

Follow-up inquiry into childcare and parental employment by the Equality and Social Justice Committee

February 2024

About the Women's Equality Network (WEN) Wales: Our vision is of a Wales free from gender discrimination where all have equal authority and opportunity to shape society and their own lives. We work with our vibrant coalition of organisational and individual members to transform society. Our work sits under three pillars. We will Connect, Campaign and Champion women so our vision is realised.

Introduction

Despite recent investments, childcare remains a major barrier for women seeking to enter and advance in employment, which drives long-term labour-market and income inequalities. Due to rising costs of childcare and limitations of government-funded provisions, childcare remains out of reach for many families on the lowest incomes, including single parents. To effectively deliver on its objectives, the childcare system in Wales requires substantial reforms that can only be achieved through ongoing political commitment and significant investment, however there are some measures that could potentially improve outcomes within the current constraints on finance and resources.

Key messages

- The expansion of childcare under Flying Start is unlikely to significantly impact parental employment unless the entitlement is increased to at least 30 hours.
- Almost half of parents who are already eligible for the 30 hours entitlement under the Childcare Offer do not access it, the lowest rate in Great Britain. Barriers in the way the Offer is designed and operating need to be addressed as a matter of urgency.
- Gaps in provision have persisted and, in some cases, increased. Given the scope of the challenges facing the childcare and early years sector, it is unlikely that these gaps can be filled with the amount of funding currently provided.
- Workforce and sustainability challenges in the sector have increased despite the uplift in the hourly rate for the Childcare Offer. There is a risk that this drives up prices for parents and puts childcare even further out of reach for those who are least able to afford it.

Detailed response

1. Progress on recommendations made in the 2022 report

High-quality, affordable childcare is integral to supporting parental employment, child development and to addressing poverty. The Committee's 2022 report [Minding the future: the childcare barrier facing working parents](#) identified key areas for improvements to the then existing childcare system in Wales, most notably the expansion of funded childcare to children under three, the need to fill of gaps in provisions, and measures to ensure the sustainability of the childcare sector.

1.1. Expansion of funded childcare

The Report recommended that the Welsh Government sets out plan to address the childcare gap between the end of maternity leave and the start of Childcare Offer eligibility. The Childcare Offer for three- and four-year-olds has been extended to parents in education and

training. However, the wider expansion of childcare to children of lower ages has been progressed via a [phased roll-out of the childcare element of Flying Start](#), with the final stage commencing in April 2025. There are some advantages to the Flying Start model, including the fact that it has no employment requirement or lower income threshold, meaning that families on the lowest incomes are eligible. But these benefits are offset by significant downsides, most notably the fact that funded hours are limited to 12.5 hours per week, split over 2.5 hours per day, compared to the 30 hours that comprise the Childcare Offer and can be delivered more flexibly.

- 1.2. Research shows that funded childcare in the region of 15 hours or less is largely ineffective in addressing parental employment, whereas expanding entitlements to 30 hours leads to significant increases in labour force participation and employment of mothers whose youngest child is eligible.¹ This is confirmed by a recent survey by [Oxfam Cymru](#), according to which almost 90% of parents in Wales agree that the Flying Start entitlement of 2.5 hours per day is not enough, as well as by surveys undertaken as part of Local Authorities' [Childcare Sufficiency Assessments](#), which suggest that those who can to access Flying Start do not feel that it offers enough hours to enable them to work. Studies further suggests that funded childcare has the greatest impact on employment for low-income parents for whom childcare affordability is the main barrier to work, such as low-income mothers and single mothers.²

1.3. Filling gaps in provision

The Committee further recommended that the Welsh Government should set out how it plans to fill gaps in provision, including for parents working atypical hours and for disabled children. The Welsh Government response acknowledges that these gaps exist, and that Local Authorities are expected to address them with the help of £2.2m annual support funding from the Welsh Government. Figures from the [Coram Childcare Survey 2023](#) suggest that this approach is not working. In 2022, no Local Authority was able to provide sufficient childcare across all areas for either disabled children, parents working atypical hours or families in rural areas. Since 2021, the number of Local Authorities who do not have enough childcare for these groups anywhere in their authority has gone up and now stands at around a third of Local Authorities for each of the three demographics.

- 1.4. In comparison with England and Scotland, childcare sufficiency in [Wales is the lowest](#) across a range of demographics and entitlements. For instance, for the 30-hours provision for three- and four-year-olds (and the 1,140 hours per year equivalent in Scotland), the percentage of Local Authorities who reported sufficient provision across their authority was 94% in Scotland, 66% in England and only 37% of in Wales. Given the scope of the challenges facing the childcare and early years sector, we do not expect that persistent gaps in provision can be filled by Local Authorities with the amount of resource currently provided.

1.5. Sustainability of the childcare sector

Cost of living pressures have exacerbated workforce and sustainability challenges in the sector. According to [Care Inspectorate Wales](#), the number of registered childcare and play services continued to fall by 4% between 2022 and 2023. While this is lower than the 8% in the previous year, it continues an alarming trend. The Welsh Government [increased the hourly rate](#) paid under the Childcare Offer from £4.50 to £5 in April 2022, but many providers felt [this was insufficient](#) to keep up with inflation and raises in the National Living Wages.

¹ Institute of Fiscal Studies (2022), *Does more free childcare help parents work more?* <https://ifs.org.uk/publications/does-more-free-childcare-help-parents-work-more>

² Cattan, S. (2016), *Can universal preschool increase the labor supply of mothers?*, <https://wol.iza.org/articles/can-universal-preschool-increase-labor-supply-of-mothers>

1.6. The [NDNA](#) estimated a shortfall of £2.60 per hour at the current rate. Funding shortfalls compound recruitment and retention challenges in the sector, including the [underpaying and undervaluation](#) of a predominantly female workforce, and disincentive providers to offer funded schemes. Evidence from England, where providers also face [significant funding shortfalls](#), shows that many rely on cross-subsidising government-funded schemes through [additional charges and higher fees](#) to parents. By driving up childcare prices for those not eligible for government-funded schemes, and [disincentivising providers](#) from operating in disadvantaged areas, this puts childcare even further out of reach for those who are least able to afford it. Funding challenges could also disproportionately impact rural areas, where providers are less likely to benefit from economies of scale.

2. Key changes since the previous inquiry

- 2.1. Since our [last submission in 2021](#), rising costs have increased pressures on both childcare providers (see paragraph above) and on parents. In 2022, Wales saw the [biggest increase in childcare costs \(8%\)](#) of the four nations, while having the some of the lowest median incomes and [highest poverty rates](#). According to research by [Oxfam Cymru](#), in 2023, 43% of parents have not been able to pay other essential costs after paying for childcare, and over two-thirds had to reduce their working hours due to a lack of childcare. The impact is felt most strongly by single parents, of which 86% are women. Between 2020 and 2022, [38% of single-parent households](#) in Wales were in relative income poverty, almost twice as high as the overall poverty rate for the country (21%).
- 2.2. In the Spring Budget 2023, the UK Government [announced plans for a staged expansion](#) of the 30 hours entitlement in England, which is currently available to three and four-year-olds of working parents, to all eligible working parents of children from 9 months by September 2025. The announcement led to significant confusion and frustration among parents in Wales, with a [petition](#) requesting on the same financial support as in England gathering over 10,000 signatures.
- 2.3. The [Welsh Government 2024-25 Draft Budget](#) gives no indication that the [£140 million Barnett consequential](#) that will be received in 2024-25 as a result of increased childcare spending in England will be spend on childcare in Wales. Instead, the Budget includes a 11.2 million reduction to the childcare budget, which follows a 16.1 million reduction in the [update on the 2023-24 Financial Position](#). Both reductions were made due to lower forecast demand for the Childcare Offer.
- 2.4. Uptake levels of the Childcare Offer in Wales are comparatively low. [Data provided by the Welsh Government to the Bevan Foundation](#) suggests that only 55% of eligible parents take up their place. By comparison, uptake rates for 30-hour entitlements for three- and four-year olds were estimated to be over 80% in [England](#) and 97% in [Scotland](#) in 2023. While some of the divergence could be due to differences in estimating and collecting data, the magnitude of the difference remains deeply concerning as it may indicate significant barriers in the way the Childcare Offer is designed and operating in Wales.
- 2.5. Given the evident need for affordable childcare, potential barriers to accessing the Childcare Offer should be identified and addressed as a matter of urgency, with a particular focus on barriers that have been [known for some time](#), such as lack of awareness, complexity of the system and application process, gaps in provision and issues with split settings between the foundation learning element and the childcare element of the Offer.
- 2.6. Under Universal Credit reforms announced in the [Spring Budget 2023](#), lead carers of one- and two-year-olds on Universal Credit in Wales – the vast majority of whom are women – are now subject to sanction-backed conditionality requirements. Due to the differences in England's and Wales 'planned expansions of government-funded childcare, [claimants in Wales](#) may not be entitled to the same level of government-funded childcare to assist with meeting these

requirements as their counterparts in England. This discrepancy will disproportionately impact single mothers in Wales, who may struggle to meet increased conditionality requirements without adequate support, which could result in punitive financial sanctions and depleted incomes.

3. Changes needed to ensure effective deliver of Welsh Government policy objectives

- 3.1. International evidence suggests that the impact of childcare on the Welsh Government's distinct policy objectives – parental employment, gender equality, poverty alleviation and child development – is complex and childcare systems must be carefully designed to meet all objectives and balance potential trade-offs.³ The gold standard should be a system that offers high quality, affordable childcare to all families from the end of maternity leave, which is accessible at the right time and locations to support parents' working lives, and delivered by a workforce that is trained and paid in a way that reflects the responsibility of their role.
- 3.2. While the childcare system in Wales may perform reasonably well in terms of supporting child development (the review of which has been outside the scope of this submission), it does not appear to be designed and operating in a way that effectively supports parental employment or alleviates gender inequality and poverty, including child poverty. The figures outlined above indicate that the childcare system in Wales requires substantial reform that should, as a minimum, include the following:
- Bringing childcare and early education entitlements under the Childcare Offer and Flying Start into a single scheme that provides at least 30 hours per week of high-quality provision to children aged two to four, has no minimum income threshold / employment requirement and can be accessed in one setting;
 - Filling gaps in provision to ensure parents who are entitled to government-funded childcare can access it at times and places needed to support their working lives, with adequate provision for parents working atypical hours, disabled children and families living in rural areas;
 - Providing better wrap-around care for funded childcare provisions and school-aged children;
 - Ensuring quality and sustainability of provisions through better pay and conditions in the childcare and early years sector (such as the implementation of a Real Living Wage as

³ For a selection, see:

Institute of Fiscal Studies (2020), *Does more free childcare help parents work more?*

<https://ifs.org.uk/publications/does-more-free-childcare-help-parents-work-more>

Scottish Poverty and Inequality Research Unit (2022), *Rapid review on the impact of childcare on parental poverty, employment and household costs in low- income families.*

https://www.gcu.ac.uk/_data/assets/pdf_file/0025/143296/Rapid-Review-of-Evidence-on-the-Impact-of-Childcare-on-Parental-Poverty-FINAL-221211.pdf

Havnes, T. & Mogstad, M. (2011), *Money for nothing? Universal childcare and maternal employment,*

<https://www.sciencedirect.com/science/article/abs/pii/S0047272711000880>

Havnes, T. & Mogstad, M. (2011), *No child left behind: subsidized childcare and children's long-run outcomes.*

<https://www.aeaweb.org/articles?id=10.1257/pol.3.2.97>

Lefebvre, P. & Merrigan, P. (2008), *Child-care policy and the labour supply of mothers with young children: A natural experiment from Canada.* <https://www.journals.uchicago.edu/doi/10.1086/587760>

Baker, M., Gruber, J. & Milligan, K. (2008), *Universal childcare, maternal labor supply, and family well-being,* *Journal of Political Economy* 111(4), 709-745.

Cattan, S. (2016), *Can universal preschool increase the labor supply of mothers?,*

<https://wol.iza.org/articles/can-universal-preschool-increase-labor-supply-of-mothers>

done in [Scotland](#)) and a review of rates paid for the delivery of Welsh Government schemes.

- 3.3. Due to the complexity of the matter and the need to balance different policy objectives, we recommend that a roadmap for the delivery of these reforms should be developed through an Independent Expert Advisory Group. The Group should include experts on economics, child development and childcare policy as well as relevant stakeholder groups, including parent representatives, the childcare and early years sector and the children's sector.
- 3.4. There is a risk that constraints on public finances could delay the implementation of these reforms and an understandable appetite for short-term, cost-effective solutions. We would caution that reforms at the scale needed to effectively support parental employment, address gender inequality and poverty and reduce the attainment gap will be impossible to achieve without ongoing political commitment and significant investment. However, there are several short-term measures that may increase the ability of parents to access support that is already available, such as increasing awareness of [tax-free childcare](#) and the [childcare element](#) of Universal Credit, which can [now be accessed upfront](#). Uptake rates for Welsh Government funded schemes could potentially be increased through developing a simplified application system for Flying Start and the Childcare Offer and targeted campaigns for parents who are not already accessing formal childcare.
- 3.5. Increasing the flexibility of part-time entitlements may be another possible short-term measure that could improve the impact of the Flying Start roll-out on parental employment. The childcare element of Flying Start is delivered via a set hours of [2.5 hours per day for 5 days a week](#). Studies based on part-time childcare in England found an increase in the labour force participation once the original 2.5 hours per day policy was changed to a more flexible 15-hours policy that could be used over a minimum of three days per week.⁴
- 3.6. The evidence also suggests that, across a range of policy objectives, providing free childcare tends to have the biggest positive impact on families from lower socio-economic backgrounds.^{5 6 7} In view of tight budgets and rising costs pressures, a staged expansion that initially prioritises 30-hours provision of high-quality childcare to low-income families may be the most cost-effective pathway for expanding childcare entitlements to lower age groups. [Scotland](#) has taken this approach in the expansion of early learning and childcare to two-year-olds and is planning to follow it through further rollouts.

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⁴ Institute of Fiscal Studies (2020), *Does more free childcare help parents work more?*
<https://ifs.org.uk/publications/does-more-free-childcare-help-parents-work-more>

⁵ Cattan, S. (2016), *Can universal preschool increase the labor supply of mothers?*,
<https://wol.iza.org/articles/can-universal-preschool-increase-labor-supply-of-mothers>

⁶ Hermes, H. et al. (2022). *Early child care and labor supply of lower-SES mothers: a randomized controlled trial*. <https://docs.iza.org/dp15814.pdf>

⁷ Scottish Poverty and Inequality Research Unit (2022), *Rapid review on the impact of childcare on parental poverty, employment and household costs in low- income families*.
https://www.gcu.ac.uk/_data/assets/pdf_file/0025/143296/Rapid-Review-of-Evidence-on-the-Impact-of-Childcare-on-Parental-Poverty-FINAL-221211.pdf