COVID-19 and the challenges facing childcare in England

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Childcare during the lockdown

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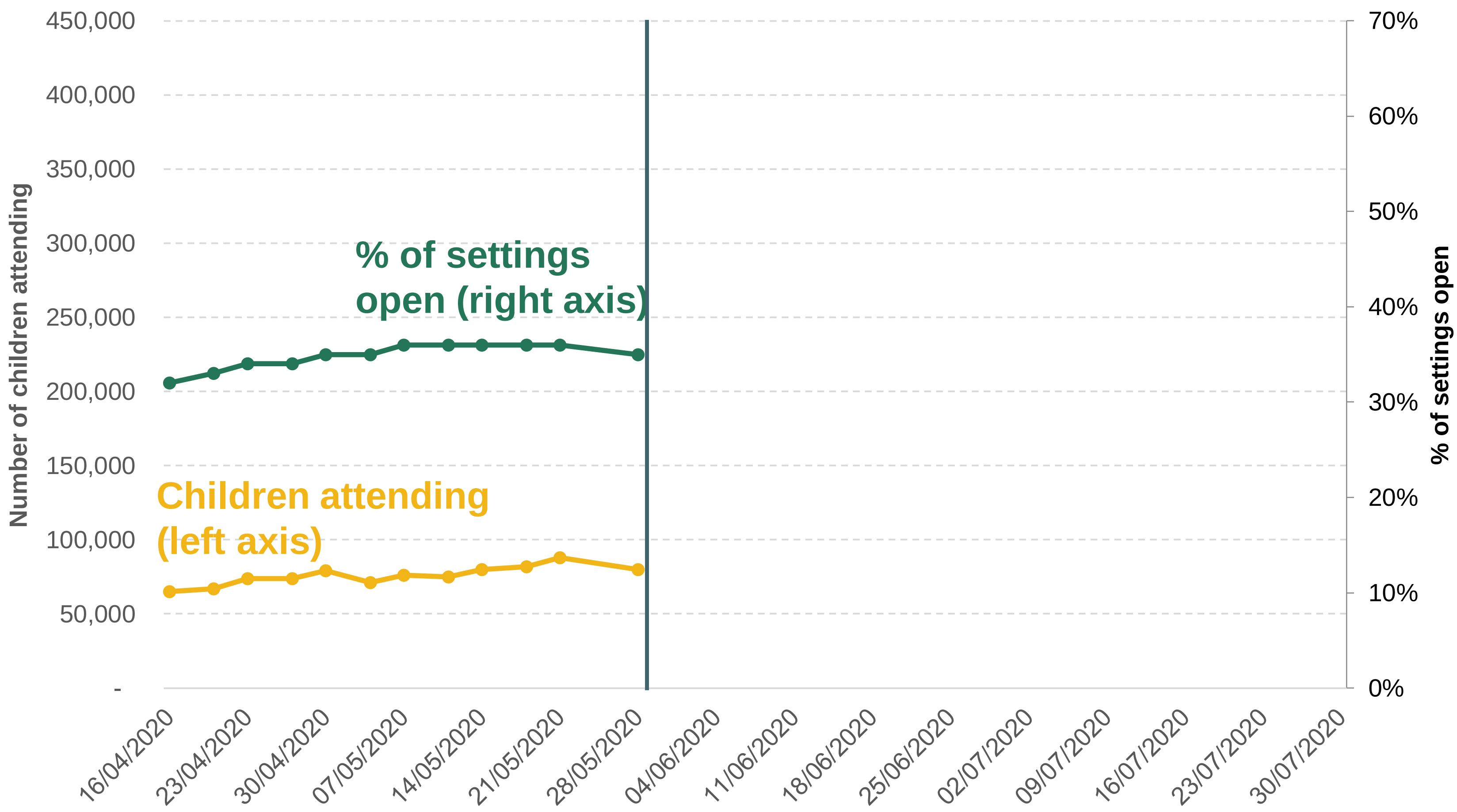
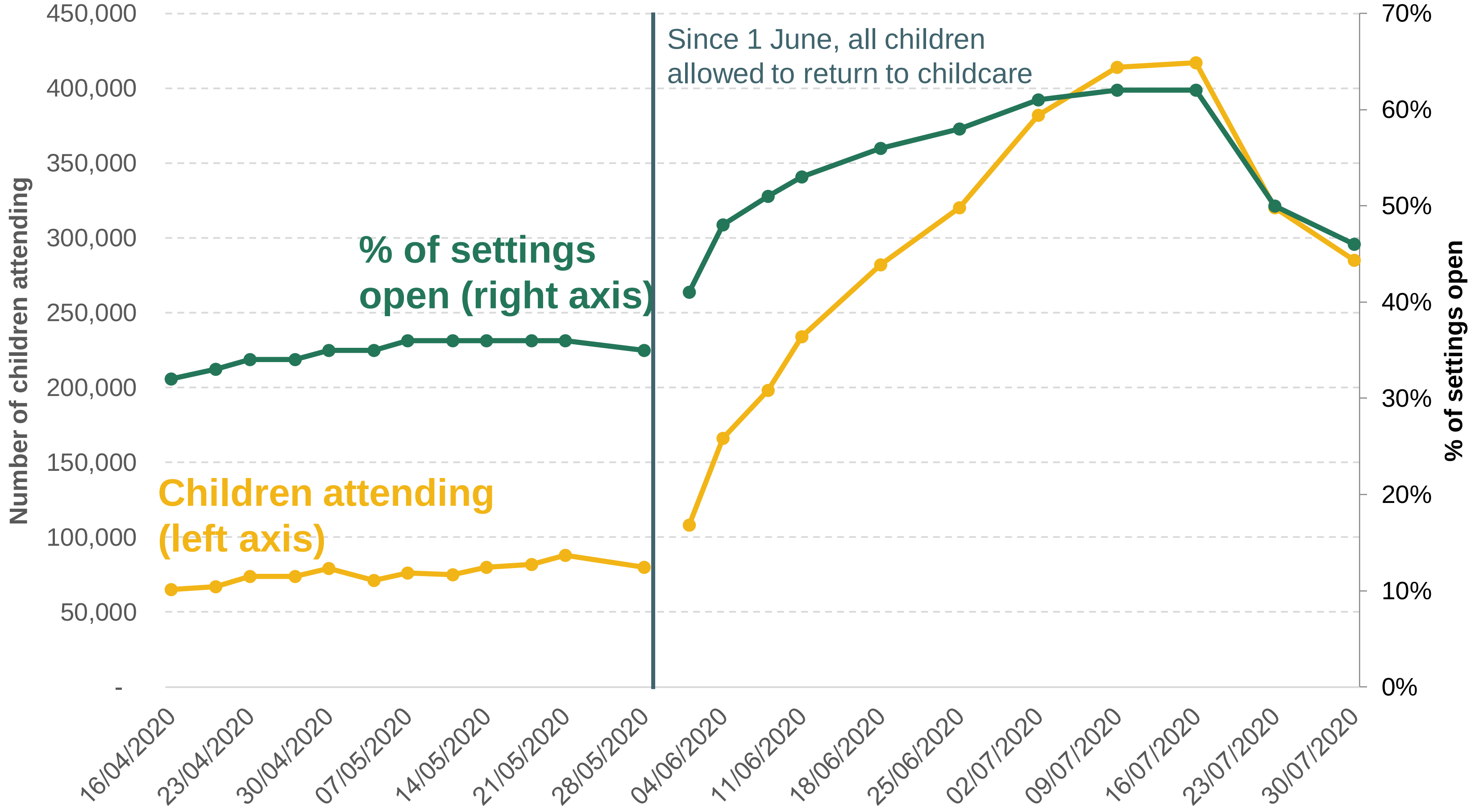
Economic and Social Research Council

Childcare during the lockdown



Source: Department for Education statistics. See Figure 2.1, "Challenges for the childcare market: the implications of COVID-19 for childcare providers in England" for full sources.

Childcare during the lockdown



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Childcare during the lockdown

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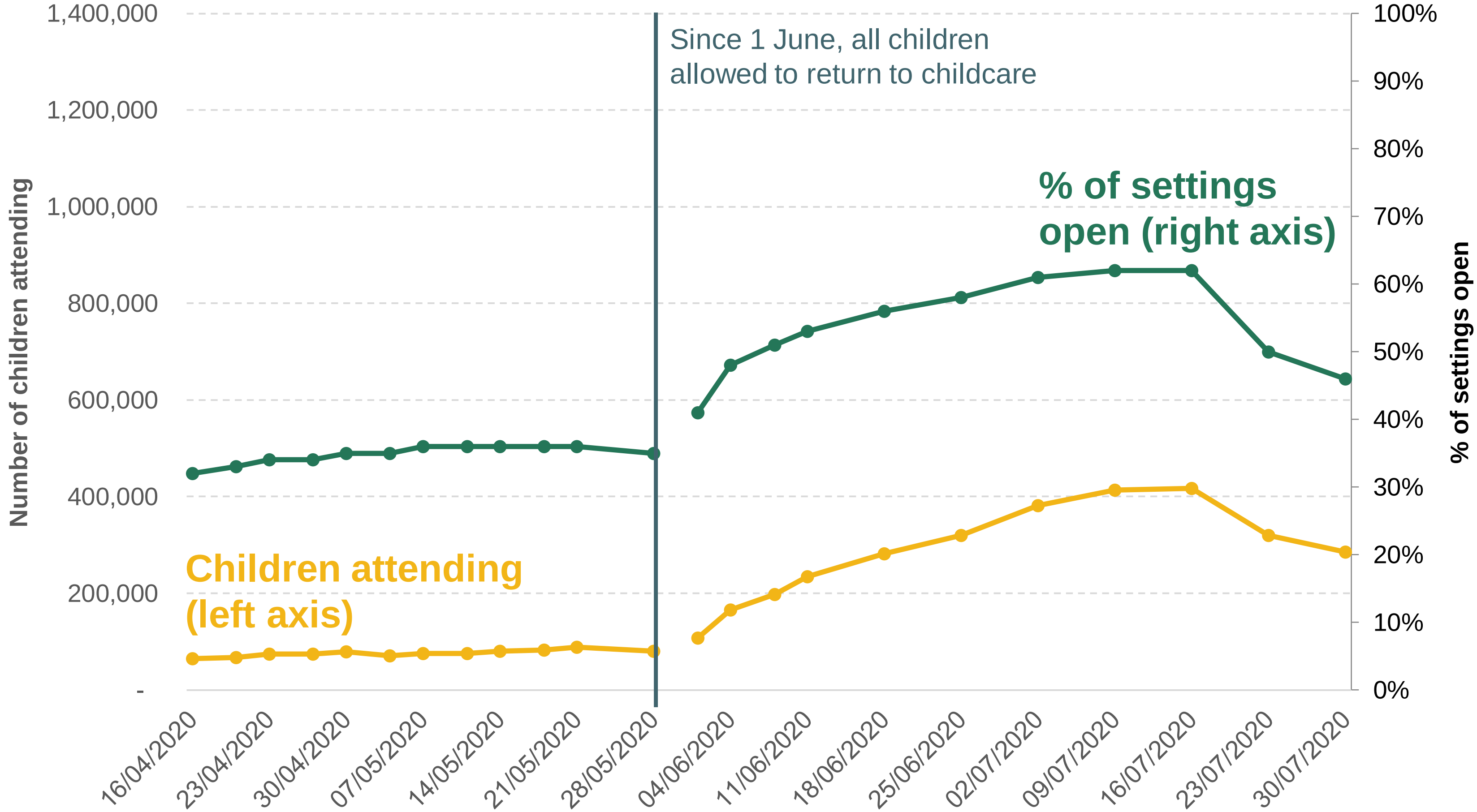

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Government support since March

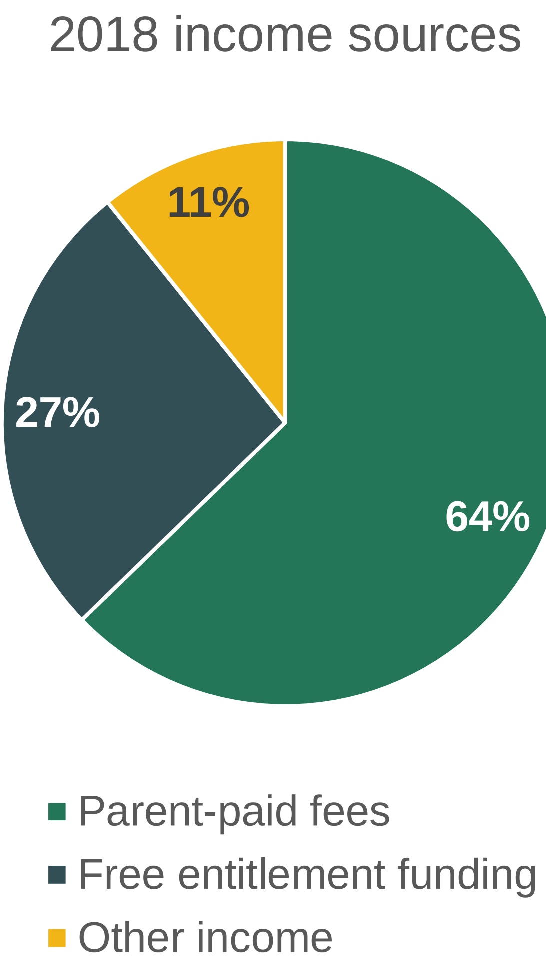
Support depended on the source of income and the type of provider

- **Public funding** (for the free entitlement) continued as normal
- Employers with lost income from parent fees could **furlough** staff
- **Self-employment grants** for childminders with lost income

There were also a number of other sources of support

- Business rates holiday
- Extensions to universal credit
- Small business grants, gov't-backed loans, VAT deferrals, local authority support packages

Government support since March



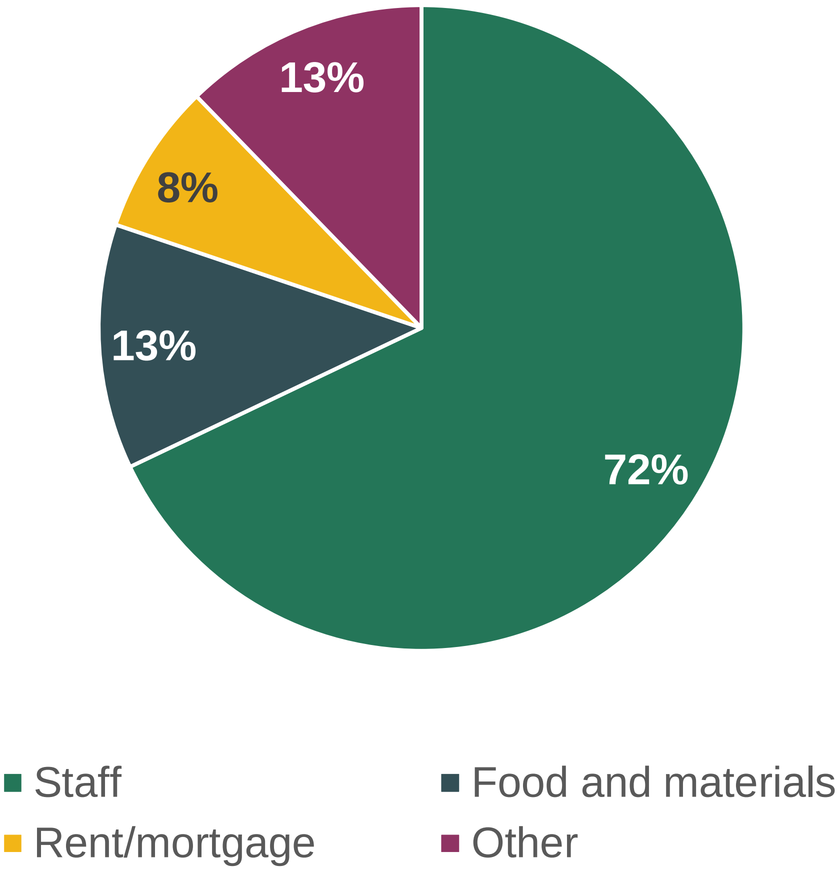
- Income from free entitlement funding protected
- Other income (e.g. LA grants) also mostly protected
- Childminders (mostly) get some extra lockdown income via SEISS
- Income from parent-paid fees at risk during lockdown

Source: Cattoretti, Paull and Marshall (2019); see Figure 3.2, "Challenges for the childcare market: the implications of COVID-19 for childcare providers in England" for full sources.

Government support since March

- For group-based providers, staff costs largely covered via furlough scheme
- Most other costs remained during lockdown

2018 cost breakdown

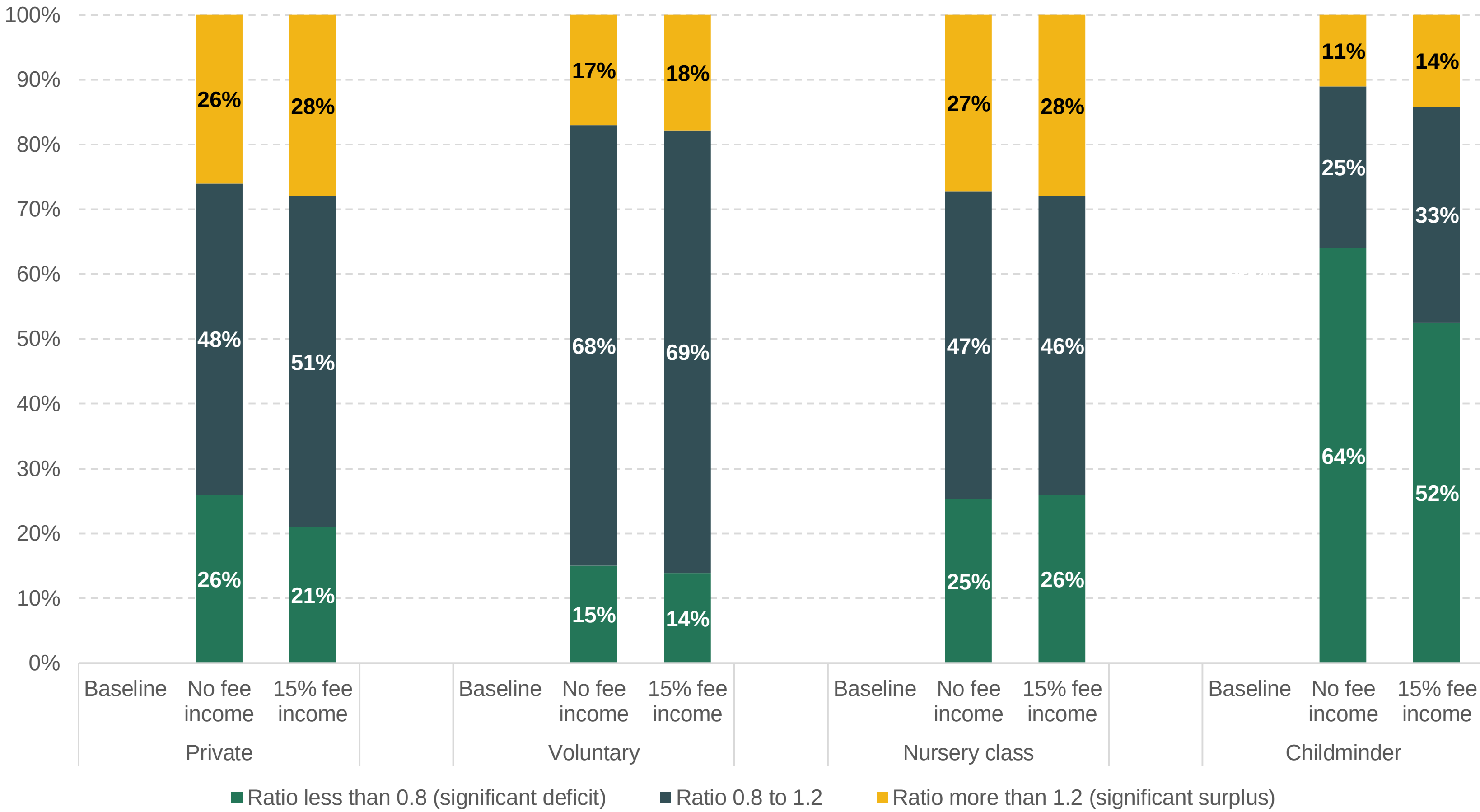


Source: Cattoretti, Paull and Marshall (2019); see Figure 3.3, “Challenges for the childcare market: the implications of COVID-19 for childcare providers in England” for full sources.

Providers' finances during lockdown

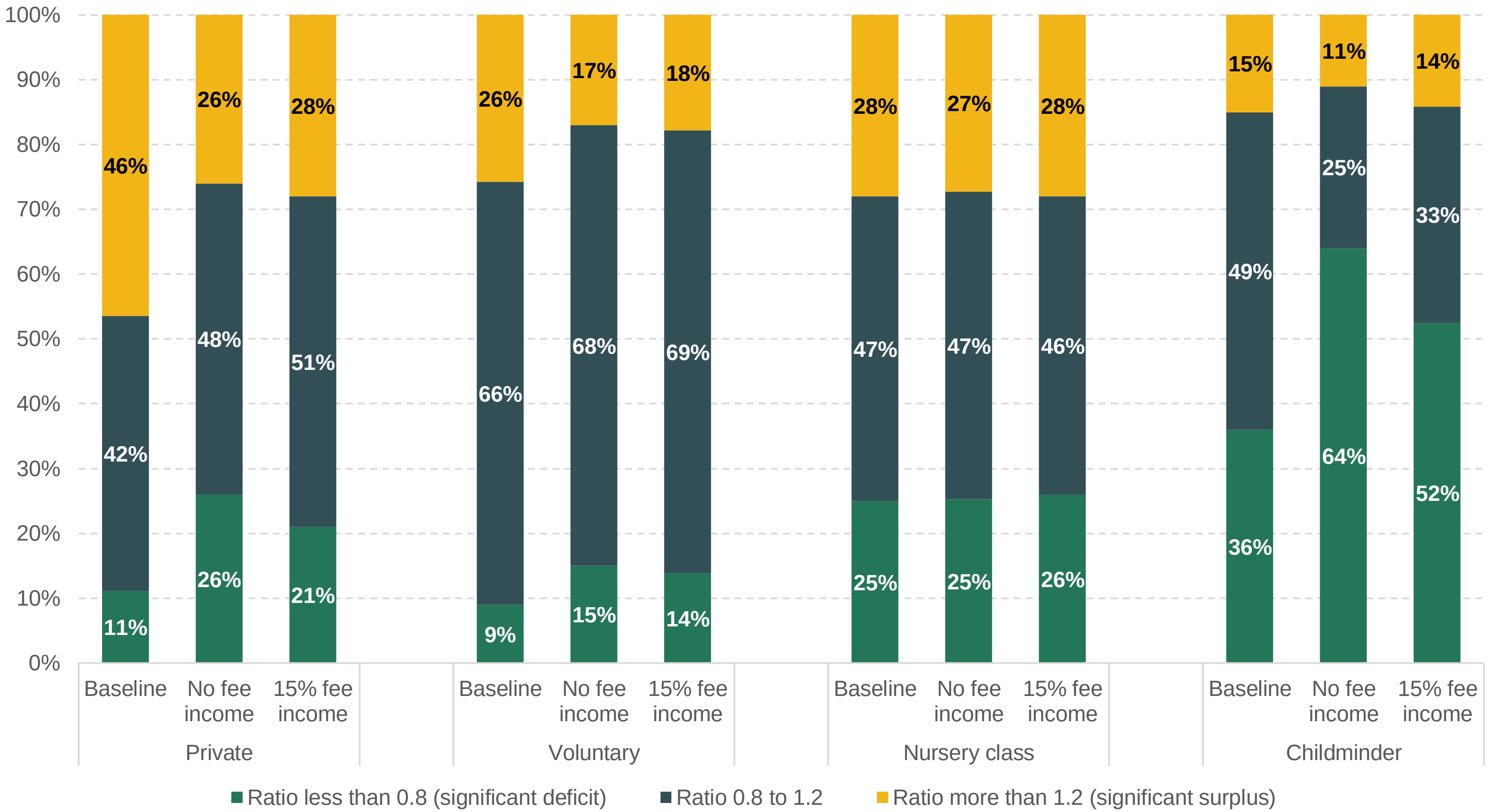
- Detailed information about providers' income and costs from a nationally representative survey in 2018
- We model what providers' finances might have looked like under two lockdown scenarios:
  - **"No-fee" lockdown:** All income from parent fees disappears
  - **"15% fee" lockdown:** Providers retain 15% of their fee income
- Both scenarios incorporate continued public funding and support via furlough and self-employment schemes
- We assume providers are still responsible for all other costs

Income-to-cost ratios during lockdown



Source: Figure 4.2, "Challenges for the childcare market: the implications of COVID-19 for childcare providers in England", IFS Report R175.

Income-to-cost ratios during lockdown



Source: Figure 4.2, “Challenges for the childcare market: the implications of COVID-19 for childcare providers in England”, IFS Report R175.

What drives differences between provider types?

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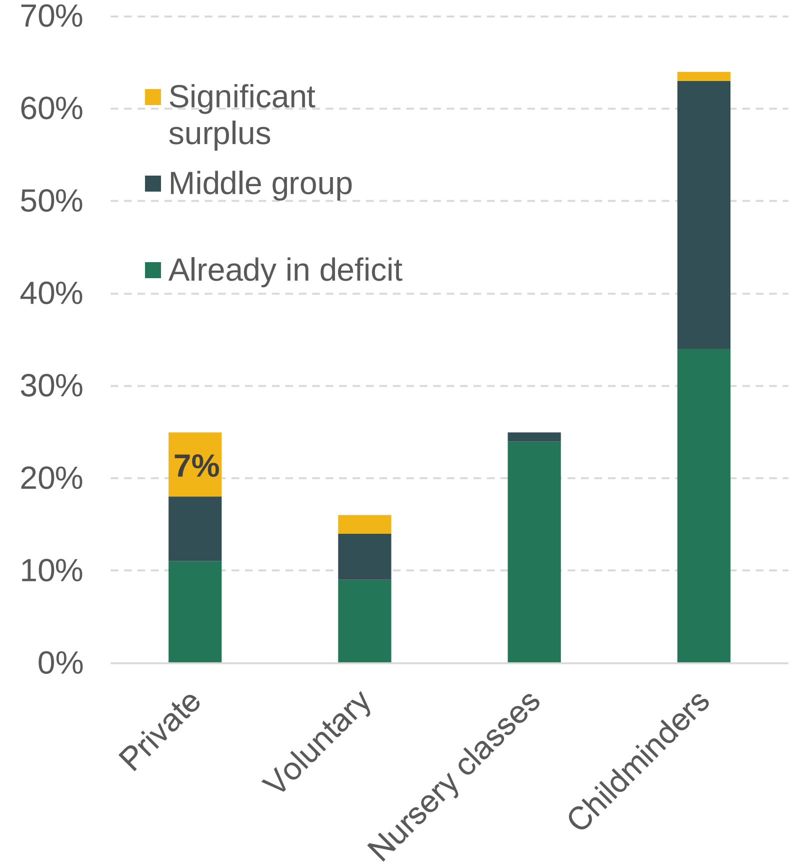
What drives differences between provider types?

1. Pre-crisis finances

2018 ICR for providers in deficit in ‘no fee’ lockdown



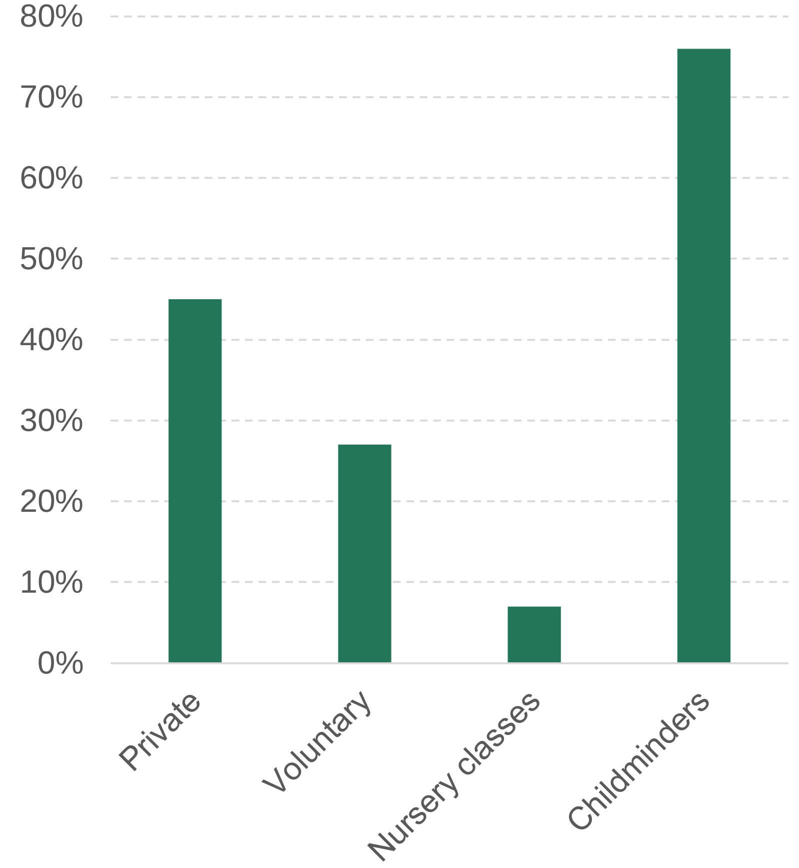
Source: Figure 4.3, “Challenges for the childcare market: the implications of COVID-19 for childcare providers in England”, IFS Report R175.

What drives differences between provider types?

1. Pre-crisis finances

2. Different sources of funding

% of 2018 income from parent-paid fees



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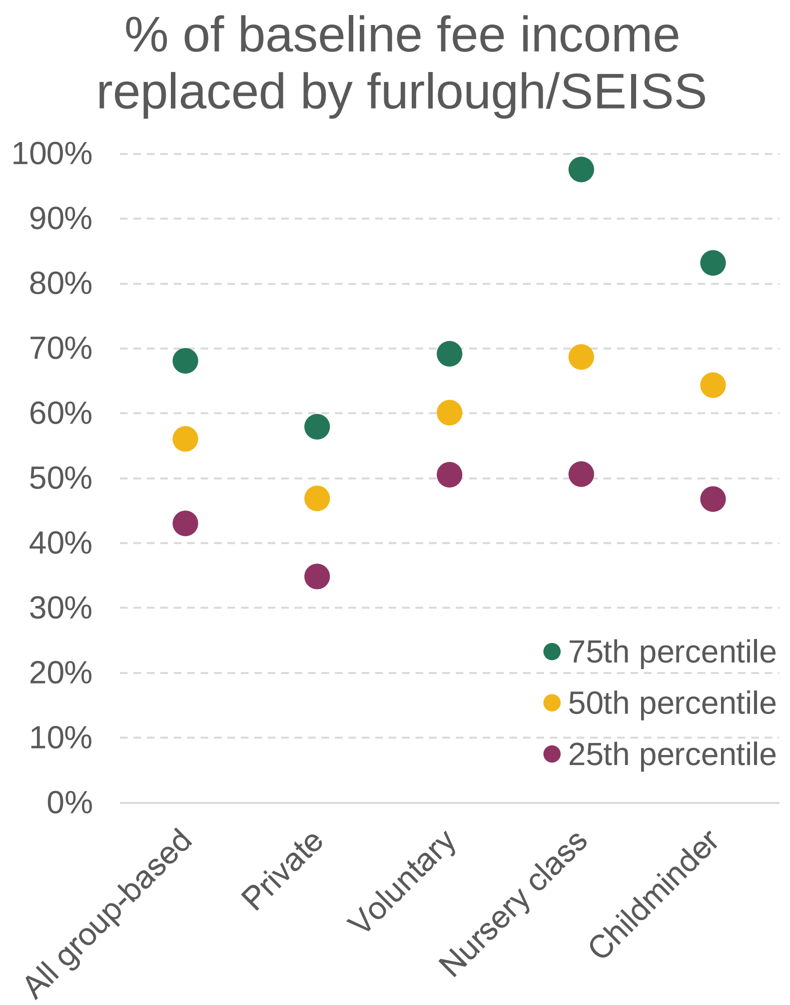
What drives differences between provider types?

1. Pre-crisis finances

2. Different sources of funding

3. Extent of gov't support



Source: Figure 4.5, "Challenges for the childcare market: the implications of COVID-19 for childcare providers in England" for full sources.

Summing up

- Providers saw a significant financial hit from the lockdown
  - Twice as many private nurseries now in significant deficit
- It would have looked a lot worse without government support.
- Providers relying on income from parent fees were less well protected
  - Private providers and childminders have been harder hit; nursery classes less so

Challenges for the childcare market: the implications of COVID-19 for childcare providers in England

Dr Gillian Paull

4th September 2020

What might happen going forward?

We now consider:

- What might happen to providers’ finances as Government support ends and parent demand may (or may not) recover.
- Longer term risks to the market and the nature of provision.
- Why and how Government might intervene to support provision.

Two sets of key challenges in the next few months

End of Government support

Furlough scheme being wound down before ending on 31st October

Final SEISS payment in August covering three months (end October)

Free entitlement funding will be based on attendance from January 2021 (rather than pre-crisis child numbers)

Recovery of parent demand

⬆ Recovery of demand

Furlough scheme ending + call for workers to return to the workplace

⬇ Lower demand than pre-crisis

Health related concerns for children

Higher unemployment

More parents working at home

We have estimated the possible impacts on providers' finances

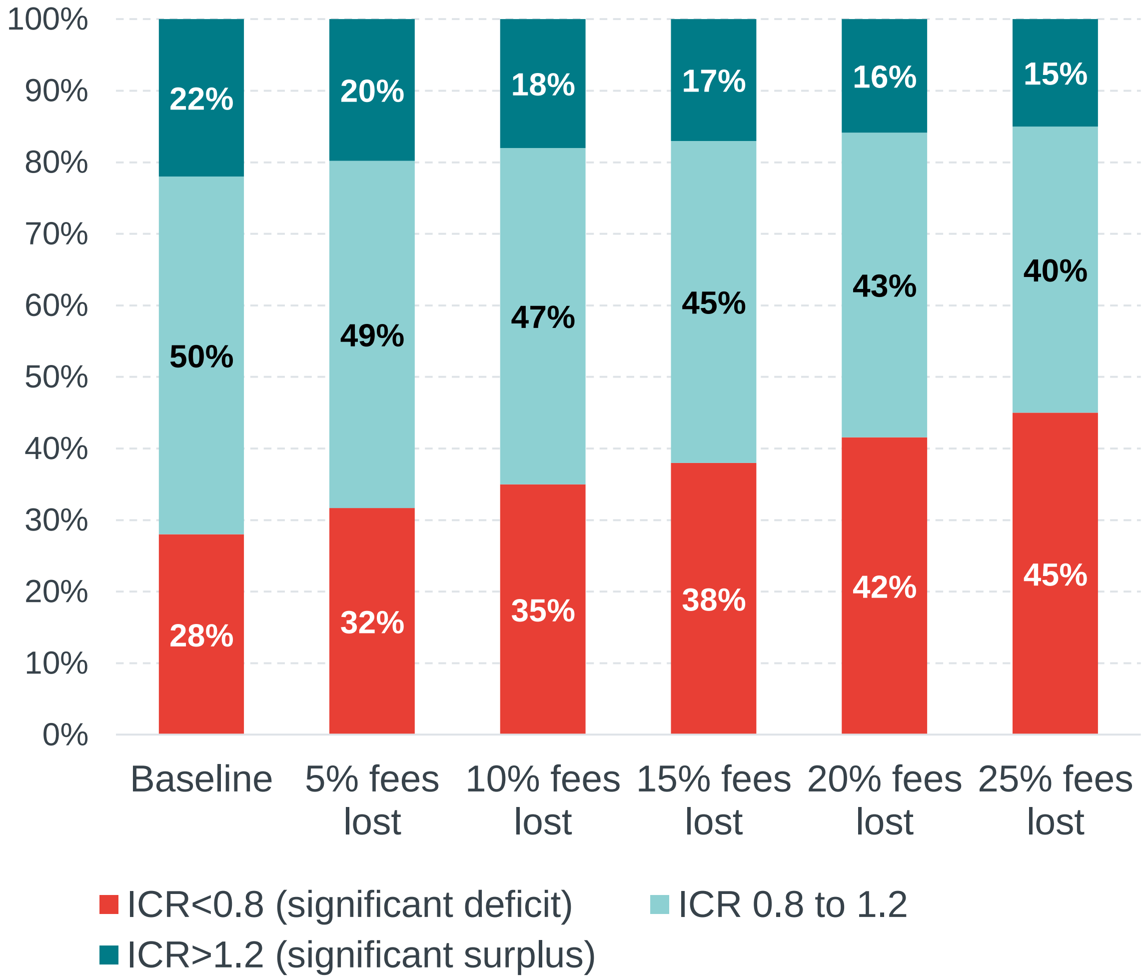
We use **"scenario modelling"**:

- Know what will happen to Government support.
- But we don't know what will happen to parent demand - consider a range of possibilities for fee income and free entitlement funding.
- Assume no immediate adjustment in costs.

Use the same data and ICR (income-to-cost ratio) as we used for the lockdown estimates:

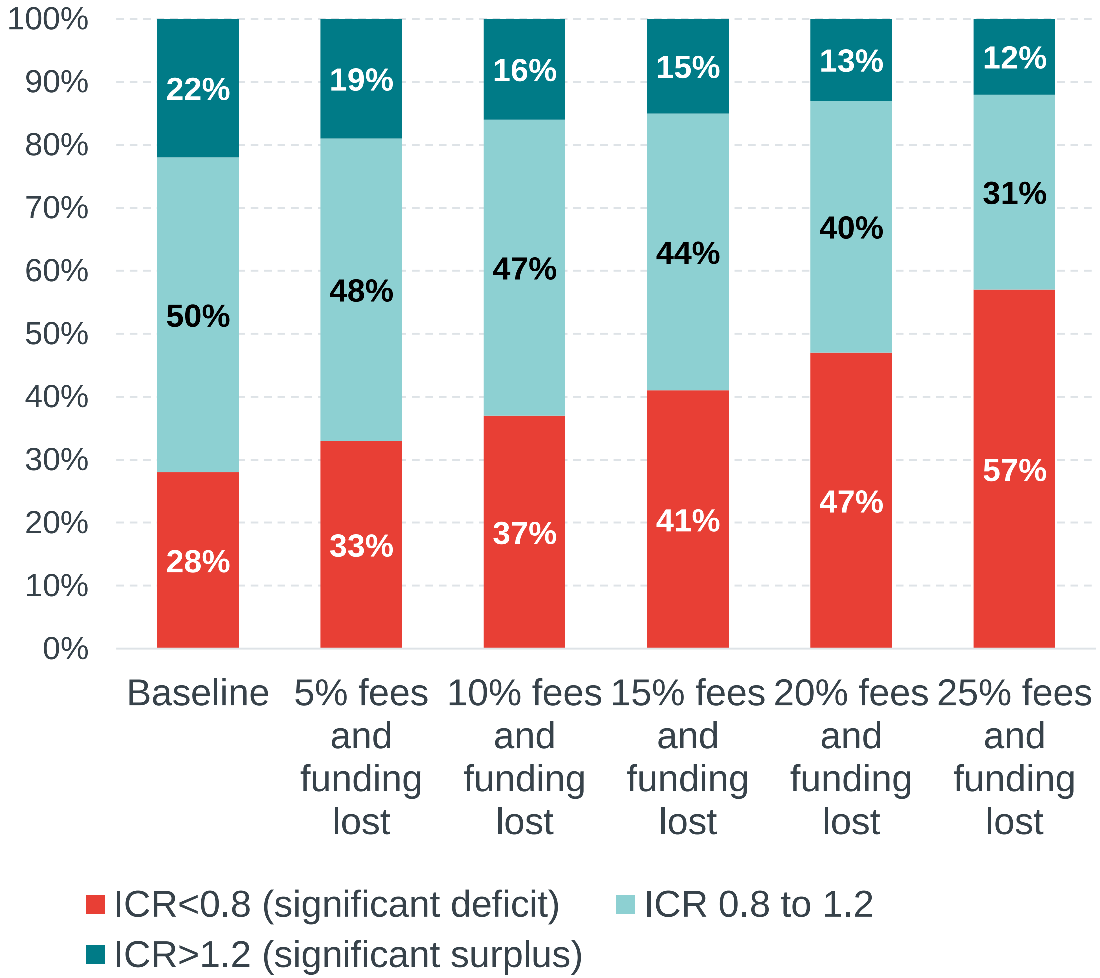
- Furlough and SEISS support removed.
- Test impacts of lower fee income in five increments: 5%, 10%, 15%, 20% and 25% losses.
- Test impacts of lower parent-paid fee income *and* free entitlement funding.

How are providers’ finances affected under different scenarios of lower fee income?



- Baseline is pre-COVID.
- Every 5% increment in lost income ➡ additional 3-4% in significant deficit.
- Under central scenario of 15% fees lost: increase from 28% to 38% in significant deficit

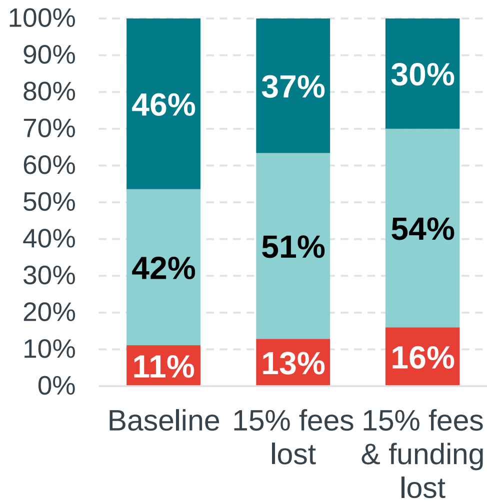
And under different scenarios of lower fee income *and* free entitlement funding?



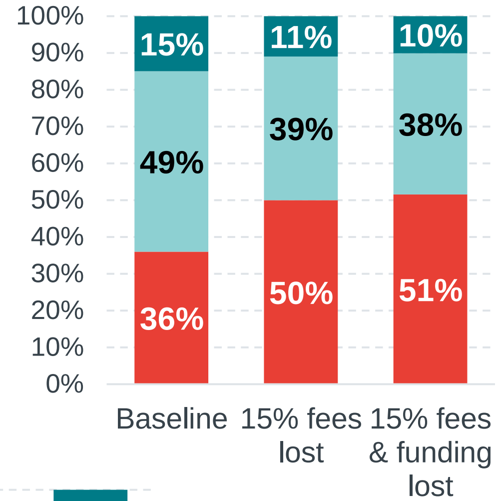
- Baseline again is pre-COVID.
- Every 5% increment in lost income ➡ additional 4-6% in significant deficit *(compared to 3-4% for fee only loss).*

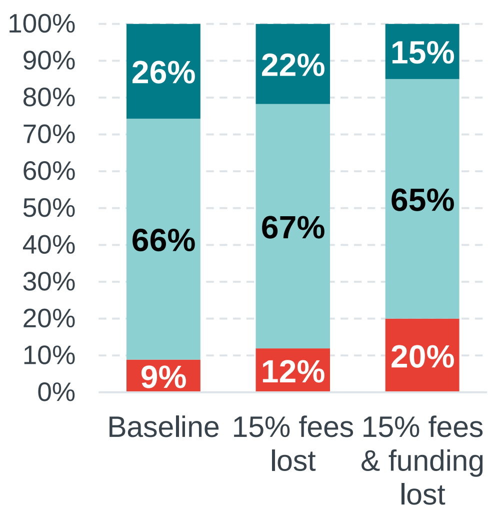
The impacts vary across different types of providers

Private providers - lost fees and funding have similar impacts

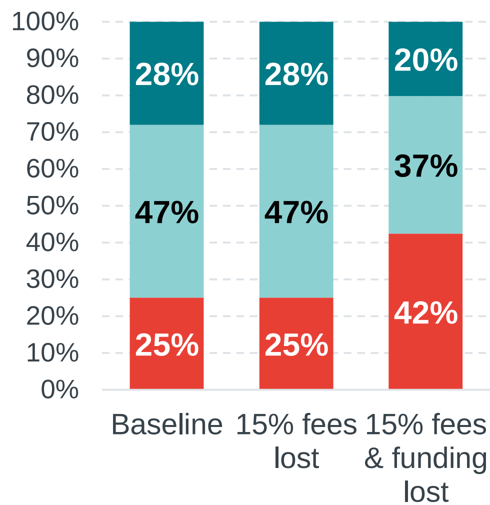


Childminders - lost fees have much bigger impact





Voluntary providers and nursery classes - lost funding has much bigger impact



Reflects the differences in income sources across provider types

What are the longer term challenges for childcare providers?

Demand challenges	Managing delivery with COVID-19	Future local or national lockdowns
Recovery of losses from lockdown	Staffing restrictions / absences could increase costs	No furlough scheme or SEISS
Permanent income loss if demand does not recover	Limited interaction with parents could inhibit new business	Continued free entitlement funding could support only some providers
Changes in demand for different types of childcare	Limited interaction with specialist staff could reduce care quality	Risk of lockdowns without Government supports could impact on investment

How might providers respond?

Fee increases for parents:
To make up income shortfall

Quick / simple change

May be limited by parents' inability to pay more during economic downturn

Less feasible in less affluent areas and those more affected by economic downturn

Adjustments to business models:
To revive sustainability

Change mix of parent-paid and funded hours

Switch provision to more profitable children (by age / child needs)

Switch to lower cost staffing (less qualified)

Reduce flexibility of hours to reduce costs

Reduced capacity:
To align with lower demand for the sector

Providers offer fewer hours or fewer places

More settings close and / or fewer open than pre-crisis

Should the Government intervene?

Government already intervenes

Free Early Education Entitlement, Tax Free Childcare, Employer Vouchers, WTC/Universal Credit childcare, LA sufficiency duties.

To support child development:

- Parents underestimate benefits
- To address socio-economic inequalities

To support working parents:

- Particularly mothers (gender equality)

Will the market optimally adjust to the new demand and cost conditions?

Or does the sector now need additional support?

If the fall in demand is temporary → support to avoid costs of restarting

Existing reasons may be more important:

- Possible declines in quality or flexibility
- Educational benefits hidden under health concerns
- Loss of childcare harmful for more disadvantaged children

To support specific parts of the market:

- Reduced access in some communities or for some children
- To ensure continued delivery of free entitlement

What options could the Government consider?

Support during further lockdowns

E.g. continued free entitlement funding, temporary grants / furlough schemes.

Transition funding for new COVID-19 requirements

E.g. grants for providers to cover the costs of one-off adjustments

Reducing start-up costs

E.g. offering start-up capital, reducing the costs of Ofsted registration

Reducing ongoing delivery costs

E.g. relaxing maximum child-staff ratios (although could affect quality)

Boosting income from parent-paid fees

E.g. public campaign on safety of childcare and benefits of early education

E.g. increasing subsidies in Tax Free Childcare or Universal Credit

Boosting public income

E.g. increasing free entitlement funding rates (although limited support for providers hit hardest during lockdown)

E.g. increasing supplements for some children (disadvantaged or those with special needs)

Investing in maintained provision

E.g. encouraging more nursery provision in schools to create more stable capacity

Conclusions

- Greatest challenge for the childcare market going forward is whether parent demand for childcare will recover to pre-crisis levels:
  - Childminders face the greatest loss of income from parent-paid fees.
  - But voluntary providers and nursery classes will be harder hit if take-up of free entitlement places does not return.
- Is increased Government intervention needed going forward?
  - Maybe not - childcare market can sustain significant levels of provider turnover and has shown an ability to adapt to a changing environment.
  - Higher funding rates could help ensure uninterrupted delivery of the free early education entitlements.
  - However, hardest hit providers may be those more reliant on parent-paid fees → suggests a range of other policy options may be more effective to help the childcare market meet the challenges of COVID-19