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Briefing: Sustainability of Early Childhood Education and Care in England: Evidence through COVID-19

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Executive Summary

- Closures and disruptions to services in the Early Childhood Education Care (ECEC) sector during Covid-19 have put a strain on parts of the sector and its workforce which **seriously challenge the ongoing financial viability** of many of its providers

- Treasury decisions to fund to the sector during Covid, through SEISS, CJRS and the funding of entitlement places to Jan 2021, were welcomed by the sector, with high take-up rates and will have curtailed some of the financial loss from the sector.

- Even where closure is not an imminent threat, t**he quality of provision is undermined** in a large proportion of settings, due to providers taking measures such as permanently cutting staff and stretching child: staff ratios, which will have an adverse effect on care quality and child outcomes. These **effects are most concentrated in areas of deprivation where quality provision is most needed for 'levelling up' and reducing inequalities.**

- **High-quality, accessible EY care will be vital for parents to remain in and return to work** following Covid and for **the delivery of the government's Covid recovery catch-up plans to education**, including the priority area of speech and language development for under-fives, and to ensure that no child is left behind as a result of the pandemic.

- Reduced parent demand has been the key driver of loss of income and of volatility in the sector and the rapid changes to demand during Covid has challenged EY providers as well as **highlighted fragility in providers' operation models and dysfunction in the EY market.**

- There is still a great deal of uncertainty in the EY market, with levels of usage and attendance not yet returned to pre-COVID levels. There is a high risk of market failure leading to insufficient provision which will **exacerbate inter-household inequalities** and will disproportionately affect women's workforce participation and children in more deprived areas

- These issues have been compounded by the **underfunding of the free entitlement hours for 2, 3 and 4 year olds,** where reduced demand during Covid has limited the ability of providers to cross-subsidise these hours, exposing the fragility of provider financing models

Recommendations

- A **bridging fund** should be provided to early years settings to maintain capacity while new patterns of parent demand are established.
- A **comprehensive review of the funding model** to:
  - Bring funding level for 15- and 30- hours entitlement in line with cost
  - Decouple a proportion of funding from parent demand and to be replaced with 'infrastructure' or 'capacity' funding.
- Raise **the Early Years Pupil Premium**
- A **national communications campaign** to improve take up of two-year-old education entitlement places.
- **Additional resources for SEND assessments and interventions** to deal with the Covid-produced backlog of cases
- **Better recognition of the centrality of ECEC (including childminders) for early identification** and intervention for children with SEND through **enhanced SEND funds** and improved links between ECEC and wider health and education SEND networks

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Evidence presented in this briefing draws on data from a large-scale UKRI/ESRC-funded study "Childcare during Covid-19 in England and Wales" conducted by University of Leeds (with the University of Bristol) between Dec 2020 and Oct 2021. In total, we surveyed 3090 parents and practitioners in the sector, including Nursery Managers (871), Parents (1020) Childminders (672) and Nannies (527). We undertook in-depth interviews with 187 people: Childcare Practitioners (44); Nursery managers (38); Childminders (27); nannies (25); parents (42) and grandparents (11). A second wave of surveys and interviews will close in October 2021, with a final report of the longitudinal data in January 2022.

Sector Sustainability

Covid-19 has left many EY providers in a financially challenging position. Attendance and usage of EY settings reduced from March 2020 and had not returned to pre-COVID levels by January 2021. This has placed severe strain on the finances of many providers, which **poses a threat to provision through possible closures** of both childminding and nursery settings and **reductions in capacity for those who remain open**.

Nursery settings

All nursery setting types experienced decreased numbers of children attending by Dec 2020 compared to before the pandemic; with around 50% or more of all settings reporting a decline in numbers. Settings that were most likely to experience this were private day nurseries (70%), local authority nurseries (68%) and voluntary or community playgroups (67%).

As a result, 41% of nurseries have gone into deficit. In response to these losses, 26% of nurseries have taken on debt and 58% used reserves to compensate for losses. Those in deficit were most likely to use reserves and Local Authority and school-based nurseries were most likely to be in deficit. This has placed a greater proportion of settings into financial precarity and as a financing strategy, cannot be relied upon in the medium- to long-term.

The pace at which childcare places are being lost is increasing. While in the period March-August 2020, Ofsted data showed a net loss of 0.3% of childcare providers and a net loss of 0.2% of childcare places in England[1], in the latest period Aug-Mar 20/21 we are seeing a net loss of 4.4% of childcare providers and net loss of 1.1% of childcare places. These figures are reversing a trend of increase in childcare places in the years before the pandemic. In both 2019 and 2018, Ofsted showed similar levels of net losses of childcare providers (0.5% and 0.9% respectively) but net gains in places (0.7% in 2019 and 0.9% in 2018)1.

Many settings remain in the sector in an increasingly financially vulnerable position. Overall, settings have been hyper-responsive to changes in demand, dealing with lowered demand and financial losses by reducing their capacity, reducing staff numbers through **ending contracts of permanent and temporary staff** and **not replacing staff** who leave. These exits and reductions in capacity are likely to lead to a **shortfall of places** when pre-Covid levels of demand resume as workplaces return to normal.

Other measures providers are making to mitigate financial losses and which mean they will remain open, will have **an adverse effect on care quality and child outcomes, including** permanently cutting staff and stretching child: staff ratios.

Changes in parental demand have resulted in lower occupancy, lower income and consequently impacted on early years settings' sustainability, but **these fluctuations in demand may be short term.** Capacity in the EY sector is likely to be slow to build back when work patterns resume and demand increases, and may face significant barriers linked to longstanding problems with recruitment and retention in the sector. There is a high risk of market failure leading to insufficient provision.

Funding for the 15- and 30-hour childcare entitlements continues to be insufficient to cover the costs of high-quality education and care. Providers report having to cross-subsidise entitlement hours with fee income from 'paid-for' hours. Rapid changes in demand due to Covid have resulted in a loss of paid-for hours, which has also placed entitlement hours at risk. Covid has intensified and revealed the fragilities created by the way providers must organise their finances to make up for this the funding shortfall – 57% of settings in England suggested the top government support for the coming months should be an increase in the funding paid for the 30 hour free entitlement.

Childminders

The decrease in providers and places was largely driven by childminders leaving the market, with Ofsted data showing a 5% decrease in registered childminders and in the childcare places provided by childminders during Aug-Mar 20/21. **Childminders experienced** a net decrease in working hours and income; 63.6% saw a reduction in the number of children they care for and weekly working hours decreased for 57%. SEISS was accessed by three quarters of childminders (75.6%), although 74% who received it said it was not sufficient to cover lost income.

[1] Analysis of Ofsted data by Women's Budget Group

Childminders have been particularly vulnerable when faced with loss of income, as they are less likely to have reserves, instead managing losses through borrowing from friends or family (17.4%), selling personal belongings (25.6%), taking a mortage holiday (26.4%), drawing on personal savings or relying on a partner's income.

Just **over a fifth (20.9%) of childminder respondents were not at all confident that they would be working as a childminder in six months** and over a quarter (26%) mentioned difficulties with income and/or sustainability. The majority (57.5%) of those 'not confident' said they would be seeking work in a different sector.

Given changing patterns of use of formal childcare, **further monitoring is needed to understand whether this reflects long-term changes to demand**; and whether short-term fluctuations will put providers under undue strain that will lead to permanent changes (closure; changes to workforce, etc) .

Recommendation: A bridging fund should be provided to early years settings to maintain existing capacity during this continued period of uncertainty due to Covid and while new patterns of parent demand are established. This will prevent further closures and loss of capacity from the sector and ensure there is adequate capacity to enable parents to return to work following redundancy, furlough or other leave. This capacity needs to be available **to avoid a cycle where lack of availability leads to reduced labour market engagement in turn leading to reduced demand.**

Recommendation: A **comprehensive review of the funding model** is urgently needed to address the failures and inefficiencies of the current model and funding shortfall, specifically:

- to bring funding levels for the 15- and 30-hours entitlement in line with the cost of delivery and thereby reduce financial precarity for settings.
- to limit volatility of funding to providers and ensure a basic level of capacity and stability for providers, a proportion of **government investment in EY needs to be decoupled from parent demand and replaced with 'infrastructure' or 'capacity' funding**. This would ensure the availability of adequate places, particularly in areas of higher deprivation and reduce the volatility and waste associated with demand-led funding, while retaining market responsive flexibility. This stability for providers could facilitate investment and the retention of staff.

Inequality, deprivation, and disadvantage

Our data show reduced uptake of the 2-year-old education entitlement, which was most pronounced in LA nurseries where uptake decreased by 55%, compared to 39% of private day nurseries and 34% of voluntary or community-run nurseries. We found a statistically significant association between level of deprivation and the proportion of settings reporting decreased uptake of the 2-year-old offer with half of settings in the most deprived areas[2] reporting decreased uptake.

[2] Deciles 1-3

Children with Special Educational Needs and Disabilities (SEND) appear to be increasing as 26.6% nurseries are seeing higher levels of SEND and 45.4% of nursery managers said they noted higher levels of likely *undiagnosed* SEN, meaning that some of the most vulnerable children may be falling between the gaps and not receiving appropriate support.

Access to childcare has affected parents' work and returns to work, with **greater effects on women's work and workforce participation**; 40% of parents in paid work reported their ability to work as usual was impacted by their access to childcare during Covid-19. Parents with inadequate childcare had to take extended leave (33%), reduce paid hours (17%), and 5% considered resignation. Almost one in five (18%) said that disruptions to childcare will impact on career progression and 10% were excluded from the labour market. Women (44%) were more likely than men (37%) to report that access to childcare affected their ability to work.

Over half (54%) of the parents who took maternity or shared parental leave between March and December 2020 (n=219), said that childcare influenced their decision or ability to return to work, with 9.6% unable to return to paid work and 8.7% choosing not to return. Of those who said childcare influenced their decision (n=118 parents), 64% of mothers said childcare impacted their decision compared to 31% of fathers.

Recommendation: In order to support children from disadvantaged backgrounds and the settings they attend, **the Early Years Pupil Premium rate should be increased** (from the current £302 per child per year) to the Primary aged pupil premium rate (£1345 per child per year).

Recommendation: A **national communications campaign, including resources for local authorities,** is needed to improve awareness and take up of these two-year-old education entitlement places.

Recommendation: Additional resources for SEND assessments and interventions are needed to deal with the Covid-produced backlog of cases and support early years educators in their work with children with SEND.

Recommendation: Better **recognition of the centrality of ECEC (including childminders) for early identification** and intervention for children with SEND. Enhanced SEND funds and improved links between ECEC and wider health and education SEND networks and support would address concerns about the increase in the number of both diagnosed and undiagnosed SEND in young children.

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