

# Family Childcare Promise : The effects of introducing a cap on childcare costs for families with 0-4 year-old children in Wales

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A report by

**PREGNANT  
THEN SCREWED**

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# Forewords

After 9 years of campaigning for childcare reform across the UK, we have seen the issue climb up the political agenda as politicians acknowledge the vital role it plays as infrastructure for families and the economy. Yet, we seem to be stuck in a cycle of inefficient spending on a system that is unaffordable, and in some cases, inaccessible.

We have therefore worked with NEF and Oxfam Cymru to research and present an alternative option - a new model for childcare that will ensure affordability and accessibility, without decreasing quality. We firmly believe that our initial finds show there is a huge opportunity for Wales should the Government look to implement a Family Childcare Promise.

Joeli Brearley, CEO of Pregnant Then Screwed

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Access to high-quality early education and care is something that would benefit all children, their families, and our society and economy as a whole. But for many families, funding support is complicated to navigate and conditional on them meeting certain requirements around the number of hours parents are working. This often leads to low-income families, with children who would stand to benefit the most from early education and care, missing out on accessing the full offer of support.

This proposal for a new, simplified funding model would help to ensure that early education and care is accessible and affordable for all families. It would be fair, transparent, and easy for parents to navigate. It should be accompanied by policies and funding that ensure high-quality provision is available in all areas, with secure and well-paid jobs for staff and clear requirements on providers to operate in the public interest.

Tom Pollard, NEF

# Introduction

Significant improvements have been witnessed in childcare and early education in Wales over the years. But despite these commendable efforts, it remains evident that many families still struggle to access high-quality and affordable childcare.

Providing equitable opportunities for all children and their families is still a pressing concern and there is work to be done to bridge the gap. With the rising cost of living and child poverty, taking bold actions to provide quality childcare has become increasingly important. Even with the current support available, parents face difficulties accessing all that they are entitled to due to a complex mix of income tests, administrative difficulties and a lack of available childcare places.[1]

The evidence suggests that the most disadvantaged families suffer most from the current system. This is especially unfortunate given that these same families are the most likely to reap the greatest economic and social benefits from a more universal and high-quality system of early years education.[2]

There have been discussions over plans to expand the childcare offers in all countries in the UK. In Wales, the Flying Start Programme has sought to directly address issues of poverty, and discussions are focused particularly on whether to expand this funded childcare[3] offer further.[4] Meanwhile the UK Government has expanded funded hours in England, but implementation has been mired in difficulties. Even if these issues are overcome and the expanded offer in England is delivered on schedule, it will still fall far short of what is needed – providing just 30 hours a week of funded childcare for 38 weeks of the year for children aged 9 months to 4 years. This will be generally restricted to families where both parents earn the equivalent of the National Minimum Wage for someone working 16 hours a week. Families on Universal Credit are able to access additional support, but only where both parents are working – with evidence suggesting that, in practice, many families do not take up this offer.[5] Finally, the tax-free childcare

[1] Tom Pollard, Anna Coote, Tom Stephens and Harry Ewart-Biggs (2023), [A fair start for all: a universal basic services approach to early childhood education and care](#). New Economics Foundation, 20th November 2023.

[2] Jeevun Sandher and Tom Stephens (2023), [Investing in universal early years education pays for itself: extending high-quality provision to those on low incomes brings biggest economic benefits](#). New Economics Foundation, 18th July 2023.

[3] Throughout this report we use the term “funded” childcare to refer to the childcare hours parents are entitled to for certain children, paid for from the respective UK or Welsh Governments without parents having to contribute. The UK Government calls this “free childcare”, but we adopt the term funded so as not to imply that this childcare is provided free of cost/unwaged. We use the term “subsidised childcare” to refer to support that parents pay for, usually upfront, but with a subsidy or top-up from the UK or Welsh Government. At the moment this takes the form of tax-free childcare and the Universal Credit childcare support. For a discussion, see Section 2.

[4] Welsh Government (2024), [Phased expansion of Early Years Provision](#), 8th March 2024.

[5] Tom Pollard, Anna Coote, Tom Stephens and Harry Ewart-Biggs (2023), [A fair start for all: a universal basic services approach to early childhood education and care](#). New Economics Foundation, 20th November 2023.

offer provides a top-up to childcare funding over and above any funded childcare funding and covers a larger age range (up to 11 years old). But it is also restricted to parents who meet the same earnings tests as the funded childcare offer and is difficult to access without having the upfront money to pay for the childcare in the first place. [6] This is therefore an opportune moment for Wales to review its support and think carefully about which system would deliver the best assistance to families and children while also supporting a thriving childcare sector.

**This report explores the potential of a totally different childcare offer for families with children aged 0-4: a Family Childcare Promise.** Under this system, childcare costs would be capped at a percentage of family earnings. This offer could be made available on a more universal basis than the current system, without the operation of an earnings-related test. Additional features of the system could also be introduced, such as varying percentage caps depending on family income or other circumstances, accounting for housing costs in the implementation of any cap, or allowing families to spread out their childcare payments over the year at no additional cost to the Welsh Government. Not all of these features are analysed fully in this report, but some potential methods for implementation and next steps for future study are discussed.

The primary data source used for this analysis is the latest (2021-22) version of the Family Resources Survey (FRS), a large UK-wide survey run by the Department for Work and Pensions and used as the basis for many national statistics and economic modelling. Using the FRS, we build a representative sample of families with children aged 0-4 represented in England and Wales.[7] We then compare what families would receive under two systems: the status quo offer using Wales' eligibility system with a Family Childcare Promise. Although the focus of this report is Wales, the dataset in fact has much wider applications and can be used in future research to explore the potential for different childcare systems across every country in the UK.

**We investigate the following:**

- **The impact of a Family Childcare Promise on families at each quintile of the income distribution.** We split the sample of families into quintiles based on their position in the family income distribution, from the poorest 20% to the richest 20%. We then analyse the impact of a Family Childcare Promise in Wales in terms of the percentage of family income spent on childcare under various

[6] Because of this, the UK Government regularly reports large underspends in the current tax-free childcare offer. E.g. see Rachel Lawler (2021), [New data reveals huge tax-free childcare underspend](#), Early Years Alliance, 26th November 2021.

[7] The data associated with this project is deposited with the UK Data Service (Project ID: 257008). In order to carry out this analysis a significant number of new variables into the family ("benefit unit") version of the FRS have been introduced. This includes detailed data on the specific ages of children aged 0-4 in each family; the earnings and hours worked of specific adult family members, which distinguishes between single-sex and opposite-sex couples; Universal Credit, incapacity benefits, Carer's Allowance receipt and full-time education for individual adults in families; the educational qualifications of each adult in the family; and the region/nation of residence of the families.

childcare use scenarios (enhanced-, medium- and highest- take-up of hours of childcare per year). Due to the small size of the Welsh sample of the FRS, we apply the Welsh childcare eligibility and provision rules to the full English and Welsh sample.

- **The costs of the different childcare systems for specific Welsh family types.** To further illustrate the benefits, we look at what various types of families with different circumstances would get under the current Welsh eligibility rules vs. what they could receive under a Family Childcare Promise.
- **Initial estimates of the costs and economic benefits of a new system.** We also make some initial (upper-bound) estimates of the cost of a Family Childcare Promise in Wales, making assumptions about take up of childcare and hours of childcare use. These should be set against the potential economic benefits of the new system. While not covered here, many of these will accrue to the UK and Welsh Governments in the form of higher revenues, helping to pay for any expansion of provision. We suggest these fiscal benefits would be higher for a Family Childcare Promise, in ways that should be considered in future modelling.
- **The scope and administration of the new system.** We also briefly discuss how a Family Childcare Promise could work in practice and what level of provision it could pay for given its assumed costs and economic benefits.


The rest of this report is split into four sections.

First, we set out the details of the two different childcare offers: the status quo offer in Wales and the potential new system.

Secondly, we describe the features of the population affected by these policies – namely all families with children aged 0-4, split into quintiles based on their income, using data from the FRS.

Thirdly, we outline the impact of the Family Childcare Promise on this population.

Finally, we discuss the costs and economic benefits of the new system.



**TWO THIRDS  
OF PARENTS  
SPEND MORE  
ON CHILDCARE  
THAN HOUSING**

**PREGNANT  
THEN SCREWED**

# The status quo vs. a new system

In order to calculate the percentage differences in family childcare spending, we first establish what funded and subsidised childcare support families receive under the Welsh system at present vs. what they would receive under a new Family Childcare Promise. It is useful to see state funding for childcare as taking three potential forms. Various conditions and means tests can be applied to any one of these:

- **Funded childcare**, usually provided through what the UK Government calls “free” childcare hours, which parents can get from participating childcare providers who are willing to offer childcare at the rates set by the Welsh Government. This is the mainstay of the current systems of state childcare funding in both England and Wales, with families given a set number of hours of funded childcare for specific age groups of children. For the purposes of our calculations, this is best seen as free provision **per year**. In practice, much of this provision is only accessed for certain weeks of the year, but it can be equated with a certain level of annualised provision, which parents can spread across the year pending discussion with childcare providers.
- **A childcare subsidy**, most often as a discount/top-up on childcare spending per child. Under the current systems in both England and Wales, this comes primarily in the form of a tax-free childcare top-up to spending, up to a certain maximum, which is provided in addition to any funded childcare they access above. As an alternative offer, working families on Universal Credit are also able to claim back childcare on more generous terms, up to a specific percentage and up to a certain amount of money based on the number of children in the family. It is useful to think of these as a subsidy, because both of these offers are based to some extent on the family having the upfront money needed to pay for at least part of this childcare in the first place. This is a significant issue, which complicates assumptions about how accessible this support is in practice.
- **A guaranteed maximum childcare spend per family**. This alternative system would turn elements of the above two systems on their heads. Rather than accessing funded provision or having to buy provision to get a subsidy, families would have their childcare costs capped at a certain percentage of their income. The state would then fund the remaining costs, likely up to a certain maximum



number of hours a year. Rather than being administered per child as in the current offers, this maximum would apply **per family**.

Below, we go into detail on the specifics of the childcare offers under the status quo system in Wales and the potential new system. In some areas we are forced to make assumptions as to the provision that particular groups of families would receive, due to data constraints. None of these are unique to this report and reflect common issues with modelling such policies in the absence of administrative data. We discuss these and ways to overcome them in future reports in methodological notes at the end, which are referenced throughout this report.

## a) Wales, April 2024 (status quo)

Many of the income and other tests used in the UK Government's childcare system in England also apply to many elements of the system for Welsh families. We make the following assumptions about the provision available in Wales. To ease intelligibility, the hours below are presented in annualised form (weekly hours \* weeks provided for):[8]

- **487.5 hours funded early years education for 2-year-olds living in certain postcode areas (Flying Start).** For some years, Wales has been rolling out the Flying Start scheme for children living in certain postcode areas, with an initial focus on those living in deprived parts of the country. Expanding this is a key focus of discussions of future childcare improvements. The support is rolled out based on postcode areas but it is of course not possible to apply this to different families using the FRS. For the purposes of this report, an assumption is therefore made that the families in the bottom 20% of the income distribution are able to access this offer for their 2-year-old children, providing 12.5 hours of funded early years education a week for 39 weeks of the year.[9] This is deliberately more generous than likely exists in practice; it is likely slightly broader than actual coverage and will not precisely capture the eligible population.
- **487.5 hours funded early years education for all children aged 3-4.** For all children aged 3-4, 12.5 hours of funded early years education is available for 39 weeks of the year.

[8] Based in particular on both discussions with Oxfam Wales and with Lester Coleman, Sam Shorto and Dalia Ben-Galim (2022), [Childcare survey 2022](#), Coram Family and Childcare, p.10. Note also that Wales also has an additional feature of its system which is harder to capture in this analysis. The funded childcare provision in Wales is often split between some hours of early education and a some hours of private childcare. For the purposes of this report we assume that any funded hours provided are accessible for Welsh parents: so for example a child entitled to 10 hours of early education and 20 hours of private childcare would be eligible .  
Gov.uk, [Tax-free childcare](#), accessed 28 January 2024

[9] National Assembly for Wales (2014), [Research note – Flying Start](#), March 2014.

- **Additional 960 hours funded childcare in a private setting for working parents of 3-4 year-olds, and those in full-time education.** This equates to 20 hours of childcare a week for 48 weeks of the year and is in addition to the above two offers. Importantly, this is only available to families under the below conditions:
  - (a) Where both parents (or one, if a single parent family) earn the equivalent of 16 hours a week on the National Minimum Wage for their age group from both employment and self-employment.[10] For the latest Family Resources Survey available (2021-22), this equates to £142.56 a week at £8.91 an hour for someone aged 23 and over. [11] [12] There are other ways a family could be eligible, but the earnings test is the most important criteria.[13] This criteria is in line with the UK Government's eligibility rules in England.
  - (b) And/or where either/both parents are in higher or further education. This is a unique feature of Wales' funded childcare offer. Where either parent doesn't meet this condition, however, they would instead have to meet the above earnings condition to be eligible and vice-versa.
- **A discount, up to £2,000 a year per child, for working parents of children aged 11 and under (tax-free childcare).** Subject to the earnings test above[14] and in addition to the above offers, parents can also get up to £500 every 3 months for each child to help with childcare costs, which is delivered by refunding parents £2 for every £8 they pay into an online childcare account. This is effectively a 25% top-up to parental childcare contributions up to a maximum of £2,000 per year for children who are not disabled.[15] This £2,000 cap has remained the same since 2011-12[16] and so we use the same cap and top-up for the FRS analysis. This support is available for children aged 11 and under, but the focus of this report is families with children aged 0-4. This support is only accessible through individual accounts for each child. The limit cannot be transferred to another child.

[10] Gov.uk, [Check if you're eligible for free childcare if you're working](#), accessed 28 January 2024.

[11] Low Pay Commission (2021), [The National Minimum Wage in 2021](#), 1 April 2021.

[12] A different set of rates applies to those aged under 23, based on their respective National Minimum Wage. However due to limits in the FRS data we use the same criteria for all families, based on the rate for those aged 23 years and over. In practice this will only have a very negligible effect on identifying the eligible population.

[13] For example, adjusted net income must also not be over £100,000 a year for either partner. There are also certain circumstances where someone can get it if they aren't working themselves. For example if the partner is working but they're receiving but Carer's Allowance and various incapacity benefits they could receive the support, but they will have to be starting or re-starting work in the next 31 days. The self-employed who started a business less than 12 months ago will also be able to earn less than the requirement. In practice it is not possible to build an eligible population using a survey like the FRS which captures these more detailed criteria, since we don't know enough about the circumstances of the worker. Overall, it is expected that these will have a very small effect on the size of the eligible population, and due to various conditions associated with many of the requirements they will be difficult to access in practice without a family meeting the earnings requirements of the current offers.

[14] Note that this means that Welsh families who meet the education criteria but do not meet the earnings criteria are not eligible for tax-free childcare, because the latter is based on the UK Government's eligibility rule.

[15] Gov.uk, [Tax-free childcare](#), accessed 28 January 2024.

[16] HM Revenue & Customs (2022), [Tax-free childcare statistics commentary March 2022](#), updated 17 August 2022

- **Claiming back of childcare costs for families in paid work and on Universal Credit.** Families eligible for Universal Credit and who aren't receiving tax-free childcare<sup>[18]</sup> are able to claim back childcare costs where both of them are in paid work (regardless of hours). This covers up to 85% of childcare costs. For the period of the FRS being used in this report (2021-22), it goes up to a maximum of £646.35 a month for one child and £1,108.04 a month for two or more children.<sup>[19]</sup>

As discussed in the introduction, this system is in a state of flux, with talks about expansion in the coming months and years. For the purposes of this report, we do not assume that any planned future expansions have taken place.

## b) Family Childcare Promise (new system)

Under a Family Childcare Promise, the above system would all be rolled up into a single offer in which families are given a guarantee about the amount of money they will have to spend on childcare. The Welsh Government would fund a specific level of provision, likely up to a specific number of hours a year, with families only expected to make a contribution to childcare costs up to this cap. They would therefore know the amount they would have to spend on childcare based on their family income and would be able to predict how this changes based on their earnings.

**This system would have the following key elements:**

- **A universal earnings-based cap on family childcare costs.** This cap would likely have to have the following key features. Based on these features, we suggest this could be administered in a similar way to the current funded childcare offer, although further work would need to be done to explore how this might operate in practice:

[17] Our dataset is not detailed enough to treat each child like they have an individual account; we calculate the maximum based on overall hours required for all children. For the purposes of this particular report we also assume families are able to take full advantage of the tax-free childcare offer, getting the maximum possible discount for their childcare costs. These decisions have the effect of treating the tax-free childcare system more generously than it is in practice. One key reason there is a high level of underspend in the current offer is that families do not always have the upfront income required to take full advantage of the offer, or because they may choose not to access childcare at all because the discount isn't high enough.

[18] See UK Government, [Childcare Choices](#), accessed 29 January 2024.

[19] See Department for Work and Pensions (2022), [Universal Credit claimants eligible for and receiving the childcare element between March 2021 and February 2022](#), updated 29 June 2022. This is assumed to be children aged 0-16. As with the tax-free childcare offer, we assume here that families are able to take full advantage of this offer if they receive Universal Credit and meet the eligibility criteria. This is, again, more generous than the current system is in practice: because parents have to claim back the current offer, they may not always have the upfront funding to pay for the childcare. The UK Government is taking steps to improve this offer for Universal Credit recipients so the upfront costs aren't as high, but at the time of writing there are still concerns about the upfront costs associated with this system.

- **Based on earnings, not income.** To ease administrative burdens, this would likely best be calculated based on family earnings from employment and self-employment, disregarding income from investments, dividends and other sources. This would keep it the same as the current funded childcare offer.
  - **Using family, not household, earnings.** There is an important difference between families (often termed “benefit units”) and households. A household can consist of more than one benefit unit, such as two childless pensioners living alongside a young couple with two children, or an older non-dependent child in a full-time job living with their parents and two young children. Just as the current funded childcare offer is based on **family** (i.e. benefit unit) earnings, so too the cap would only be calculated based on the earnings of people in the benefit unit. This would consist of at most two adults, who need not necessarily be married and any number of children aged 0-4.
  - **Capping costs per family, not per child.** Perhaps most importantly, the new system would set a cap based on **family** earnings and not per child. Once reaching the cap, a family would therefore not face any additional childcare costs regardless of the number of children. Their costs would only increase as their family earnings increase.
  - **With potential deductions to the cap for housing and other costs.** The Welsh Government then may wish to make deductions for housing and other costs to set the cap at a more reasonable rate, but this would add additional complexity to the system, requiring families to report costs that they aren’t currently required to under the existing childcare offer. This would also pose a challenge (though not an insurmountable one) in terms of dividing housing costs between different benefit units. Where these costs are a concern, it may therefore be better to deal with these through other means, such as family supplements to Housing Benefit (or its UC equivalent).
- **A set amount and rate of funded childcare provision.** Once this cap is set, any family childcare spending above this limit would be covered by the Welsh Government. In order to limit costs, the Welsh Government would need to specify both (a) a funding rate per hour for childcare providers and (b) a maximum number of annual hours of provision the state will pay for. Families could still freely choose to access provision that exceeds this hourly rate, or seek provision over this maximum limit. However, just as in the current system, they would have to pay for this themselves, without this spending counting towards their cap.
  - **A taper for upper- and lower- family earnings.** Finally, the cap could be set at a lower percentage for lower-earning families and a higher percentage for higher-

earning families. For example, should the Welsh Government wish to retain enhanced support for working families on Universal Credit, a smaller cap could be applied at this level with families not expected to fund any provision themselves at that rate. The cap could also be designed to taper upwards above a certain level of family income, eventually reaching 100% at the very highest incomes, just as families at the top of the income distribution are not eligible for the current funded childcare offer.

Through the administration of this system there would also be opportunities to reduce the upfront costs associated with purchasing childcare provision. At no additional cost to the Welsh Government, families could be asked to apply for support through the Family Childcare Promise on an annual basis, stating their required hours of care. Their own percentage contribution could then be spread out over 12 months of the year rather than paid upfront, if the parent so desired. This would address some of the issues with the upfront costs associated with the tax-free childcare and Universal Credit offers, while retaining the benefits of the funded childcare offer in terms of low-to-zero upfront costs.

For the purposes of this report, we assume a **5% cap** on the amount of earnings each family would have to pay on childcare. Many variations, means tests and additional features could be added on top of this. We outline some of these in our calculations of Welsh Government costs but there is scope to expand on these in a future report.



# Population and scenarios covered in this report

This report is only focused on a limited number of scenarios, for a subset of the population represented in the survey used, but the model could be developed further in future to explore a wider range of scenarios and vary some assumptions. The focus of this report is families living in England and Wales with children aged 0-4. We split these families into quintiles based on their position in the English and Welsh income distribution, from the poorest 20% of families (Q1) to the richest 20% (Q5). Table 1 provides descriptive statistics of the families in each quintile. In raw (unweighted) numbers, there are 1,100 families (benefit units) living in England and Wales with children aged 0-4 in the FRS. These are representative of approximately 2.7 million families.

As the table shows, there is a sharp social gradient in terms of eligibility of the existing funded and tax-free childcare offers. Just 14.6% of families in the poorest 20% of the population in the FRS sample earn enough to be eligible for funded childcare, compared with 83.4% of the richest 20% of families. The proportion claiming UC and eligible for the existing UC childcare offer is also low. In order to assess the costs and benefits of the different childcare offers, we make a series of assumptions and develop a series of scenarios. We set out these assumptions and decisions below.

## a) Costs of childcare: two scenarios

We start by making some assumptions about the amount that families spend on childcare. These are based on the Coram Family and Childcare Survey, which is an annual survey of local authorities on the real costs and level of childcare provision in the UK. We use the 2022 survey because this aligns most closely with the survey period of the FRS (2021-22).[20] The Coram survey presents costs per week for different levels of provision (usually 25 hours vs. 50 hours), broken down by age group (<2 years, 2 years, 3-4 years and 5-11 years). These are further broken down by region and separated out for both “childminders” vs. “nurseries” for 0-4-year-olds and “after school clubs” vs. “childminders to 6pm” for 5-11 year-olds.

[20] Lester Coleman, Sam Shorto and Dalia Ben-Galim (2022), [Coram Family & Childcare Survey 2022](#). Coram Family & Childcare. Note that costs could alternatively be calculated using the 2021 survey, since this also covers the period of the FRS survey used in this study. We opt not to do this because of the risk that, in light of the Covid-19 pandemic, that survey is unrepresentative of usual childcare costs and usage rates.

Table 2 sets out an estimate of **hourly** costs for nursery provision and after school club provision for each age group. Because the FRS sample is for England and Wales, we apply the English costs to the English subsample and the Welsh costs to the Welsh subsample.[21] The hourly costs for 0-4-year-olds are taken by simply dividing the costs by the stated hours for the relevant scenario (usually 25 hours vs. 50 hours, but less for 3-4 year-olds under a universal/extended entitlement).[22]

As the table shows, the hourly costs from the Coram report are broadly similar regardless of whether the offer is full-time or part-time. To calculate the childcare costs families currently face, we use two different assumptions about the hourly costs of provision. These are given in the highlighted rows of table 2:

- **Scenario A.1: Increased costs (FT rate +50%):** increases costs by 50% of the cost of FT provision. This reflects a more expensive level of childcare costs than is reflected in the Coram report, but will reflect what many families may have to pay in some areas and circumstances.
- **Scenario A.2: Current costs (FT rate +10%):** assumes families access childcare at the flat full-time cost plus a 10% uplift for hidden costs. This is designed to give a reasonable assumption of the current costs of childcare for families at present. [23]

Because the costs presented by Coram are very similar for 2- and 3-4-year-olds, we assume they pay the same amount at the higher of the two rates under these scenarios. Note that the hourly figures are for 2022 so as to align with the FRS sample; they do not reflect what the hourly cost would be today, after accounting for inflation.

## b) Hours of childcare use: three scenarios

Assumptions then need to be made about the hours of childcare that each family decides to use, at the prices shown in table 2. For the Family Childcare Guarantee,

[21] Although the focus of this report is families in Wales, with the Welsh eligibility rules applied to the English and Welsh FRS sample, it is important to apply different costs for the different subgroups of families because otherwise the English subsample will be assumed to spend less on childcare than they do in practice.

[22] To elaborate, for England, the Coram report assumes that to access part-time childcare at 25 hours a week, families get 15 hours funded childcare as part of their universal entitlement, so they only have to pay for 10 hours of childcare. They assume families accessing 50 hours a week will get the 30-hours offer and so will pay for 20 of these hours. They make slightly different assumptions for Scotland and Wales. To calculate hourly costs, we therefore calculate the hourly costs for 3-4 year-olds by dividing Coram's costs by the same number of hours Coram assumes for the relevant group and country.

[23] Notwithstanding this, it should be noted that the costs shown in Coram's reports are different from the UK Government's early years funding allocations ([see here for the 2021-22 allocations](#)). The UK Government allocations pay much higher rates for 2-year-olds, with the Coram report tending to show very similar costs for 2-3-year-olds. This is a well-known issue and appears to reflect a genuine difference in the market rate providers charge to families vs. the rates the Government allocates for funded hours.



these hours will also serve as the maximum amount of childcare the Welsh Government would fund under a guarantee. We make three different assumptions about the amount of childcare that all families in the sample will purchase over the course of the year. Different assumptions are made about what childcare 0-year-olds and 1-4-year-olds will purchase:

- **Scenario B.1: Highest childcare usage; 2,000 hours a year per child aged 1-4.** This would pay for 40 hours of childcare a week for 50 weeks of the year. We assume only a quarter of that (500 hours) is needed for 0-year-olds, so that they receive formal childcare for a total of three months between 9-12 months of age.
- **Scenario B.2: Medium childcare usage; 1,750 hours a year per child aged 1-4.** This would equate to, for example, 35 hours of childcare per week for 50 weeks in a year. This would still be significantly higher than the current offer. Again, we assume a quarter of this for 0-year-olds.
- **Scenario B.3: Enhanced childcare usage; 1,440 hours a year per child aged 1-4.** Despite being a lower use scenario than above, it is more generous than the offer that the UK Government in England plans to implement for all families aged 9 months to 4 years. It would pay for 30 hours of childcare per week for 48 weeks in a year and would mean giving every child aged 0-4 in Wales the same amount of funded hours as the maximum under the Welsh status quo. Again, we assume a quarter of this for 0-year-olds.

Tables 3-4 below show the costs of childcare for each age group under each of these scenarios and under both funding scenarios discussed in section a) above, for England and Wales.

**Table 1.** Descriptive characteristics of the families with children aged 0-4 in England and Wales. Families split into quintiles based on their position in the weighted distribution of family income from all sources. Percentages may not add up to 100% due to rounding

Characteristics		Q1 (0%-20%)	Q2 (20%-40%)	Q3 (40%-60%)	Q4 (60%-80%)	Q5 (80%-100%)
<b>Gross income range (annualized)[24]</b>		<£25,532	£25,532-£38,480	£38,480-£53,352	£53,352-£78,572	>£78,572
<b>Weighted no. families (England &amp; Wales)</b>		645,505	641,284	640,271	639,819	639,977
<b>Family type (%)</b>	Lone parent	58.30%	25%	7.25%	3.17%	0%
	Couple with children	41.70%	74.80%	92.80%	96.80%	100%
<b>Economic status (%)</b>	One or more FT self employed	9.10%	11.40%	15.60%	8.70%	9.50%
	Single/couple all in FT work	4.90%	16.10%	25.50%	38.90%	51.80%
	Couple, one in FT, one PT	1.80%	11.50%	26.80%	34.90%	27.40%
	Couple, one FT one workless	10.90%	31.90%	26.20%	14.00%	10.40%
	No FT, one or more PT	23.20%	15.50%	2.60%	2.10%	1.00%
	All workless (incl. education)	50.10%	13.50%	3.20%	1.50%	0.00%
<b>No. children aged 0-5 (%) [25]</b>	1 child	72.60%	74%	67%	74.60%	69.50%
	2 children	23.90%	23.80%	27%	21.90%	27.70%
	3 children	3.53%	1.59%	5.85%	3.51%	2.75%
	4 children	0%	0.65%	0.18%	0%	0%
<b>Eligible for free childcare hours &amp; Tax-free Childcare (%) (English/UK rules)[26]</b>		14.60%	28%	49.90%	77.40%	82.90%
<b>Eligible for free childcare hours (%) (Welsh rules)[27]</b>		18.30%	33.50%	50.50%	77.80%	83.10%
<b>Claiming UC and eligible for UC childcare offer (England/UK rules) (%) [28]</b>		13.10%	14.20%	9.71%	1.86%	0%

[24] This is income from all sources, including welfare benefits, labour income (employment and self-employment) and investment income. Note income sources in the FRS are generally reported on a weekly basis. To ease intelligibility, we present it here in annualised form (weekly income \* 52). This therefore may not reflect their actual annual income.

[25] Although not presented here, the distribution of individual years of age of the children is similar across each of the five quintiles.

[26] This means all adults in the family earn over £142.56 a week, i.e. the National Minimum Wage for someone aged 23 and over working 16 hours a week in 2021-22. Earnings come from both employee and self-employed income. For a single person household the sole adult in the household would have to earn this.

[27] Same rules as above, but with the families in post-secondary education (specifically universities and further education) in also eligible for support, so long as the other family member (if applicable) also qualifies on the same income/education grounds. Note this doesn't apply to the tax-free childcare offer in Wales, which has the same eligibility rules across the whole UK.

[28] This means at least one person in the family reports receiving Universal Credit, and all adults in the family are doing at least 1 hour of paid work in the week interviewed. We do not test for whether their income and other circumstances push them above UC eligibility, since this varies in complex ways from case-to-case.

**Table 2.** Current hourly costs of childcare in England and Wales and assumed hourly costs under the status quo vs. a more generous funding system. Figures sourced from the Coram Family & Childcare Survey 2022.

		Ages of children (all at nursery rate)		
		<2 years	2 years	3-4 years
England (all regions)	Current PT (25 hours/week)	£5.63[29]	£5.41[21]	£5.41[30]
	Current FT (50 hours/week)	£5.47[31]	£5.31[23]	£5.29[22]
	<b>Scenario A.1: Increased costs (FT cost + 50%)</b>	<b>£8.21</b>	<b>£7.96</b>	
	<b>Scenario A.2: Current costs (FT cost + 10%)</b>	<b>£6.02</b>	<b>£5.84</b>	
Wales	Current PT (25 hours/week)	£5.03[21]	£5.04[21]	£5.60[32]
	Current FT (50 hours/week)	£4.94[23]	£4.94[23]	£4.93[24]
	<b>Scenario A.1: Increased costs (FT cost + 50%)</b>	<b>£7.40</b>	<b>£7.42</b>	
	<b>Scenario A.2: Current costs (FT cost + 10%)</b>	<b>£5.43</b>	<b>£5.44</b>	

**Table 3.** Family childcare spend in **England** under each childcare use and annual cost scenario.

Child ages	Highest use (B.1)			Medium use (B.2)			Low use (B.3)								
	Childcare use	Annual cost (A1)	Annual cost (A2)	Childcare use	Annual cost (A1)	Annual cost (A2)	Childcare use	Annual cost (A.1)	Annual cost (A.2)						
0 years	500 hours @ <2-year-old rate	£4,105	£3,010	437.5 hours @ <2-year-old rate	£3,592	£2,634	360 hours @ <2-year-old rate	£2,956	£2,167						
1 year										£16,420	£12,040	£14,368	£10,535	£11,822	£8,669
2 years															
3 years	2,000 hours @ relevant age rate	£15,920	£11,680	1,750 hours @ relevant age rate	£13,930	£10,220	1,440 hours @ relevant age rate	£11,462	£8,410						
4 years															
<b>Total family costs per child (across 0-4 years)</b>		<b>£68,285</b>	<b>£50,090</b>		<b>£59,749</b>	<b>£43,829</b>		<b>£49,165</b>	<b>£36,065</b>						

[29] See Table 1, p. 11 of the Coram report.

[30] Ibid, table 3, p. 15.

[31] Ibid, table 2, p. 13.

[32] Ibid, table 4, p. 15.

**Table 4.** Family childcare spend in **Wales** under each childcare use and annual cost scenario

Child ages	Highest use (B.1)			Medium use (B.2)			Low use (B.3)			
	Childcare use	Annual cost (A1)	Annual cost (A2)	Childcare use	Annual cost (A1)	Annual cost (A2)	Childcare use	Annual cost (A.1)	Annual cost (A.2)	
0 years	500 hours @ <2-year-old rate	£3,700	£2,715	437.5 hours @ <2-year-old rate	£3,238	£2,376	360 hours @ <2-year-old rate	£2,664	£1,955	
1 year		£14,800	£10,860		£12,950	£9,503		£10,656	£7,819	
2 years										
3 years		2,000 hours @ relevant age rate	£14,840		£10,880	1,750 hours @ relevant age rate		£12,985	£9,520	1,440 hours @ relevant age rate
4 years										
<b>Total family costs per child (across 0-4 years)</b>		<b>£63,020</b>	<b>£46,215</b>		<b>£55,143</b>	<b>£40,438</b>		<b>£45,374</b>	<b>£33,275</b>	



# Family childcare costs: the status quo vs. a Family Childcare Promise

We now calculate the amount each family spends on childcare at current costs (scenario A2), for each childcare use scenario (B1-B3), if every family in the FRS sample were able to access childcare under the Welsh eligibility rules. We then compare this with what their spending would be under a Family Childcare Promise.

Figure 1 sets out the process that we have used to calculate the costs and then calculate how much of these costs will be funded or subsidised by the state. To calculate these, we have had to make some assumptions regarding how families spend money from the Universal Credit offer and the choice they make over whether to opt for Universal Credit or tax-free childcare if they are eligible for both.[33]

## a) Family childcare spending under current English and Welsh systems

We begin by setting out the median percentage of income that parents spend under the status quo scenario in Wales (Figure 2), for each quintile of the income distribution. **The figure shows that the current childcare system in Wales is highly regressive under any use scenario.**

A key reason for this, as the descriptive statistics on Table 1 show, is the conditionality of the current systems: families are only able to access support subject to requirements on earnings (for tax-free childcare and the funded childcare support) or if both family members work (for Universal Credit). Both sets of requirements limit the support that the poorest families can access.

[33] The Universal Credit childcare element adds an additional layer of complexity to the current childcare offers in England and Wales, because uniquely it sets limits on how much can be claimed based on the number of children in the family or 85% of childcare costs (whichever is less). For each family, we calculate the number of children aged 0-16 to work out the minimum. We then assume that any spending on childcare by the family is only spent on the children aged 0-4. So if they have older children, they don't claim back childcare costs for them. This means any maximum spend and maximum percentage only applies for these children. We also assume anyone eligible for the Universal Credit offer takes that instead the tax-free childcare offer, in cases where they are eligible for both. Given the much higher generosity of the Universal Credit offer this is a reasonable assumption, but there may conceivably be some instances, potentially for especially large families, where it does not. In addition, some families may in practice choose not to access the Universal Credit offer, for whatever reason.

As a consequence, even a family that chooses to access a small amount of childcare would have to pay a considerable amount of their income to receive it. This can leave many families in something of a catch-22 scenario: unable to work more hours or secure a higher-paid job due to childcare pressures and unable to obtain childcare support because they fail to meet the earnings tests of the current system.

It should be stressed that compared with the UK Government's offer in England, the Welsh system does have some more progressive features of its childcare offer – in terms of targeted support to the poorest 2-year-olds and slightly relaxed eligibility for funded childcare offers. We have analysed the effect of this in some supplementary analysis and found that this makes the Welsh system slightly more progressive than the English eligibility rules – although this is not dramatic, a small but important group of families lower down the income distribution are able to access funded childcare in Wales when they wouldn't be eligible for this in England.

## **b) Net family savings/costs under a Family Childcare Promise**

By contrast, a Family Childcare Promise would, on average, be considerably more progressive in terms of its impact on family incomes. Figure 3 shows the median family savings in childcare spending under a 5% Family Childcare Promise for all families compared with the Welsh system, under the three different childcare use scenarios. Again, these assume current childcare costs (scenario A2). Obviously, the net savings would be higher for every quintile if childcare costs were assumed to be higher (e.g. if this figure were produced based on scenario A1).

Under the highest childcare use scenario modelled (B1), families in every quintile of the income distribution would, on average, do much better from a Family Childcare Promise than they do under the current Welsh system. The poorest families would save the most from the system, but the benefits would accrue across all levels of the income distribution. As we reduce the childcare used by families, however, the median savings become smaller – such that in the medium and enhanced-use scenarios, the richest 20% (Q5) would make a net loss on average from a Family Childcare Promise.

## C) Impact on certain family types

Table 5 shows the impact of the different systems on 7 different types of Welsh family over a 6-year period. These assume that the family will have the same earnings over this period and that they will have to send any children aged 0-4 through the childcare system at the same time. To ease intelligibility, they are presented here as a percentage of gross rather than net earnings, so the true family contribution to childcare will be even higher in practice.

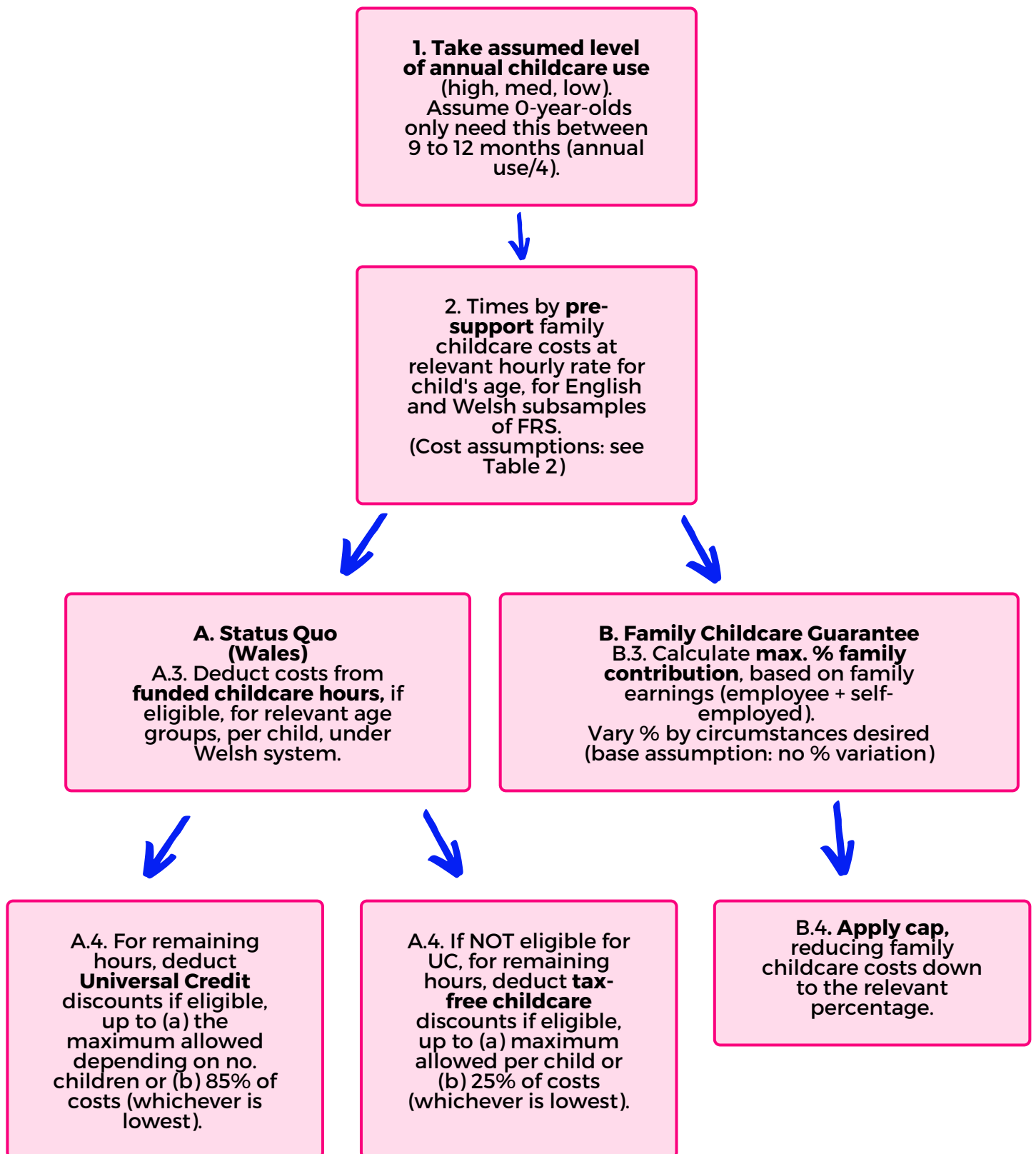
Most of these families would benefit considerably from a Family Childcare Promise. For all families, the guarantee would also have the effect of smoothing out the proportion of gross earnings spent on childcare over the 5-year period.

However, there would be some net losers. As a rough rule of thumb, the smaller and richer the family and the lower the assumed level of childcare use, the more likely there are to be losers. The exception to this general rule is the fourth example: one-child families with a high enough income to access all the childcare offers and a low enough income to access the UC support, may also lose out marginally in a minority of cases.

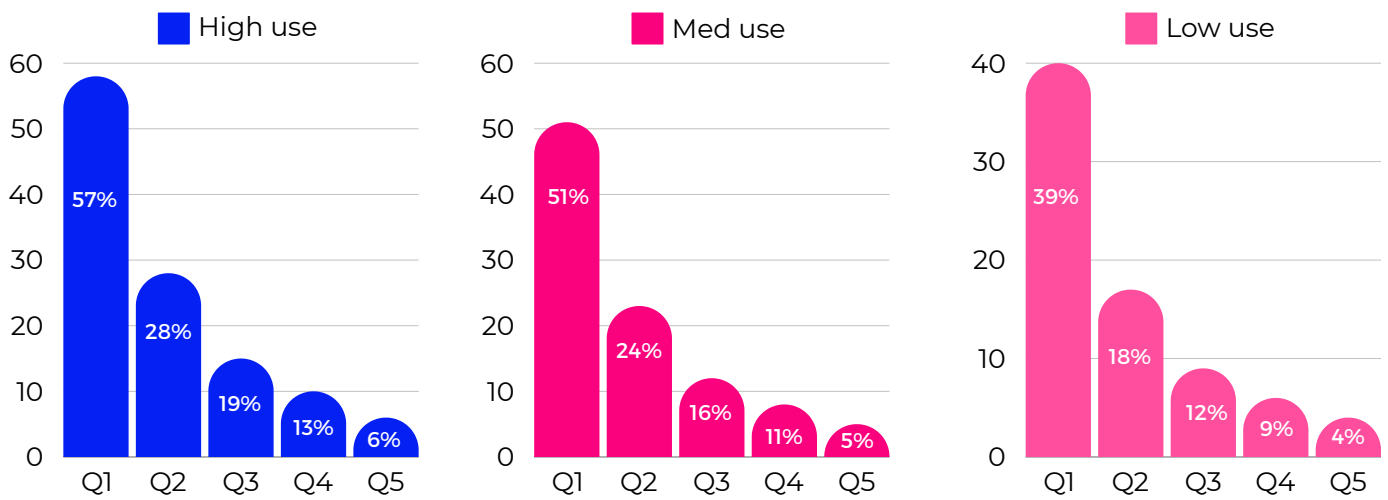
Some net losses should be addressed through policy design, for example by setting a lower cap for UC recipients. As noted earlier, it should also be stressed that to access the full UC or tax-free childcare offers, families often require a large amount of upfront funding. Low-income families may therefore be unlikely to take advantage of the full offer to the extent presented here and may therefore still be better off under a Family Childcare Promise.



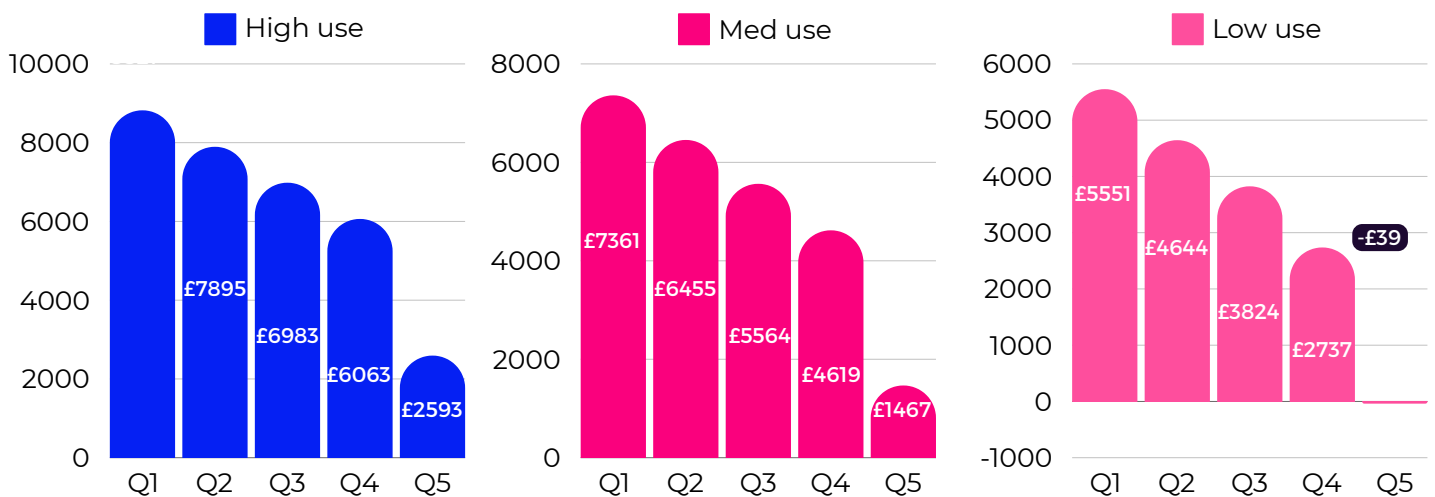
**Figure 1.** Process for calculating family childcare costs under the three different systems using the FRS.



**Figure 2.** Median spending on childcare as a percentage of total family income in each use scenario under the **Welsh** childcare support system at current childcare costs (scenario A2) broken down by quintile of the family income distribution (Q1 = poorest 20%; Q5 = richest 20%).



**Figure 3.** Median family savings under a 5% Family Childcare Promise vs. current Welsh childcare support system, broken down by quintile of the family income distribution (Q1 = poorest 20%; Q5 = richest 20%).



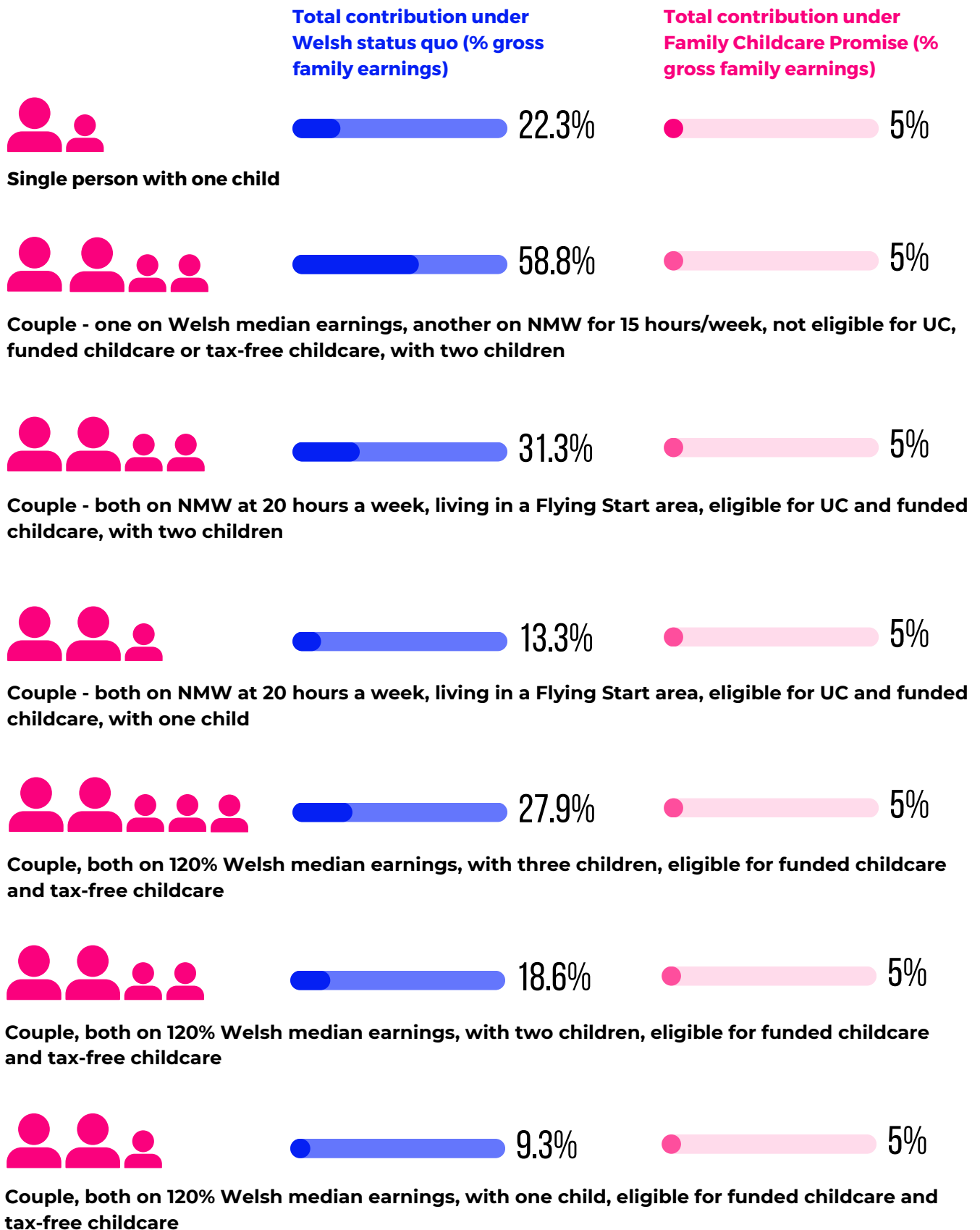
**Table 5. Full childcare costs (all 0-5 years of life) of seven specific types of family - Welsh eligibility rules vs. a Family Childcare Guarantee. Cases where family notionally better off under one system vs. the other colour coded **green**.**

Family description	Gross annual earnings	Childcare costs (A) and annual use (B) scenarios	Contribution under Welsh status quo (% gross family earnings)						Contribution under Family Childcare Guarantee (% gross family earnings)					
			Aged 0	Aged 1	Aged 2	Aged 3	Aged 4	Total[34]	Aged 0	Aged 1	Aged 2	Aged 3	Aged 4	Total[25]
Single person on Welsh median earnings, eligible for funded childcare offer and tax-free childcare, with one child	£31,101.20	B1A1	8.90%	41.20%	41.30%	10.00%	10.00%	22.30%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£31,101.20	B1A2	6.50%	28.50%	28.60%	7.30%	7.30%	15.70%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£31,101.20	B2A1	7.80%	35.20%	35.30%	5.50%	5.50%	17.90%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£31,101.20	B2A2	5.70%	24.10%	24.20%	4.10%	4.10%	12.40%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£31,101.20	B3A1	6.40%	27.80%	27.90%	0.00%	0.00%	12.40%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£31,101.20	B3A2	4.70%	18.90%	18.90%	0.00%	0.00%	8.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Couple - one on Welsh median earnings, another on NMW for 15 hours/week, not eligible for UC, funded childcare or tax-free childcare, with two children	£38,051.00	B1A1	19.40%	77.80%	78.00%	59.30%	59.30%	58.80%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£38,051.00	B1A2	14.30%	57.10%	57.20%	43.50%	43.50%	43.10%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£38,051.00	B2A1	17.00%	68.10%	68.30%	49.50%	49.50%	50.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£38,051.00	B2A2	12.50%	49.90%	50.00%	36.30%	36.30%	37.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£38,051.00	B3A1	14.00%	56.00%	56.20%	37.40%	37.40%	40.20%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£38,051.00	B3A2	10.30%	41.10%	41.20%	27.40%	27.40%	29.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Couple - both on NMW at 20 hours a week, living in a Flying Start area, eligible for UC and funded childcare, with two children	£18,532.80	B1A1	6.00%	88.00%	49.40%	6.60%	6.70%	31.30%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B1A2	4.40%	45.50%	17.00%	4.90%	4.90%	15.30%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B2A1	5.20%	68.00%	29.30%	3.60%	3.70%	22.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B2A2	3.80%	30.80%	11.10%	2.70%	2.70%	10.20%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B3A1	4.30%	43.30%	11.40%	0.00%	0.00%	11.80%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B3A2	3.20%	12.70%	8.40%	0.00%	0.00%	4.80%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Couple - same as above, but with one child	£18,532.80	B1A1	3.00%	38.00%	18.70%	3.30%	3.40%	13.30%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B1A2	2.20%	16.70%	6.70%	2.40%	2.50%	6.10%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B2A1	2.60%	28.00%	8.70%	1.80%	1.90%	8.60%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B2A2	1.90%	9.40%	5.60%	1.30%	1.40%	3.90%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B3A1	2.20%	15.60%	5.70%	0.00%	0.00%	4.70%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B3A2	1.60%	6.30%	4.20%	0.00%	0.00%	2.40%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

[34] For the total figure, the full costs are summed together and then divided by gross annual earnings times five. This assumes families will pay these costs from age 0 until their child reaches its fifth birthday, so five full years. It also assumes gross annual earnings remain the same for the whole period.

Family description	Gross annual earnings	Childcare costs (A) and annual use (B) scenarios	Contribution under Welsh status quo (% gross family earnings)						Contribution under Family Childcare Guarantee (% gross family earnings)					
			Aged 0	Aged 1	Aged 2	Aged 3	Aged 4	Total[34]	Aged 0	Aged 1	Aged 2	Aged 3	Aged 4	Total[25]
Couple - same as above, but with one child	£18,532.80	B1A1	3.00%	38.00%	18.70%	3.30%	3.40%	13.30%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B1A2	2.20%	16.70%	6.70%	2.40%	2.50%	6.10%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B2A1	2.60%	28.00%	8.70%	1.80%	1.90%	8.60%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B2A2	1.90%	9.40%	5.60%	1.30%	1.40%	3.90%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B3A1	2.20%	15.60%	5.70%	0.00%	0.00%	4.70%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£18,532.80	B3A2	1.60%	6.30%	4.20%	0.00%	0.00%	2.40%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Couple, both on 120% Welsh median earnings, with three children, eligible for funded childcare and tax-free childcare	£74,642.88	B1A1	11.20%	51.40%	51.60%	12.50%	12.50%	27.90%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£74,642.88	B1A2	8.20%	35.60%	35.70%	9.20%	9.20%	19.60%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£74,642.88	B2A1	9.80%	44.00%	44.20%	6.90%	6.90%	22.40%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£74,642.88	B2A2	7.20%	30.20%	30.20%	5.10%	5.10%	15.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£74,642.88	B3A1	8.00%	34.80%	34.90%	0.00%	0.00%	15.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£74,642.88	B3A2	5.90%	23.60%	23.60%	0.00%	0.00%	10.60%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Same as above, with two children	£74,642.88	B1A1	7.40%	34.30%	34.40%	8.40%	8.40%	18.60%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£74,642.88	B1A2	5.50%	23.70%	23.80%	6.10%	6.10%	13.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£74,642.88	B2A1	6.50%	29.30%	29.40%	4.60%	4.60%	14.90%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£74,642.88	B2A2	4.80%	20.10%	20.10%	3.40%	3.40%	10.40%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£74,642.88	B3A1	5.40%	23.20%	23.30%	0.00%	0.00%	10.40%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£74,642.88	B3A2	3.90%	15.70%	15.70%	0.00%	0.00%	7.10%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Same as above, with one child	£74,642.88	B1A1	3.70%	17.10%	17.20%	4.20%	4.20%	9.30%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
	£74,642.88	B1A2	2.70%	11.90%	11.90%	3.10%	3.10%	6.50%	3.60%	5.00%	5.00%	5.00%	5.00%	4.70%
	£74,642.88	B2A1	3.30%	14.70%	14.70%	2.30%	2.30%	7.50%	4.30%	5.00%	5.00%	5.00%	5.00%	4.90%
	£74,642.88	B2A2	2.40%	10.10%	10.10%	1.70%	1.70%	5.20%	3.20%	5.00%	5.00%	5.00%	5.00%	4.60%
	£74,642.88	B3A1	2.70%	11.60%	11.60%	0.00%	0.00%	5.20%	3.60%	5.00%	5.00%	5.00%	5.00%	4.70%
	£74,642.88	B3A2	2.00%	7.90%	7.90%	0.00%	0.00%	3.50%	2.60%	5.00%	5.00%	5.00%	5.00%	4.50%

**Figure 4.** Total contribution for childcare costs (0-4) for seven specific types of family - Welsh eligibility rules vs. a Family Childcare Promise. Childcare costs 1 and annual use scenario 1.





# Upper-bound estimates of the cost of a Family Childcare Promise to the Welsh Government

We end by considering the potential costs of delivering a Family Childcare Promise and make suggestions as to how more reasonable cost assumptions could be arrived at in future research. It should be stressed that it is especially challenging to make cost estimates, especially for a policy like the Family Childcare Promise, since it depends on five factors:

- 1. The amount the Welsh Government pays for any childcare.** At present, funded childcare across the UK is funded at higher rates than the prices providers charge to parents using Coram data, meaning that any assumptions about the costs to the Government cannot be based on Coram costs. Indeed, even the current Government rates for childcare in England and Wales are argued to be too low and there is a strong appetite for them to be increased to enable a more sustainable childcare sector and improve the quality of childcare. A further complication is what assumptions are made about the amount of cheaper and less formal childcare, such as childminders, that is used.
- 2. The proportion of families who take up the childcare offer.** Even under a highly generous and well-administered childcare system, some families will choose not to access formal childcare. In Sweden, for example, 85.8% of children went to some form of pre-school in 2022.[35] By contrast, data from the UK Department for Education's 2022 childcare and early years survey reports that 62% of children aged 0-4 used formal childcare and 71% accessed any childcare.[36] [37]
- 3. The hours of childcare families access.** Even among families who access childcare, not all will purchase the full amount of hours. Hours will also likely vary by the characteristics of the family, such as their earnings, education and the availability of informal childcare. This is challenging to estimate.

[35] Einar H. Dyvik (2023), [Share of children who attended preschools in Sweden from 2012 to 2022](#), Statista.

[36] Department for Education (2023), [Childcare and early years survey of parents 2022](#), 27th July 2023.

[37] The Childcare and Early Years Survey also contains data from 2021, but much like with the Coram childcare costs data this is affected by the Covid-19 pandemic and the DfE advice caution in using it. I therefore assume the 2022 rate is more reflective of current childcare use.

**4. For support based on earnings, the earnings of the families accessing the childcare.** Because a Family Childcare Promise sets a cap based on family earnings, costs can only be calculated based on earnings from a representative sample of families in a country. Policies like the funded childcare offer do not have this problem. This is especially challenging to do in countries such as Wales, which are disproportionately under-represented in the FRS. Assumptions about Welsh costs are therefore based on the incomes of a very small number of families. While the FRS advises analysis is possible using such a small sample and weights are applied to ensure it is representative, small differences in reported earnings can make a large difference to assumed costs.

**5. The fiscal benefits of a higher quality and more universal childcare offer.**

Finally, all the above costs should be set against the potential fiscal benefits of a more universal offer. The evidence suggests that more progressive childcare offers may have greater fiscal benefits, since the greatest benefits to childcare accrue to the most disadvantaged children and parents. Additional fiscal benefits also come in the form of the childcare sector, in terms of increased employment. Again, for a progressive policy, these sector benefits disproportionately come to the most disadvantaged regions in the country.[38]

It should also be stressed that there are some unique features of a Family Childcare Promise from a fiscal point of view, which can only be captured in a more dynamic rather than static model of the fiscal benefits. Were a new childcare offer to increase families' hours worked, earnings and employment prospects, this would have the effect of increasing their cap. This, in turn, would reduce the costs of administering the system to the Welsh Government, since families would be expected to contribute more to their childcare as they earn more. By contrast, the core element of the current childcare offer becomes more, not less, costly as families increase their hours and earnings; once a family earns enough to meet the NMW requirement, they become entitled to free hours of childcare. The current system considerably increases Government costs for families once they reach this rate and only reduces costs marginally (in terms of fiscal benefits elsewhere) once they exceed it.

This report only goes part of the way towards addressing these five problems, but the model built has the potential to address them in some future research. We generate some upper-bound estimates of the cost by applying two sets of Welsh Government rates to the Welsh subsample of the FRS. Table 6 below shows the rates:

- **Scenario C.1** – Govt current rates: The Welsh Government's average hourly rates for childcare providers from 2024/25 used in its own cost calculations.[39]

[38] For example, previous NEF analysis has found that if the most deprived regions of the UK accessed the amount of childcare as the least deprived, under even a conservative estimate this could create over 122,000 new childcare jobs – many in regions central to the UK Government's "levelling up" agenda. See Tom Pollard, Anna Coote, Tom Stephens and Harry Ewart-Biggs (2023), [A fair start for all: a universal basic services approach to early childhood education and care](#). New Economics Foundation, 20th November 2023.

[39] Derived from House of Commons Library (2023), Early years funding in England, 7 December 2023.



While an improvement on previous rates, there is concern among providers, parents and campaigners that they do not reflect the real cost of providing childcare.

- **Scenario C.2 - Enhanced rates.** This takes the Welsh Government's current rates and adds a 20% mark-up. It is hoped that this enhanced rate would prevent parents from being charged add-on costs.

**Table 6.** Hourly rates used for the two Government funding scenarios to estimate the costs for Wales.

	Under-2s	2-year-olds	3-4-year-olds
Govt current rates (C1)	£11.06 (assumed would be same as UK Govt rates in England)	£6.32 (based on current Flying Start rate)	£5.00 (fixed at Apr 2022)
Enhanced funding (C2)	£13.27	£7.58	£6.00

To get some upper-bound estimates of costs, we assume that an increase in the generosity of support would lead to an increase in the proportion of families accessing formal childcare, with this increase especially concentrated in families with older children, and a further increase in the hours of childcare use amongst all families accessing formal childcare. These estimates suggest a 5% cap on costs for families would cost in the region **£403 million** per year under scenario C.1 or **£437million** per year under scenario C.2. If a transitional 10% cap were introduced, the cost estimate reduces to **£368 million** under Scenario C.1 and **£375 million** under Scenario C.2.

It is important that further research generates more refined estimates of these costs. These costs are gross – in reality, they would be net of the costs of running the entire current system in Wales (including the Universal Credit and tax-free childcare offers) and net of any fiscal benefits. Perhaps most importantly, they also assume the same proportion of Welsh families as at present access childcare and that they access the full hours of childcare under the enhanced-use scenario. In reality, neither of these assumptions would hold. If a high-quality childcare offer were introduced, the proportion of families taking up the offer would likely increase, but many families would still use far fewer hours than entitled to. The net effect of this would likely be to push the costs down rather than up. Finally, as noted at the start of this section, these upper-bound estimates make no account for dynamic fiscal benefits in terms of future increases in family income. In reality, rises in future family incomes could increase the cap and in turn reduce fiscal costs.

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# Conclusions

The introduction of a Family Childcare Promise (FCP) in Wales presents a transformative opportunity for families and the economy. This report has analysed the potential impacts of implementing a single cap on childcare costs as a percentage of family income, which would replace the current, far more complex and fragmented system of childcare support.

Our findings indicate that under a Family Childcare Promise, families across all income quintiles would experience reduced childcare expenses. The most significant benefits would accrue to the lowest income families. Specifically, under the highest childcare use scenario (2,000 hours per year), families would see a considerable reduction in the percentage of their income spent on childcare. This is particularly noteworthy when compared to the current system, which tends to be regressive, offering less proportional support to lower income families. This change could work towards lifting more families out of poverty, reducing the need for other Government benefits.

The economic implications for Wales under the FCP could be substantial. Initial cost estimates suggest that the total cost to deliver FCP might range from approximately £679 million to £973 million annually, depending on the adoption of current or enhanced government funding rates to providers. These figures represent upper-bound estimates and could decrease with refined future research. Additionally, the FCP could lead to broader economic benefits, including increased workforce participation, particularly among parents who are currently unable to work due to the high cost of childcare. Further work is required to create an assessment of potential future economic benefits under FCP.

Moreover, FCP is a progressive model, enabling parents to work more hours as the cost of childcare is lower, yet as families increase their take home pay through career progression, the financial contribution to the treasury also increases. For parents of twins or triplets, the costs under FCP remain the same.

It is important to acknowledge that the current childcare system in Wales exhibits more progressive characteristics compared to the broader England framework. This includes broader eligibility criteria, particularly the inclusion of families where parents are engaged in higher or further education. This aspect of the Welsh system could serve as a model for a more inclusive approach across the UK. Expanding these progressive elements to other regions would not only ensure greater equity in access to childcare but could also enhance educational and economic opportunities for parents pursuing further education. Therefore, any discussions on national childcare

policies should consider adopting these progressive Welsh elements to foster a more supportive and inclusive environment.

Overall, the implementation of the Family Childcare Promise could lead to a more equitable, predictable and supportive childcare system in Wales, offering substantial social and economic benefits to families and society at large. While further research is encouraged to refine the cost estimates and fully capture the dynamic fiscal benefits of this proposed system, we believe the FCP would not only facilitate better access to quality childcare but could also act as a significant lever for economic growth and reduced child poverty in Wales.

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All errors and omissions are the responsibility of the authors.

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## About Pregnant Then Screwed

Pregnant Then Screwed is the voice of working mothers in the UK. We want a society in which pregnant women and mothers in all their diversity are enabled to fulfil their potential, creating a stronger, happier, better future for us all.

We provide world class advice and support to mothers to help them improve their confidence and wellbeing, to give them the tools they need to challenge discrimination in the workplace, and to find work that works for them. We advocate for change and raise awareness of the specific challenges faced by working mothers. We challenge deeply entrenched stereotypes about the role of mothers in society.

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## About the New Economics Foundation

For more than three decades, the New Economics Foundation's mission has been to transform the economy so it works for people and the planet. We work with people igniting change from below and combine this with rigorous research to fight for change at the top.

