Early Years Alliance – Written Evidence (LBC0108)

1. Introduction

The Early Years Alliance:

1.1. The Alliance is the largest and most representative early years membership organisation in England. The Alliance represents 14,000 members and supports them to deliver care and learning to more than 800,000 families every year.

A registered educational charity, it also provides high-quality affordable childcare and education to support children and families in areas of deprivation throughout the country. We deliver family learning projects, offer information and advice, produce specialist publications, run acclaimed training programmes and campaign to influence early years policy and practice.

2. The financial impact of Covid-19 on the childcare sector

The childcare sector pre-Covid 19

2.1. Early years education plays a pivotal role in the long-term learning and development of young children. It is also crucial in providing high quality, affordable and accessible childcare, enabling parents to work and supporting the wider economy. Despite this, the early years sector has faced prolonged underfunding for many years now, which has resulted in a growing number of provider closures: prior to the outbreak of the coronavirus, Ofsted statistics showed that between September and December 2019, an average of 735 nurseries, pre-schools and childminders closed every month, a 33% increase in closures compared to the same period in 2018 (source: PQ number 54905)

In the Alliance's April Survey, we found that one in four (25%) childcare providers fear permanent closure within the next twelve months as a result of the lack of government financial support.

Partial closure of childcare settings

2.2 The severe financial challenges faced by the early years sector have been significantly worsened by the coronavirus outbreak – in particular, the order to partially close in March, which resulted in a significant loss of income from parental fees. During the lockdown period, the total number of children attending early years settings was at 4% - 5% of the number normally attending (source: Attendance in education and early years settings during the coronavirus (COVID-19) outbreak, Department for Education). Many providers took the option to waive parent fees during the lockdown, despite the detrimental consequences this would have on their financial income. Some providers also faced financial losses as their insurance policies did not include cover for the impact of the coronavirus outbreak.

Re-opening of childcare settings

2.3 The re-opening of the childcare sector on 1 June brought even greater financial challenges to childcare providers. An Alliance survey of 4,490 parents of children under five carried out in May 2020 showed that of those parents whose childcare provider had confirmed they would be reopening after June 1, only 45% were planning to take up their child's place.

Likewise, the Alliance survey in May 2020 also found that 50% of providers expected the demand for places to be less than the number of children they would be able to safely care for, a figure which was already significantly below a setting's normal occupancy rates. The lack of demand from parents, alongside limits to how many children could be safely cared for as outlined in government guidance, meant that many providers faced a prolonged period of time operating with significantly reduced income, despite the decision to re-open settings from 1 June.

2.4. Additionally, providers have had to bear the sizeable financial burden of paying for additional costs associated with operating safely during the pandemic. This has included the costs of cleaning materials, additional wage costs for staff working overtime to undertake additional cleaning, and PPE. Providers also faced the additional challenge of disproportionately high ratio levels to ensure they were catering for social distancing where possible.

2.5 A significant number of the Alliance’s May 2020 survey respondents also highlighted the fact that the most damaging effects of the financial impact of Covid-19 took place within summer term, a time when many providers would be experiencing their highest occupancy rates and therefore their highest income. A loss of fundraising and marketing opportunities for childcare providers also had a detrimental effect on the ability to generate further income. One provider reported to the Alliance that they had lost £5,000 in fundraising income while closed during the lockdown period. The lockdown restrictions also limited provider’s ability to market their setting to new parents, with many providers fearing that new enrolment would be impacted by parental concerns about the safety of sending their children back into childcare at the height of the pandemic.

2.6 In addition, on 19 June 2020, the DfE announced a £650 million ‘Covid catch-up' package for schools, excluding childcare providers from the support, after initially inferring they would be able to access this support. This is despite the significant loss of learning and development opportunities for young children as a result of the order to partially closure early years settings.

<u>3. Government support</u>:

The government has provided a number of support schemes for early years providers during the pandemic. However, collectively, these have provided limited assistance to the sector, for the reasons outlined below:

3.1 **Lack of transitional Funding:** One in four providers (25%) responding to the Alliance’s April survey said that it was “unlikely” that they would open in twelve months’ time, while 69% of providers responding to the Alliance’s May survey expected to operate at a loss over the following six months. Despite this, the government has yet to commit to any kind of transitional funding support to assist early years providers within remaining financially sustainable through the reduction in parental demand and subsequently, income from fees.

This is in spite of the fact that the Alliance and a wide range of bodies, including the Local Government Association (LGA), the Trades Union Congress (TUC), the House of Lords Petitions Committee and the Childrens Commissioner, have consistently called for more funding to support all early years providers through the period of uncertainty created by the coronavirus outbreak.

3.2 Limited support from the Coronavirus Job Retention Scheme (CJRS): Initial guidance on the CJRS suggested that early years providers could benefit fully from both the Job Retention Scheme and early entitlement funding with no conditions or caveats. However, just three days prior to the opening of the CJRS on 17 April, the DfE published new guidance which stated that providers receiving early entitlement funding would only be able to claim CJRS at the same proportion of the wage bill "which could be considered to have been paid for from that provider's private income".

75% of respondents to the Alliance's April survey stated that they had been under the understanding that they would be able to access full support from both schemes, and 71% had already furloughed staff by the time the revised guidance was published. As a result of this last-minute change, 47% said they would potentially have to make staff redundant.

3.3 Early entitlement funding: Despite previously announcing on 17 March that all providers receiving early entitlement funding (for two-, three- and four-year-olds) would continue to receive this funding for children no longer attending the setting, the DfE updated its early years guidance on 22 April to state that:

"Local authorities can use their free entitlement funding differently, re-distributing it- in exceptional cases and in a clearly focussed and targeted way- in order to secure childcare for critical workers and vulnerable children, where their usual arrangements are no longer possible".

This move left many providers in a difficult position whereby they had budgeted on the original understanding that their entitlement funding would be provided in full.

In addition, while the DfE has confirmed that it will continue to fund local authorities in autumn 2020 at autumn 2019 levels, and that it expects councils to take the same approach, a number of providers have raised concerns to the Alliance that this has not been the case, resulting in a further drop in financial support. The Alliance is currently investigating this matter and has written to all local authorities on a FOI request to ascertain what funding action each individual local authority is taking.

3.4 **Business grants:** The decision taken by the government to base eligibility for small business grant support on rate relief meant that many childcare providers who would usually be considered as "small businesses" were not eligible for this financial support. In addition, while eligible businesses in the retail and leisure sectors were able to receive a grant of up to £25,000 from the government, namely the Retail, Hospitality and Leisure Grant Fund, there is no equivalent support for childcare businesses operating on premises with the same rateable value.

3.5 **Self-Employed Income Support Scheme:** The Self-Employed Income Support Scheme offers some welcome support to self-employed childminders; however, many provider responses to Alliance surveys indicated that the financial support offered by the scheme had minimal impact on them. This is in large part due to the government decision to calculate this support based on profits rather than income, which meant that for those childminders operating with minimal profit over the past few years, the support they were entitled to was very limited.

4. Life beyond Covid-19: The future of childcare in England

4.1 The combination of the impact of pre-existing and coronavirus induced financial hardship and a lack of government support for the childcare sector has the potential to cause severe long-term damage to the early years sector in England and, in turn, and to the lives of parents – and particularly working parents, and the recovery of the wider economy.

Impact on childcare providers

4.2 There remains significant uncertainty as to how parental demand for childcare will increase over the autumn term and beyond. This is largely due to:

- potential increased unemployment levels, resulting in both a reduced ability to meet the costs of childcare and in, in some cases, a reduced need for childcare altogether.
- increased flexible and home-working and the likelihood that many businesses will continue to encourage people to work from home where possible while any risk of transmitting Covid-19 remains.

Data from independent early years analysts Ceeda (August 2020) found that 45% of nurseries and pre-schools expect occupancy levels to be half as much as normal or less in September 2020, while 48% expect to still be operating at a loss in January 2021. While some parents may no longer require childcare, if providers are to close as a result of sustained low occupancy rates, this will have a direct impact on those parents who do need childcare and whose children attend the same settings.

4.3 There remains a very real possibility that childcare providers will be required to close again as a result of either a local lockdown or a wider national lockdown due to a so-called 'second wave' of Covid-19.

With the CJRS due to end in October, such a move could have a severe impact on the financial stability of early years providers. Many providers have anecdotally shared their fears for a second wave, with many believing that a second wave would force them to make redundancies and in the worst-case scenario, permanently close.

Impact on children

4.4 Early years education plays a vital role in more disadvantaged areas, areas where there are usually a higher number of vulnerable children, many of whom require tailored and specialist support to access their learning and developmental objectives. Sutton Trust analysis of the underlying data of the Alliance's April survey found that one in three childcare providers in the most disadvantaged areas felt it was likely that they would be permanently closed within the year. This would have a significantly detrimental impact on efforts to improve social mobility in this country, and risks leaving those families most in need of support struggling to access quality, affordable care and education.

Impact on parents

4.5 A survey of more than 2,000 parents of under-fives carried out by the Alliance in July/August 2020 found that 49% of parents do not think the government has done enough to support parents to access the childcare they need during the pandemic.

In addition, a third (34%) say that difficulties accessing childcare since the easing of lockdown (1 June, when childcare providers were allowed to reopen) has had a negative impact on their work life, rising to nearly half (48%) of parents living in the most deprived local authority areas; while over a quarter (27%) said that difficulties accessing childcare since the easing of lockdown has had a negative impact on their mental health, rising to over a third (36%) of parents living in the most deprived local authorities areas.

The survey also found that 1 in 10 parents have not been able to access formal childcare at all since the easing of lockdown despite wanting to do so.

It is clear that without urgent action to safeguard the future of the childcare sector, many parents – and particularly working parents - will struggle to get the support that they need and that this could have a long-term impact on both their financial and mental wellbeing.

Impact on the economy

4.6 Writing in the Mail on Sunday in early August, Prime Boris Johnson stressed the importance of getting all children back to school, citing the "spiralling economic costs of parents and carers unable to work without the school or wraparound childcare they depend on".

However, while the government has primarily focused on the role that schools and wraparound care play in the provision of childcare for working parents, there are more than two million families of children access under five, 87% of which use formal childcare (source: DfE Parent Survey 2019). As such, if the government continues to ignore the financial crisis within the early years sector, and provider closures continue to take place at the anticipated rate, there is a substantial risk that many parents of younger children will not have the childcare they need to continue to, or return to, work. This in turn risks derailing the government's own primary objective of re-starting the economy and moving the country out of recession post Covid-19.

5 <u>Recommendations</u>

In order to mitigate the and potentially devastating long-term effects to the sector's future sustainability beyond Covid-19, the Alliance urges the government to take the following action.

5.1 Short-term recommendations:

- Urgently provide transitional funding support to the childcare sector to ensure providers can remain sustainable during a prolonged period of reduced demand for places.
- Provide dedicated support to nurseries, pre-schools and childminders to meet the costs of any additional costs incurred as a result of the coronavirus outbreak.
- Introduce a grant fund for childcare providers that is equivalent to the Retail, Hospitality and Leisure Grant Fund in term of financial support.
- Extend the existing Small Business Grant scheme to childcare providers who do not attract rate relief but would otherwise be deemed a 'small business'.
- Take 2019/20 tax-returns into account for the purposes of the Self-employed Income Support Scheme.
- Extend the £650m of 'catch-up' funding for schools to include the early years sector.

5.2 'Second-Wave' Recommendations: In the instance of a second wave of the coronavirus, the Alliance calls on the government to:

- Provide significant and targeted financial support to the childcare sector to guarantee its survival.
- Where local lockdowns occur, ensure that childcare providers in these areas are given the necessary tailored support to ensure they can remain open and or financially viable if they are forced to close.
- Re-instate the CJRS for childcare providers, either across the country in the case of a national outbreak, or in a specific region in the case of localised lockdowns.
- Deliver a revamped 'Self-Employment Support Scheme' which guarantees national or localised support for all self-employed childminders, with a focus on income, not profit.

5.3 Long-term recommendation:

Commission a long-term, independent review of early entitlement rates informed directly by the early years sector, and commit to a subsequent increase in funding levels to ensure that they cover rising business costs, both now and in the future to safeguard the long-term sustainability of the early years sector.

20 August 2020