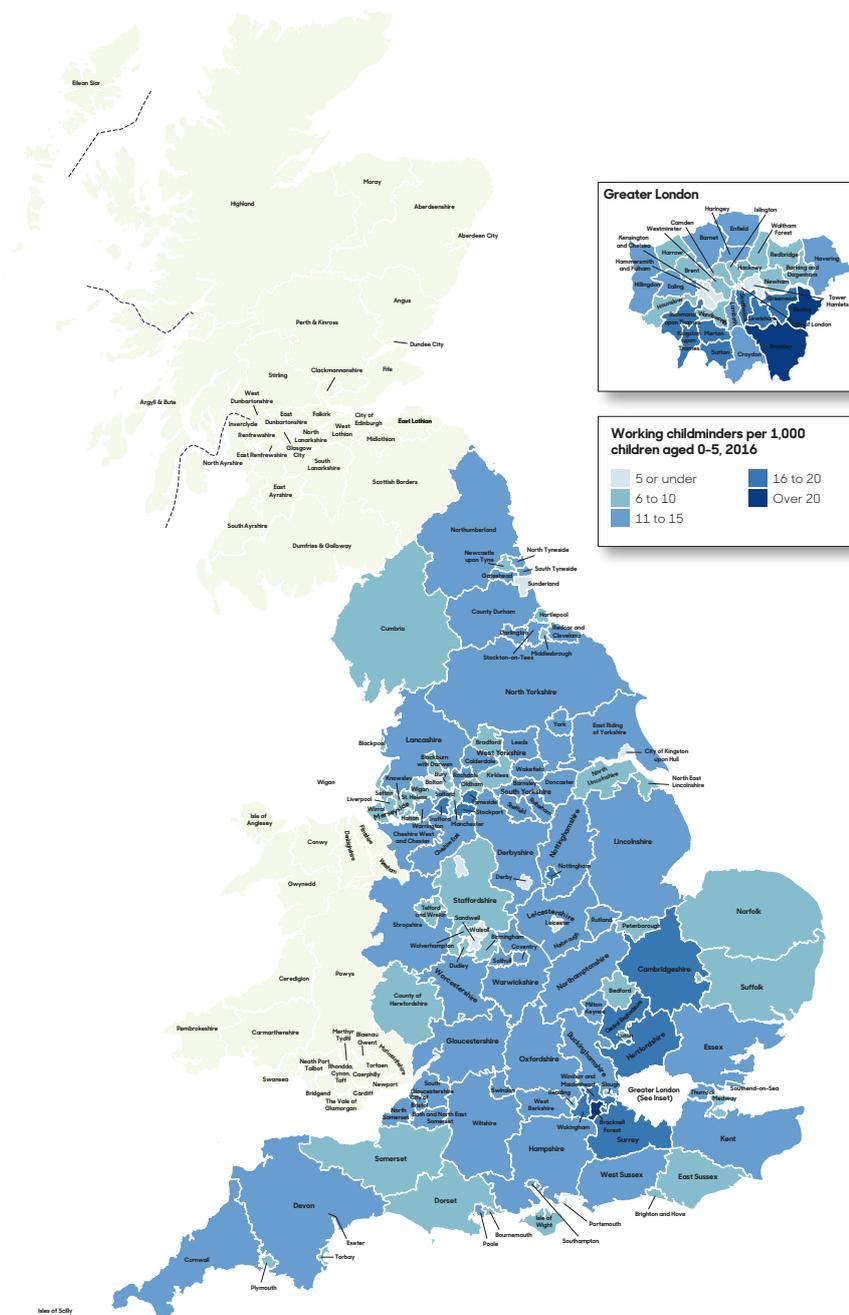
Registered childminders: a case of policy neglect

also proposed that some childminder agencies would offer additional services to parents, for example, out-of-hours home-based care for parents who work shifts.

The childminder agencies, as first proposed in 2014, were not commercially viable and also unpopular with childminders. By mid-2015 none were in operation, despite the £500 childminder business grant only being available to childminders who were registered with an agency. The charity 4Children is now taking forward childminder agencies, incorporating them into their Community Childcare and Early Learning Hubs pilots. Initial findings show some interesting and positive results, for example, groups of childminders working with a nursery to offer parents flexible out-of-hours care. However, these small-scale pilots alone will not be enough to arrest the decline in childminder numbers in England. The Family and Childcare Trust is calling on central government to reconsider how it supports childminders, funding local authorities to run networks, provide business advice and start-up grants. It is only local authorities that have the national reach and staff skills to recruit new childminders and support the existing profession. Without such action, the 2017 extension to free early education may not work for those families who will need to use two providers for their free hours.

Registered childminders: a case of policy neglect

Figure 17: Childminder numbers per 1,000 children under five, 2016



| Local authorities where there are five or fewer childminders per 1,000 children | | |
|---|------------------------|---------------|
| Bolton | Kensington and Chelsea | Tower Hamlets |
| City of London | Portsmouth | Walsall |
| Hammersmith and Fulham | Sandwell | |
| Hull | Stoke-on-Trent | |

9. The state of childcare in 2016 and its impact on families and society

This year's survey has again highlighted the high price of childcare and widening gaps in provision, including free early education places. While price increases have slowed compared with last year, childcare is still a significant item of family expenditure. A family with one child under two in part-time childcare and one child at an after-school club can now expect to pay £7,933 per year for childcare, over 28 per cent of median household income in the UK²¹ and 25.8 per cent of the gross median annual earnings of a primary school teacher²².

The impacts of high prices and gaps in childcare provision are felt by both by individual families, but also wider society. If parents do not return to work after having children, their skills are lost and families may depend on benefits rather than contributing to the economy as tax payers.



21 ONS data: median equivalised disposable household income for non-retired households in the UK = £28,092 in 2014-15.

22 ONS Annual Survey of Hours and Earnings

The state of childcare in 2016 and its impact on families and society

Work strategies

The high cost of childcare can force parents into making difficult choices about work. For some parents the price of childcare is so expensive, it simply does not pay to work. This has short-term and long-term impacts on family life: household income is reduced if a parent leaves the labour market after having children and a family may move into poverty. Over a longer period of time there is a 'motherhood penalty' associated with interrupted employment. This wage disadvantage is proportionally higher for better qualified women, but Stewart (2013) suggests that even for women who had GCSE level qualifications or below (Level Two or below) and allowing for other factors, these women's average hourly wages were 14 per cent lower if they had moved in and out of work after having children than if they had a stable career trajectory.

Part-time employment is another strategy that parents – disproportionately mothers – adopt to keep down their childcare costs. But in many organisations part-time jobs are often of a lower status than full-time employment and are less likely to lead to promotion (Timewise Foundation, 2013).

Family life

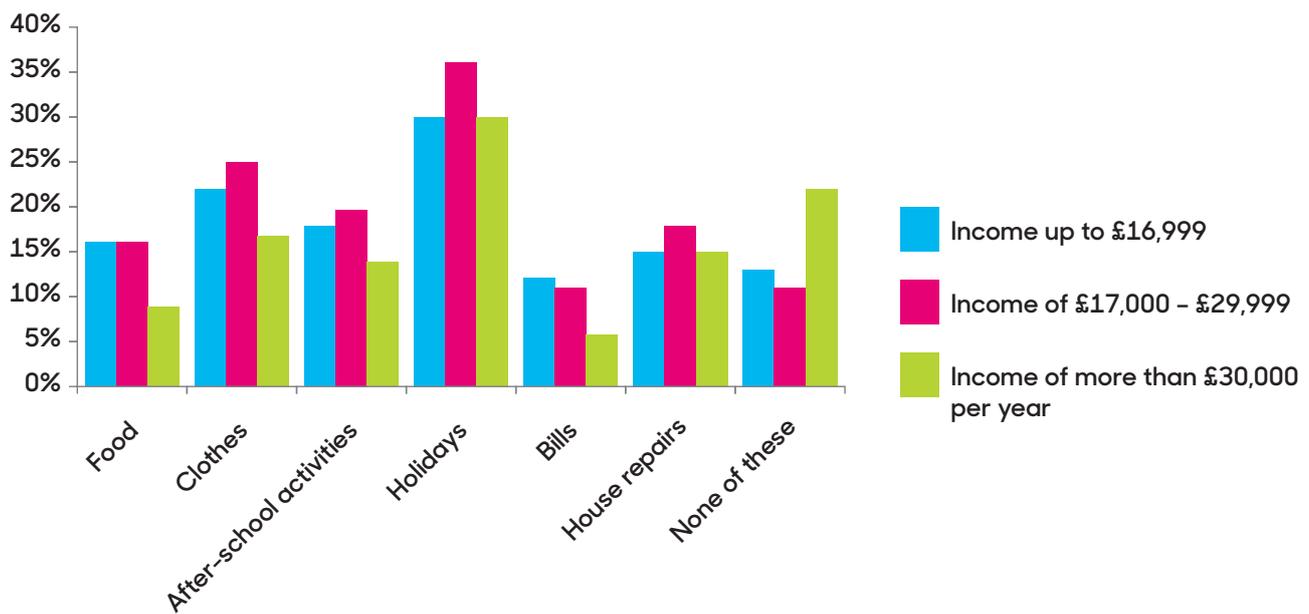
As well as impacting on job choices, the price and availability of childcare has a broader impact on family life. Where childcare is too expensive or not available, school children may be unsupervised after school and in the holidays.

If parents do work and pay for childcare, its high cost can impact on family life. A survey undertaken by Save the Children in 2011 showed that a third (31 per cent) of low income working parents had got into debt in order to pay for childcare, either not paying other bills or borrowing money, including from pay day lenders (Save the Children, 2011). Surveys also highlight other budgeting strategies used by families where their childcare costs are high (Figure 18). These include cutting back food expenditure, day trips and holidays.

There are times when we really struggle. As soon as Chloe started nursery, it has been financially hellish. We always used to go to ASDA and do a weekly shop. Now we shop around, we go to three or four different shops so we'll get the best deals, because we need to watch what we are spending. Now we don't go out, we just sit in the house and watch TV and stuff like that. Most of the time it doesn't bother us, but there are times when like it's a nice day and you want to get out, but you know you've got no money to go, there's no point. It does affect us in this way. (Parent cited in Rutter et al, 2014)

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Figure 18: Items families have cut back on to afford childcare



N=4,000

Source: Save the Children polling, 2014 cited in Rutter et al, 2015.

While outings and holidays might seem a luxury, relationships can suffer if families cut back on them and do not spend quality time together. 'Shift-parenting' is another strategy used in some families to reduce the cost of childcare, with parents sharing childcare between them, but rarely spending time together as a couple. This, too, can impact relationships and the quality of family life.

Wider economic and social impacts

There are also wider impacts if childcare is too costly or simply not available. Families where mothers stop work after having children are more likely to rely on benefits, rather than contribute to the economy as tax payers. Parents' skills are lost and employers may face recruitment difficulties. This scenario is now facing London, where the price of a nursery is 35.9 per cent above the average for Britain.

The female employment rate in London was 65.6 per cent of the working age population in late 2015²³, compared with an overall UK figure of 69.1 per cent, with only Northern Ireland having a lower rate of female employment. London has the highest proportion of working age adults (30.4 per cent of the economically inactive population) who are economically inactive

23 Labour Force Survey, September 2015–November 2015.

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because they are looking after their family and home²⁴. The high cost of childcare is one reason for this condition, as it means that work does not pay in London. This factor has major social consequences, leading to staff shortages in many parts of the capital. The Royal College of Nursing reported over 10,000 unfilled nursing posts in London in 2015²⁵, with organisations representing other public sector professions also highlighting high levels of unfilled vacancies in the capital. Recruitment difficulties impact on almost everyone, both economically and socially.

If parental employment increased, there would be major benefits to the economy. Reed and Portes (2014) estimate that if parental employment in the UK rises to the level of the highest OECD performers, £37 billion could be saved through higher tax revenues and lower benefit payments. Thompson and Ben-Galim (2014) calculated that even a one per cent increase in maternal employment would result in a net gain to the exchequer of £200 million a year. This is a powerful argument for investing in childcare.

A primary school teacher spends



to cover the current price of a part-time nursery place for a child under two and an after-school club for a five year old, totaling £7,933 a year.

24 ibid

25 <https://www.rcn.org.uk/news-and-events/news/london-safe-staffing-review-of-2015>

10. Fixing the childcare system

This year's survey again shows persistent problems with childcare provision in the UK. It is expensive and sources of financial assistance do not help families move out of poverty. There are also gaps in provision and too many children are missing out on the free early education places. Unless these problems are addressed now, they will limit the effectiveness of Government support and the ability of families to move into work and out of poverty.

It is essential that governments in all parts of the UK prioritise action to fill these gaps. Our long-term recommendation is that there are admissions codes governing the fair allocation of early education places. The Family and Childcare Trust also wants early education to become a legal entitlement for parents in all parts of the UK, bringing it in line with a right to a school place. There needs to be better guidance for local authorities on assessing childcare sufficiency and on effective childcare market management, including clarifying where it is appropriate to expand the public sector where the market fails to address gaps in provision. Additional public funding may be needed to fill these gaps – both capital and revenue funding – but there will be a return on investment parental employment increases.

There may be merits in merging Universal Credit support with the Tax Free Childcare system to eliminate such cliff edges and create a single, simple and progressive system.

In any case, it is essential that the Government takes action to remedy the shortcomings of Working Tax Credit, Universal Credit and Tax Free Childcare. These include upfront costs, the overall cap on support and the second earner penalties that act as a disincentive to working extra hours. There is also a large cliff-edge between the tax credit system and Tax Free Childcare. This affects families on modest incomes in the £30,000 – £40,000 income bracket who may face sudden drops in their help as they move from tax credit support to Tax Free Childcare. This cliff edge also discourages parents from taking on extra hours of work or seeking promotion.

Drawing from the findings of this year's survey, we have six immediate recommendations. We call on the Government to:

- ▶ Make an early education place a legal entitlement for children, bringing it in line with a school place.
- ▶ Strengthen parents' rights by bringing in a fair and transparent admissions code of practice for childcare provision.
- ▶ Integrate all the financial support into one simple, transparent and progressive system for parents that delivers help to those who need it most.
- ▶ Require every local authority to develop a funded childcare inclusion plan to address gaps in access to care for children with special education needs and disabilities.
- ▶ Help providers expand to fill gaps by offering grants for start-up costs and publish guidance on market management for local authorities.
- ▶ Make sure childminders are able to offer free early education provision by providing small grants to help with compulsory training costs, insurance and equipment.

Fixing the childcare system

But these measures alone will not fix a system that is not working for families, providers and employers. It needs radical reform and in the long-term we want to see a comprehensive review of childcare. This should aim to create a simple system that encourages quality, promotes child development, supports working parents and delivers for employers and the economy.

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