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# Review of the Childcare Sector in Wales

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## Executive Summary

The childcare sector plays a key role in the economic and social development of Wales. Childcare enables a large number of parents to work, and these parents go on to collectively generate an estimated £1.2 billion in income<sup>1</sup> per year, supporting economic growth and poverty reduction across Wales.

The childcare sector workforce is generally low paid, but it is a large employer of over 17,000 people. The sector has grown in recent years, and it has the potential to expand further. While many of the providers we surveyed (particularly childminders) stressed there were both obstacles and risks to expansion, sector participants overall felt they would be able to meet increased demand given sufficient time to make the required adjustments (i.e. recruiting new staff, upgrading premises).

The low profit margins under which most providers operate render them vulnerable to abrupt changes to regulation and funding – and hence it is critical that policy changes are designed and implemented carefully so as not to affect the sector's long-term sustainability.

The Childcare Offer for Wales is likely to be the primary driver of change for the childcare sector in the coming years. Currently, all 3-4 years olds are

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<sup>1</sup> The £1.2 billion refers to the total income from employment and self-employment of the lowest-earning parent (including lone parents) in households in Wales using formal childcare. However, it may be the case that some of these parents may still be able to work in the absence of formal childcare.

entitled to a minimum of 10 hours per week of early years education during term time. The Childcare Offer will combine these hours with up to an additional 20 hours of childcare in term time for households where both parents are working a minimum of 16 hours per week. For the 9 weeks of school holidays, 3-4 year olds will receive 30 hours of childcare. A phased roll-out of the Childcare Offer for Wales will commence in September 2017 and is expected to cover the whole of Wales by 2020.

The proposed Childcare Offer for Wales will create a range of opportunities and challenges. Through understanding the childcare sector, the Welsh Government can develop policies which look to facilitate the provision of flexible, affordable and high-quality childcare in a sustainable and cost-effective manner.

### **Childcare providers**

In December 2016, 4,012 childcare providers were registered with Care and Social Services Inspectorate Wales (CSSIW). The majority of childcare providers are childminders (52%). The remaining childcare provision is delivered by sessional day care settings (20%), full day care settings (17%), out of school care settings (10%), open access play provision (1%) and crèches (0.5%)<sup>2</sup>.

The total number of childcare places in Wales increased from 76,000 in 2012 to 84,000 in 2017. Full day care places and after-school care places are most frequently offered and used.

The Alma Economics Childcare Survey<sup>3</sup> estimates that around 65% of childcare settings are private providers, 18% are voluntary (majority of sessional care providers e.g. play groups) and 12% are public (likely to be full day care).

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<sup>2</sup> CSSIW's directory of registered children's day care settings – December 2016.

<sup>3</sup> The figures from the Alma Economics Survey are indicative only and should not be used to make comparisons over time.

## **The childcare workforce**

It is estimated that there are around 17,300 childcare workers in Wales with further expansion expected in coming years<sup>4</sup>. The majority of childcare workers are employed by small businesses or are self-employed (childminders). Around 80 percent of workers are employed on a part-time basis, working fewer than 35 hours per week<sup>5</sup>.

There is evidence to suggest that qualification levels in the childcare workforce have increased over the past decade. In 2016, three quarters of workers held a Level 3 Children's Care, Learning and Development qualification or higher<sup>6</sup>.

The Alma Economics Childcare Survey<sup>7</sup> found that employees in the sector are relatively low-paid, with around half of all workers earning between £7- £8 per hour in 2016-2017. Only 12% of staff earn over £9.00 per hour gross, which suggests that that plans to increase the National Living Wage (NLW) to £9.00 by 2020 are likely to have a major impact on the sector.

## **Value of the sector**

Based on analysis using the Family Resources Survey (2015/16), it is estimated that the total employment and self-employment income per year of households with dependent children aged 0-19 accessing some form of formal childcare was around £3.7 billion in 2015-16. When considering parents of at least one 3-4 year old child, the equivalent figure was just under £1.3 billion.

Arguably, in two-person households the highest earner would be able to work even in the absence of formal childcare, The total employment/ self-

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<sup>4</sup> CSSIW's Self-Assessment of Service Statement 2016.

<sup>5</sup> Alma Economics Childcare Survey 2017 - figures are indicative only and should not be used to make comparisons over time.

<sup>6</sup> Alma Economics Childcare Survey 2017 - figures are indicative only and should not be used to make comparisons over time.

<sup>7</sup> The figures from the Alma Economics Survey are indicative only and should not be used to make comparisons over time.

employment income of the lowest-earning parents/ lone parents of dependent children aged 0-19 in 2015/16 was £1.2 billion, while the total income of lowest-earning parents/ lone parents of at least one 3-4 year old was around £400 million. However, it may be the case that some of these parents may still be able to work in the absence of formal childcare (e.g. via the use of informal childcare).

Around 61,000 parents of dependent children in Wales (approximately 20% of all parents) stated they are prevented from working due to caring for their children – with 9 out of 10 being women<sup>8</sup>.

In terms of direct effects of the childcare sector on the economy, the Alma Economics Childcare Survey estimated the total amount spent on staff costs in 2015-2016 was approximately £125 million.<sup>9</sup> However, as many childminders do not include their personal income in staff costs and we received limited responses from crèches and open access play settings, this is probably an underestimate.

### **Cost of childcare**

In 2015-2016, approximately £190 million was spent on operating costs (including staffing costs, utilities, rent, cleaning, training, catering and equipment) by the childcare sector in Wales<sup>10</sup>. Full day care providers accounted for around two thirds of the total spend.

We estimate that childminders, full day care settings and sessional care settings received approximately £195 million in income in 2015-2016<sup>10</sup>. In 2016-2017, approximately a quarter of the providers surveyed expected to operate at a loss, which is consistent with data from the previous two financial years. Sessional day cares and full day care settings were more likely to report losses.

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<sup>8</sup> Family Resources Survey - 2015/16.

<sup>9</sup> Alma Economics Childcare Survey 2017. This data has been adjusted to be representative of the childcare sector as a whole. Sample size – 164. Figures are indicative only and should not be used to make comparisons over time.

<sup>10</sup> Alma Economics Childcare Survey 2017 - figures are indicative only and should not be used to make comparisons over time.

## **Recommendations**

To better understand the childcare sector and its impact, further research is recommended into the following areas:

- i) the impact of the National Living Wage;
- ii) the cost of regulations and how it may affect the behaviour of childcare providers;
- iii) the number of people prevented from working due to lack of sufficient access to childcare in Wales; and
- iv) specialist staff training requirements to care for children with additional learning needs.

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Views expressed in this report are those of the researcher and not necessarily those of the Welsh Government.

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