Follow up evidence from Early Years Alliance (GRC0034) September 2020
Relating to Second Special Report - The impact of COVID-19 on maternity and parental leave: Government Response to the Committee's First Report (HC 770)

1. ABOUT THE ALLIANCE

The Early Years Alliance is the largest and most representative early years membership organisation in England. 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.

The Alliance represents 14,000 members and supports them to deliver care and learning to over 800,000 families every year. We deliver family learning projects, offer information and advice, produce specialist publications, run acclaimed training and accreditation schemes and campaign to influence early years policy and practice.

Our comments below relate specifically to the Government's response to Recommendation 19 and Recommendation 20 of the Petition Committee's report on maternity and parental leave.

2. **Recommendation 19: Conduct an urgent short-term review of funding for the childcare sector to ensure that it survives the current crisis, and if required, provide emergency funding to the childcare sector to ensure that there are sufficient childcare places for parents due to return to work.**

2.1 The government's response to the recommendation outlines the key support schemes that have been made available to the early years sector in England since the onset of the coronavirus pandemic.

The government also notes that it “has and is continuing to work with the sector to understand how it can best be supported to ensure that sufficient safe and affordable childcare is available for those returning to work now, and for all families who need it in the longer term”.

As the largest and most representative membership organisation in England, the Early Years Alliance has been in regular contact with the Department for Education throughout the pandemic, and has made it clear that current government support for the sector – while welcome – is simply not sufficient to ensure the viability of nurseries, pre-schools and childminders during this particularly difficult time.

2.2 As stated by the Institute of Fiscal’s Studies in its September 2020 report, *Challenges for the childcare market: the implications of COVID-19 for childcare providers in England*: “While public funding has continued more or less uninterrupted and providers have been able to access a range of government financial support programmes – notably the furlough scheme and self-employment grants – most have still seen a significant knock to their income from parent fees, while they were still responsible for fixed costs, such as rent, which were less easy to offset using available government support … taken together, this is likely to have led to a substantial worsening of the financial position of many providers during lockdown.”

2.3 Analysis by Frontier Economics estimates that that during lockdown, the early years sector endured losses of anywhere between £185m and £225m, depending on fee income levels (their estimates are based on modelling assuming 15% fee income (£185m losses) to no fee income (£225m losses)). It is important to note that these estimates relate solely to the period of lockdown and do not account for the ongoing losses providers are experiencing post-lockdown. As such, the total short-term funding needed to support the sector through this period is likely to be significantly higher in total.

2.4 The Alliance's comprehensive report into the impact of Covid-19, the Forgotten Sector, outlines the main reasons that providers are facing such significant financial challenges. These include:

- the fact that lockdown took place during the summer term (typically when childcare providers make the most profit);
- providers' inability to market themselves to new parents for the autumn term, when many lose other children to schools, due to Department for Education restrictions on parents being able to enter childcare premises;
- an inability to undertake normal fundraising activities due to coronavirus restrictions;
- the initial requirement to operate using 'bubble' leading to a reduction in the number of children providers were able to take on once they were allowed to reopen;
- the increased costs associated with operating during a pandemic, including increased cleaning costs and related additional staffing costs (i.e. paying staff extra to stay late to clean).

2.5 The government response also states that: "Government has announced a package of support for workers and businesses which will benefit childcare settings including childminders, such as the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme."

However, it should be noted that newly-employed childminders, who fall outside of the eligibility criteria, have received no support at all from the Self-employment Income Support Scheme.

In addition, the government states that: “We have said that early years settings can access the Coronavirus Job Retention Scheme while continuing to be paid the early entitlements funding via local authorities (LAs). **Guidance published by HM Revenue and Customs on 26 March made clear that the Coronavirus Job Retention Scheme could not be used for the same costs as public income such as free entitlement income** [emphasis added]”.

This is incorrect. Initial Department for Education guidance suggested that early years settings could fully access financial support from both the Coronavirus Job Retention Scheme and early entitlement funding, stating: “Settings can access this scheme while continuing to be paid the early entitlements funding via local authorities.”

Upon the publication of HMRC guidance stating that “Where employers receive public funding for staff costs, and that funding is continuing, we expect employers to use that money to continue to pay staff in the usual fashion – and correspondingly not furlough them”, providers and sector organisations, including the Alliance, repeatedly sought confirmation from the DfE as to whether or not its original guidance still stood (i.e. that the sector could benefit fully from both schemes), and the Department repeatedly directed us back to the same guidance.

It was only four weeks after this guidance was published, on Friday 17 April – just three days before the Job Retention Scheme portal opened – that the government announced that providers would only be able to receive furlough funding for the proportion of their income accounted for by private sources. The original DfE guidance was subsequently amended to read: “The Coronavirus Job Retention Scheme means that for employees who are not working but kept on payroll, the government will contribute 80% of each worker’s wages of up to £2,500, backdated to 1 March 2020. **Further guidance provides details on how early years providers with a mixture of public and private funding should access the scheme**.” [Emphasis added]

75% of respondents to a survey of more than 3000 early year providers carried out by the Alliance in April 2020 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 new guidance was issued. As a result of this last-minute change, 47% warned that they would potentially have to make staff redundant.

2.6 There are a number of examples of early years settings falling through the gaps of other government coronavirus support schemes. Many childcare providers who would otherwise be considered 'small businesses' are not eligible for the £10,000 Small Business Grant introduced by the government in March 2020, because eligibility is based on receipt of business rate relief and they aren't able to receive this because, for example, they rent their premises or are based in premises that have no rateable value. The government has created a Local Authority Discretionary Grants Fund for businesses not eligible for the Small Business Grant – however, childcare providers are not included on the list of businesses that councils have been advised to prioritise.

Initial Department for Education guidance also suggested that providers in receipt of charitable status relief would be eligible for the Small Business Grant. This was belatedly amended after nearly two months to state that such settings would not be able to receive this grant.

In addition, while eligible businesses in the retail, hospitality and leisure sectors based in premises that have a rateable value of between £15,000 and £51,000 are able to receive a £25,000 grant from government, this support does not extend to the childcare sector.

2.7 While providers have been able to reopen to all children since 1 June, the Department for Education's own statistics show that demand for places is still significantly below normal levels: the latest 'Attendance in education and early years settings during the coronavirus (COVID-19) outbreak' statistics show that while 77% of early years settings were open as of 24 September 2020, just 52% of children who would normally be attending were taking up places. As such, income levels are still significantly below what they would normally be for many providers, and particularly those more reliant on private fees.

2.8 In addition, a lack of Covid-19 test availability is also having a significant impact on the financial viability of early years providers, with many reporting having to temporarily close partially or entirely due to staff being required to self-isolate as a result of themselves or members of their respective households displaying Covid-19 symptoms and not being able to access tests. This has been made worse by the decision not to supply PVI early years providers with any home testing kits. This risks numerous short-term losses of income during these periods of closure, at a time when providers are still required to meet all costs, including wages.

2.9 The Government response to the Petitions Committee further states that: “On 20 July we announced our commitment that this autumn term we will continue funding Local Authorities for childcare at the levels we would have funded before the pandemic, regardless of whether fewer children are attending. If providers are open, but caring for fewer children as a result of low demand from parents or due to public health reasons, they can continue to expect to be funded for the autumn term at broadly the levels that they would have expected to see had there been no coronavirus outbreak. This gives the assurance of another term of secure income to early years providers.”

However, an Alliance Freedom of Information (FoI) Act investigation has found that one in six councils are not following this guidance, and are instead funding based on current child attendance numbers, in some cases with a small uplift added. A further seven (6%) stated that they were only following the guidance in some circumstances, such as funding nurseries and pre-schools based on last year’s childcare attendance numbers, but not childminders, while three (3%) were still yet to decide.

One provider funded by Wiltshire Council, who informed their providers that “we will not be able to fund all settings to the same extent as last year, if settings are claiming less funded hours this year” told the Alliance that: “If we receive a similar amount to last year's payments for this period, our pre-school, whilst making a loss, would just about have sufficient funds to remain open for September 2021. However, if we are to only receive payments based on our actual hours, the loss we will make will probably result in us making the difficult decision to close as there will be insufficient funds available for the start of the new academic year."

2.10 With regard to the sufficiency concerns rightly raised by the Petitions Committee, it should be noted that the County Councils Network (CCN) recently published the results of a study of its member councils, which found that every single respondent feared that up to 10% of their childcare providers could close this winter, rising to one in four in some areas, even without a second coronavirus wave "due to increased costs of opening safely, and declining demand during the looming recession". The CCN has warned that "disruption to the market of this scale would leave many councils unable to fulfil their statutory duty to provide 'sufficient' childcare for residents, especially in more remote locations".

2.11 It is our view that the government should establish a Coronavirus Childcare Sufficiency Fund, focused specifically on protecting those settings at risk of permanent closure, to ensure that there are enough childcare places for the children and families who need them.

3. Recommendation 20: Consider an independent review of childcare provision, including the lessons learned from the Covid-19 pandemic, to ensure that future Government funding is effective and that the sector is sustainable and works for all in the long term.

3.1 The Government response states that "the Department gathers and publishes regular information on childcare, including reports on the cost of delivering childcare and on the provider market". However, it is the case that currently early years funding rates are based on a 2015 Department for Education (DfE) review into the cost of delivering childcare, which itself was based on outdated departmental provider cost data (such as wages, mortgages and utilities costs) from 2012 and 2013. Although the government did launch a call for evidence on the cost of providing childcare in 2015, receiving responses from around 2000 practitioners, the request for information was far too broad and the DfE admitted that it was not able to use the data received in this call for evidence; hence its reliance on old departmental data instead.

3.2 It is important to note that the oft-cited 2016 National Audit Office description of this government review as "thorough and wide ranging" is based on the understanding that the review "used a variety of sources, including evidence from 2,000 providers and other stakeholders…" which, as outlined above, is not the case.

3.3 What's more, the 2020 National Audit Office report, *Supporting disadvantaged families through free early education and childcare entitlements in England*, states: "Providers have faced cost pressures in recent years, including increases to the national minimum and living wages and pension contributions, but the Department's funding rates are based on cost data from 2015 or earlier" and notes that "the Department's studies potentially under-stated the average hourly cost [of delivering childcare]".

3.4 Back in 2018, the Treasury Committee's own Childcare Inquiry noted that: *"The Department for Education's 2015 Cost of Childcare Review relies on wage data from a survey carried out in 2013, and rent and other overhead costs from a survey carried out in 2012. The Committee has not seen any evidence to justify the Chief Secretary to the Treasury's evidence that the increases in the National Living Wage have been factored into the hourly rates provided by central Government to local authorities and childcare providers.*

"It is highly likely that increases in other costs, such as pension auto-enrolment and business rates, have also not been factored into the central Government hourly rates. The Government must ensure that the hourly rate paid to providers reflects their current costs. It should also ensure that the hourly rate is updated annually in line with cost increases. Setting the funding level with reference to wage and overheads data that is more than five years old is unsatisfactory." (Paragraph 111).

3.5 Since 2017, the only increase to overall early years funding levels has been a £66m investment which took effect in 2020/2021 and amounted to approximately 8p extra per hour per child to local authorities. It should be noted that underlying data from the Department for Education's own Survey of Childcare and Early Years Providers 2019 shows that between 2018 and 2019, the average annual cost of delivering childcare for private and voluntary group-based providers increased from £199,708 to £240,333: a 20% rise. To put this into context, the £66m funding uplift for 2020/21 amounted to no more than a 2% increase – and even these small increases have not always been fully passed on from councils to childcare providers.

3.6 In December 2018, the Alliance filed a Freedom of Information Act request to the DfE asking for proof that future rises in delivery costs such as the National Living Wage were taken into account in the formulation of the early years funding rates that came into effect in April 2017. The Department for Education has refused to release this information despite being ordered to do so by the Information Commissioner's Office. This request is now subject to a First Tier Tribunal and is currently awaiting a trial date. It is our view that if this data is robust and clearly demonstrates that rising delivery costs were indeed built into the original funding rates, the Department would not be taking such extensive action to block its release.

3.7 As a result of the above factors, independent early years analyst Ceeda has estimated that, in 2020/21, the cost to a nursery or pre-school of delivering an hour of early education and care for two-year-olds is £7.39, compared to a funding rate of £5.38: a shortfall of £2.01; while the cost of delivering an hour of early education and care for three- and four-year-olds was £5.47, compared to a funding rate of £4.57: a shortfall of £0.90. It should be noted that these figures relate to the funding received by frontline providers, not local authorities, and that Ceeda's research relates specifically to private and voluntary early years providers.

This equates to an estimated total annual funding deficit of £509m in 2020/21, assuming wages rise strictly in line with statutory increases. This deficit increases to

£750m when cross-subsidies for younger age groups are taken into account (most early years providers are forced to spread the cost of care for under-twos across fees for older children in order to offer viable fees for this younger, more expensive, age group).

Ceeda has also modelled the sector funding shortfall if average pay inflation since April 2019 is assumed to be 3.6%, rather than in line with statutory rises – in this instance, the total shortfall would be £824m. However, in recognition of the impact of coronavirus on wage increases in the sector, Ceeda estimates that actual wage increases will sit somewhere between these two positions, and so taking the average of their funding shortfall models (one based on wage increases in line with statutory wage rises and the other based on average wage increases of 3.6%), estimates a total funding shortfall of £529.2m for nurseries and pre-schools, rising to £770.5m when cross-subsidies for all age groups are factored in; and £30.4m for childminders, rising to £44.5m when cross-subsidies for all age groups are factored in.

3.8 As a result of this sustained underfunding, the early years market has seen a remarkable and concerning level of churn over recent years. Between August 2017 and July 2020, there has been a total (gross) loss of 19,929 early years providers. This averages out to a net loss of 569 providers each month. Even factoring in new providers coming into the market, there has still been a net loss of 6,741 early years providers (10.3% - from 65,422 to 58,681) during this period, averaging out to a net loss of 192 providers each month.

This is mostly due to a large and sustained outflow of childminders from the sector (6,225 total net loss or 15.5%, and 178 providers a month). A significant loss in childminders will have a real impact on the provision of flexible and particularly wraparound care for parents. This type of care is even more important in light of new working arrangements during the pandemic, with parents doing staggered work times such as starting early or working late.

3.9 As such, it is our view that the government's assertion that it "does not consider that an independent review of childcare provision is needed" is wholly misguided. We recommend that any future funding decisions affecting the early years sector must be based on an accurate and up-to-date understanding of provider costs, and that the government should look to commission a new, comprehensive and in-depth independent review of childcare provision, and specifically, provider delivery costs.

The government also must commit to reviewing and revising early years funding levels on an annual basis ensure that funding rates reflect rising provider costs, particularly increases in the national living and minimum wages.

3.10 We recognise that budgets in all government departments are under substantial pressure and money must be found to be able to increase funding in any particular area.

However, government figures published in response to a Parliamentary question from Tulip Siddiq MP (WPQ 88366) show that spending on tax-free childcare between 2017/18 and 2019/20 was just £385m compared to an original forecast of £2.1bn – a huge £1.715bn underspend.

While we recognise that this is a separate policy, this is investment that the government intended to use to support parents' access to childcare and early education. As such, it is our view that the government should look to reallocate funding currently allocated to this scheme to the 'free entitlement' offer.