COUNTY COUNCILS NETWORK

CCN

Analysis

Managing post-COVID childcare markets

September 2020

INTRODUCTION

The COVID-19 pandemic has disrupted almost every aspect of UK society and particularly impacted on its public services. Local authorities have been at the forefront of the response to this impact, leading local emergency responses – including co-ordinating local public health operations; facilitating the shielding of vulnerable residents; maintaining existing social care and wider community services; and more recently undertaking responsibility for managing local Test and Trace initiatives.

Much of this has, by necessity, taken place at a breath-taking pace, leaving little time to be able to reflect on the future. But as events move into the new phase of recovery it is becoming increasingly clear that the post-COVID world will not just be returning to 'business as usual'. Whilst it is still too early to firmly predict what all the medium- to long-term effects of this unprecedented period will be, the onset of the virus has already exposed some existing fault lines within public services which are likely to become urgent matters of policy in the coming decade.

Most prominently this includes the unquestionable imperative for reform of the adult social care system – a subject which CCN has long advocated for and one which it will continue to support, lobby and advise the Government around on an ongoing basis.

Less trumpeted, but no less insidious though, are the destabilising effects the pandemic has wrought on the childcare sector. At the heart of this issue are many of the similar characteristics and challenges to those in the market for adult social care, including:

- local markets made up of diverse provision, run mainly by private and voluntary providers supported by certain amounts of state-subsidy;
- existing market instability even before the pandemic occurred;
- demand dramatically curtailed by COVID-19 and uncertainty about future take-up of care services post-COVID;
- a low-paid workforce vulnerable to economic shocks/regulatory policy and the additional impact of Brexit.

Some of the issues facing the childcare sector have been vocalised publicly in recent months – by providers and more recently by the Children's Commissioner. Often the narrative might suggest these are issues which will affect individual businesses or inconvenience families on a piecemeal basis.

But the reality is the impact may be far greater. Without quality childcare there is a risk of not only (a) losing a vital means to narrow educational gaps in the crucial early years period; but also (b) further disrupting the economy at a time it is already experiencing multiple shocks from COVID-19, from changing working patterns, and imminently the unpredictable impact of adapting to Brexit.

The former is a slow-burn issue, but should not be ignored. The Government has made it clear it remains committed to a 'levelling up' agenda and maximising opportunities for social mobility. Voluminous research and analysis over many years has shown that quality early years and childcare provision is a key means to helping children achieve their full potential - particularly those from most the vulnerable backgrounds. **[1]**

But the second issue may prove to be both more immediate and more visible. Reforms over recent decades have quietly and effectively transformed childcare into nothing less than a vital public utility – one which successive Governments have invested in extensively over a quarter of a century. Should the system collapse overnight the knock-on impact on the economy can be paralysis – as indeed there is some international precedent for from Australia earlier this century. **[2]**

This issue matters to local authorities as they hold responsibility for managing local childcare markets – indeed they have a lawful duty under the Childcare Act 2006 to provide sufficient childcare in their areas. County authorities may be particularly vulnerable to market disruption given that there is already less childcare choice for communities in more remote rural and coastal regions than in densely populated urban areas. The impact of a single childcare provider closing is likely to be far greater in communities where the nearest alternative is ten miles away rather than a couple of streets round the corner.

As such CCN has prepared this short report with the input and support of its member councils to examine the early signs of what a post-COVID childcare market will look like. The findings provide some insight into how they are supporting their local childcare markets in the wake of COVID-19. Its content is based on a survey of CCN's network of 36 county and unitary authorities conducted during summer 2020 - 25 responses were received, representing a response rate of 69%.

The report considers some of the challenges local authorities are already preparing for that are expected to arise from the impact of the pandemic on childcare providers. It also gathers thinking from the ground of what remedies can be put in place now to ensure that the welcome and consistent investment in childcare over recent decades is protected through stable transition to whatever the 'new normal' looks like as the recovery gathers pace.

However, as this report goes to print the situation is already in flux again as an upsurge in the spread of the virus forces the re-introduction of some social restrictions. Should these need to be extended further during the autumn then the outlook may become pessimistic given many projections for protecting the market are (in the words of one respondent) ***"dependant on the further impact of future COVID-related restrictions and closures"***. It is in this context which CCN calls on the Government to pay serious attention to building on its good work so far and continuing to guarantee the future of a sector which remains crucial to its levelling up agenda, both in terms of economic growth and the life chances of children.

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[1] Perhaps most notably this is the position advocated by the Education Endowment Foundation, an independent charity dedicated to breaking the link between family income and educational achievement: https://www.publicfinance.co.uk/opinion/2019/03/early-years-policy-should-tackle-social-mobility-divide

[2] This article provides an overview of the effect of ABC Nurseries' collapse in 2008 and the subsequent imperative placed on the Government to prop up the sector: https://www.nurseryworld.co.uk/news/article/analysis-australia-childcare-reformed-in-wake-of-abc-collapse

EXECUTIVE SUMMARY

CONTEXT

Most recent analyses of the impact of COVID-19 on childcare have understandably concentrated on the immediate plight of childcare providers and the absolute numbers at risk of closure. The findings of this report differ slightly as they focus on the local authority market management role in relation to childcare and the ability for county authorities to meet their duty to provide "sufficient childcare". As such it considers not only the overall supply of childcare going forward, but also the predicted impact of the pandemic on 'demand' and whether there will be 'sufficient' childcare in the immediate future in the wake of the onset of COVID-19.

KEY FINDINGS

- At this stage most providers (76%) were quite or very confident of meeting their childcare sufficiency duty in 2021/22. 24% felt this question was presently in the balance – particularly depending on whether future lockdowns were required – but encouragingly none felt complete market collapse was an issue of concern as yet.

- However, some authorities did specifically note that they expected to meet their sufficiency duty in part because demand for childcare would decrease and some providers would inevitably be forced into closure.

- It is expected that childcare market disruption will not fall evenly, and the overall sufficiency of childcare is likely to fluctuate both between and within different local authorities. Areas with an already lower supply of childcare – such as more remote rural regions – may be more susceptible to sufficiency challenges.

- Given the present uncertainty there is concern that if the childcare market contracts now, it may disrupt economic recovery in some areas if working patterns start to return to normal more quickly than expected.

- As market managers local authorities will need to be adept at ascertaining which providers are most viable; which would not be sustainable even in normal market conditions; and which are strategically important to meeting sufficiency but will require support to ensure they can return to viability when the market recovers fully.

- 96% of responding county authorities had received requests for financial support since the onset of COVID-19.

- All respondents expected some childcare providers to close as a result of the pandemic. 80% felt that this could potentially affect up to 10% of local childcare providers, but a fifth believed the impact may stretch as high as 25% of the market.

- Childminders were felt to be the type of childcare provision most at risk of closure. Sessional Pre-schools, a type of provision which has been in decline for some time but remains important in some smaller, remoter, areas were also felt to be at high risk.

- Just over half of responding authorities felt the local Day Nurseries were at significant risk of closure – with slightly more believing private nurseries were at risk than those in the charitable sector.

- Local authorities have provided a wide range of support to help prop up their local childcare markets including direct financial help; but also through advice and guidance; providing direct health and safety support and equipment; brokering childcare places and staff transfers to available settings during lockdown; and offering online training for providers.

CONCLUSION AND RECOMMENDATIONS

This report concludes that at present local authorities believe that they will be able to ensure sufficient childcare across the coming year. But there is no room for complacency, particularly now that social restrictions have begun to be reintroduced as the spread of the virus starts to take hold again. County authorities are especially concerned about the impact on remoter rural and coastal areas where childcare choices are already more limited and the closure of one provider may cause significant local disruption.

Part of the reason the childcare sector has not been hit by the COVID-19 pandemic more deeply yet has been because of the rapid response and packages of support provided to it by central and local government, scaffolding the ongoing commitment and flexibility of providers. Much of local government's response has been made possible by the emergency funding authorities have received to support additional costs caused by COVID-19.

Financial support is being withdrawn gradually across the autumn, but the childcare market is unlikely to return to normality for some time putting many providers at risk. The central concern for county authorities is that where childcare provision is lost in this period it may provide a significant drag on economic recovery efforts as the pandemic subsides.

In light of the evidence provided in this paper CCN makes the following recommendations to Government:

- **Recognise local authorities' childcare responsibilities in their Spending Review settlement and further rounds of emergency funding for COVID-19 costs.**

- **Set up an emergency grant scheme to help support childcare providers which are strategically important for childcare sufficiency but need additional support to ride out the pandemic.**

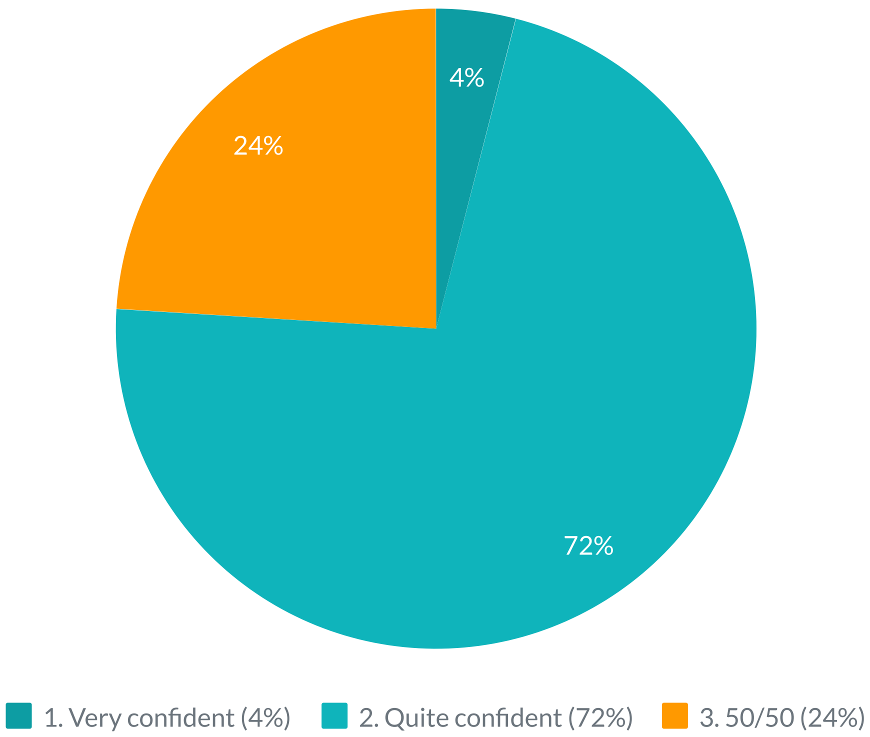
- **Review the levels of funding for the free entitlement within the Early Years Block of the Dedicated Schools Grant.**

ANALYSIS

CHILDCARE SUFFICIENCY

The first survey question asked member authorities how confident they felt now about meeting their childcare sufficiency duty during 2021/22, given the expected impact of the pandemic on local childcare markets by this time.

QUESTION 1: On a scale of 1-5 how confident is your local authority of meeting its childcare sufficiency duty in 2021/22?



At present only one local authority (4%) was 'very confident' that they would be able to meet their childcare sufficiency duty next year. Just under three-quarters (72%) of those surveyed remained quite confident of fulfilling their statutory responsibilities in 2021/2 at this stage – but unsurprisingly were cautious about stating so categorically given the uncertainty at this stage.

A quarter of respondents were less upbeat but suggesting they felt that it was 50/50 at this stage whether they would experience problems with sufficiency next year. However, more encouragingly no authority stated they were 'not confident' or 'concerned' at this stage that their market would collapse entirely.

It is important to note, though, that some respondents emphasised that this did not mean they did not expect providers to close – in some areas it might be that they would be meeting childcare sufficiency simply because the entire market would contract:

"We are quite confident that we will be able to meet the childcare sufficiency duty. There may be some providers who close but this is likely to be because of a fall in demand which means we will continue to meet the sufficiency duty."
Head of Service, County Council

"...there is likely to be a significant change in the demand for childcare as we move forward. With higher levels of unemployment and more parents with different working patterns etc, I do not think it realistic to expect that the demand for places will be the same as previously."
Service Manager, County Unitary Authority

Indeed some authorities were picking up more optimistic signals about the immediate future:

"Some settings have started saying they are getting reasonable bookings for September."
Director of Children's Services, County Council

But it was also clear that authorities were not expecting market disruption to fall evenly across the areas they were responsible for - particularly given the more remote rural and coastal areas in counties where the impact of a closure may have a greater impact on local childcare sufficiency:

"... there may be areas within the county that require specific attention where providers close."
Sustainability and Development Manager, County Council

Authorities were also mindful that issues relating to childcare sufficiency were likely to play out over time and this may have an impact on the speed of economic recovery further down the line:

"...in the longer term when the demand for places potentially increase due to work patterns resuming normality 2021/2022 we may find ourselves in a position of potential shortage of childcare places should providers have been lost due to reduced demand for places and cash flow impacting on the current sustainability situation."
Service Manager, County Council

Authorities were also mindful that issues relating to childcare sufficiency were likely to play out over time and this may have an impact on the speed of economic recovery further down the line:

"There will be many challenges as we continue the recovery but one of the biggest will be knowing which settings we should be supporting and which that we will have to adopt a hard line with."
Service Manager, County Unitary Authority

Post-COVID demand for childcare - an unknown market factor

A major unknown factor which local authorities are having to balance in their market management role is what the future demand for childcare will be. Whilst a 'V-shaped' recovery looks increasingly unlikely, there are more substantial trends which look likely to dramatically reshape working patterns going forward.

1) ***Increase in unemployment***: present forecasts are for a post-COVID increase in unemployment in England by the end of the year on a scale unseen for decades. This will undoubtedly present viability issues for childcare providers and a degree of necessary consolidation of the market over the short-medium term.

Although childcare providers are accessed by families who are not in work – usually through the free entitlement to early education – many nurseries state they accept a fixed funding for the this entitlement from local authorities which is below the rate they charge on the open market. This means that effectively it is the fees from working parents placing children in full-time care, additional to the free entitlement which helps to cross-subsidise the overall delivery of the nursery. Without this additional income many are likely to face closure – or at the very least will need to substantially scale back what they can deliver:

> ***"Providers who have a high number of fee-paying parents appear to be hit hard."***
> Senior Manager, County Council

2) ***Home working***: on the face of it an increase in home-working is unlikely to directly dampen demand for childcare, given most parents know from recent experience that attending to a very young child and concentrating on completing paid employment are, by and large, incompatible tasks. However, there are likely to be hidden trends which will play out over coming years which may affect a significant proportion of the population:

- *Less need to cover commute times* - parents who at present place their child in local childcare and then commute may no longer need to pay to cover their travel time. Losing an hour at the start or end of the day may place additional strain on the business models of some providers – particularly childminders – although this may be mitigated for many daycare providers who charge flat rate fees for a whole.
- Later enrolment - the flexibility of home-working may lead some parents to enrol their child in childcare for the first time at a later stage or for less hours if they feel reintegration to the workplace is something that can be achieved more flexibly than in strict 9-5 boundaries.

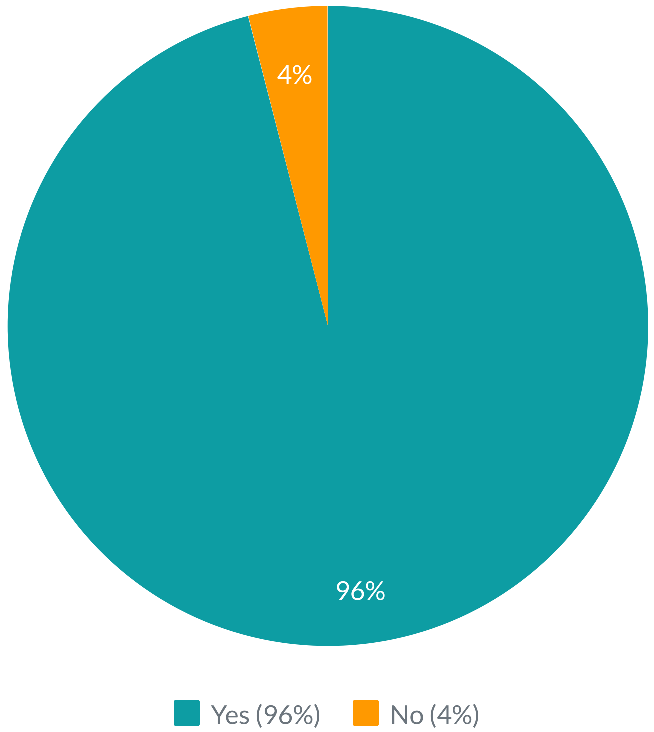
3) ***Relocation***: whilst it is too early to determine whether the pandemic will lead to long-term trends in where people live, there has been speculation about whether a combination of home working as indicated above, but also concerns about living in densely populated areas, may lead more young families to settle outside of cities in the future.

If this comes to pass the medium- to long-term outlook may lead to a more significant re-organisation of the childcare market.In particular if parents no longer commute into a city to work, then this may redistribute demand away from central city or town childcare providers towards more local options.This may cause demand increases for county authorities as well as a fall in demand in city areas, which local authorities will need to be prepared to manage both individually and collectively.

FINANCIAL ASSISTANCE

All but one responding LA said that they had been approached by local childcare providers for support in the wake of the impact of the pandemic.

QUESTION 2: Has your local authority been contacted by local childcare providers asking for financial assistance since the COVID-19 emergency commenced?



Even the one authority which had not been asked for financial assistance indicated it had been contacted by providers about their financial concerns – but suggested that the situation had been pre-empted by the immediate injection of Early Years Entitlement Funding regardless of whether a setting had remained open or closed.

Another stated that requests had been ***"predominantly from tenants for rent reductions with* [the local authority]"** – perhaps a recognition by private providers of what was and wasn't practically within the local authority's gift to support them.

More recently contact with providers suggested that whilst many had weathered the immediate storm of the national lockdown, they were now very concerned about the impact of a 'second wave' and a local closures:

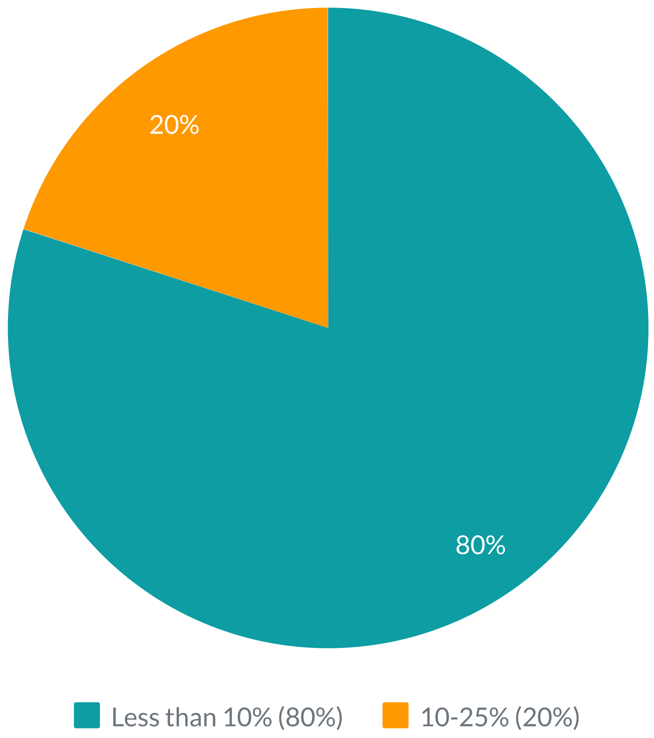
> ***"…we have also had a number of providers say that should they be hit with a localised closure that they would not have the funds to re-open."***
> Service Manager, County Council

"...the information that we have received indicates that providers have... further concerns over the stability of the environment, i.e. further COVID-19 lockdown restrictions being enforced, impacting on business operations."
Service Manager, County Council

LEVEL OF THREAT TO LOCAL CHILDCARE MARKETS

All authorities responding felt that at least some of their local childcare providers were at risk. Although most felt that – at this stage at least – the threat was limited and none were expecting something more akin to total market collapse of more than a quarter of their providers leaving the market. The majority – 80% of respondents - felt that the most likely scenario was up to 10% of their local providers would be in danger of closure.

QUESTION 3: What proportion of your childcare market do you believe is likely to face closure due to the financial pressures of the pandemic?



Some respondents were optimistic about the impact on their local market:

"...although 10%+ [of providers] ***face risk of closure we anticipate that, with support, some of these will be able to remain open, dependant on further impact of future COVID-related restrictions/closure."***
Service Manager, County Council

But this was likely to be dependent on the individual financial position of providers before the pandemic hit:

> ***"We estimate that** [the number of providers under threat of closure] **is less than 10% based on responses received to a question asking providers the position of their financial status pre-COVID19 i.e. operating at a loss, generally breaking even or carrying forward a reserve."***
> Early Years Lead, County Authority

There was also the possibility that some struggling providers may be taken over – perhaps by larger businesses looking to grow their position in the market:

> ***"We are still seeing interest in providers establishing new provision and experience and data indicates that some closures will not be realised as alternative providers in the market will take over existing provision rather than the setting closing."***
> Director of Children's Services, County Council

...although the same respondent qualified this was not certain in the present circumstances:

> ***"We have noticed a decline in the numbers of new providers generally through the summer period."***
> Director of Children's Services, County Council

For county areas there are significant geographical issues – particularly rurality and sparsity – which are likely to significantly distort how the childcare market reacts even within a single local authority:

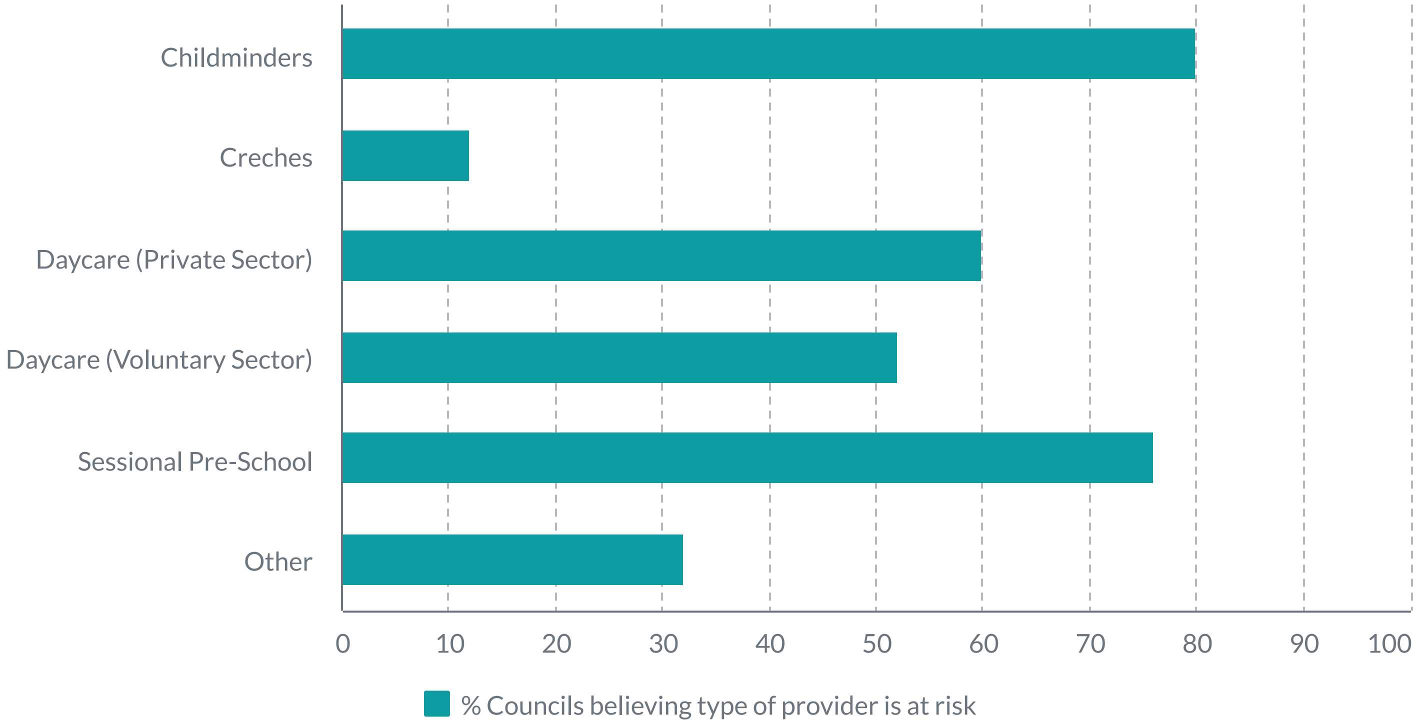
> ***"The large geographical nature of** [the county] **and the very varied demographics are expected to give** [the local authority] **substantial localised variations of impact across the county as there are different types of need in response to localised demographics. Rurality pressures will also have an impact as smaller standalone providers usually provide care in these areas."***
> Assistant Director, County Council

There was in general agreement that the autumn term was likely to be crucial in determining what the extent of the impact of the pandemic on the market was likely to be:

> ***"Autumn term 2020 will be key to whether providers are able to rebalance, adjust their offers and continue into the future."***
> Assistant Director, County Council

TYPES OF PROVIDER AND MARKET STABILITY

QUESTION 4: Which types of childcare provider do you believe to be at most risk of closure over the next year?



There was a wider diversity in which types of provider were felt to be at risk of closure in response to the survey – perhaps reflecting the highly localised nature of childcare markets in different parts of the country, exhibiting different trends of supply and demand.

The type of provision of most concern was childminding which 80% responding authorities believed they had providers at risk of closure. This was partly because usually childminders most often operate as sole traders so have less ability and/or resources to ride out the pandemic. Although many will have benefitted from support from the Self Employed Income Support Scheme (SEISS), it is not clear whether this will be enough in all cases to sustain them until the market recovers. Childminders are also vulnerable as they receive less free entitlement funding and are more reliant on income from parental fees – important as free entitlement funding has continued to be paid on the basis of expected take up rather than actual take up, but parental fees have been significantly affected. **[3]**

In some cases childminders' ability to trade during the pandemic may also have been affected by their own children not being able to attend school – limiting the scope of their registration to care for others:

> ***"Shared care arrangements are limiting childcare providers, particularly childminders."***
> Director of Children's Services, County Council

[3] A point emphasised in the recent childcare market study conducted by the Institute for Fiscal Studies: https://ifs.org.uk/uploads/R175-Challenges-for-the-childcare-market-the-implications-of-COVID-19-for-childcare-providers-in-England-1.pdf

However, there was also some expectation that there may be new childminders entering the market in the immediate aftermath of the crisis, as newly redundant former workers look to establish a new career – although the evidence so far varied from different areas:

> ***"Likely to see some childminders exiting the market going forward. There are still some new childminders entering, but this seems at a lower level then pre-COVID currently."***
> Director of Children's Services, County Council

> ***"...since COVID we have also seen an increase in the numbers expressing an interest in registering as childminders."***
> Service Manager, County Council

Just over half of respondents believed Day Nurseries were significantly at risk of closure, although a slightly greater proportion (60%) felt private pre-schools were at risk than those run charitably (52%). This might partly reflect a perceived greater amount of small providers with an individual or small cluster of settings in the private sector, particularly reliant on wraparound care and parental fees – for instance due to their potentially being more likely to cater for younger children and babies who are not eligible for free entitlement. However there may also be a belief that nurseries in the voluntary sector may have alternative diversified funding streams open for them to pursue through their charitable status – particularly in the case of those operated by large national charities.

But this may prove to be an optimistic view as the voluntary sector is suffering different financial challenges in the wake of the pandemic.[1] One is the recognition that measures to prevent the spread of COVID-19 such as lockdown, social distancing and the banning of mass gatherings have left charities with less scope to fundraise externally to supplement lost income from activities such as nursery provision.

But also it is likely charities will be less willing or able than businesses to undertake loans to survive, even under generous terms such as those provided by the Business Bounce Back Loan scheme – in larger charities, particularly, trustees may feel uneasy about accruing debt which could end up falling back on a wider menu of charitable activities and might instead find it safer to shut down a loss-making nursery than risk the whole work of a particular charity further down the line.

However, the perceived vulnerability of voluntary providers is also indicative of the variable composition of provider-type from authority to authority, and potentially the fact that voluntary settings tend to be located in areas which are less likely to be attractive to profit-making providers anyway:

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[4] Earlier in the year as the effects of the measures to control pandemic had become apparent, the National Council for Voluntary Organsations (NCVO) suggested charities risked losing £4bn in lost income and fundraising just during the 12 weeks of lockdown. The Government has pledged £750m in support packages but the long-term effects on the sector are yet to be determined – particularly if a second wave of the virus takes place. The House of Lords debated this issue in April 2020 highlighting some of the specific challenges ahead: https://www.parliament.uk/business/news/2020/april1/lords-debates-fundraising-challenges-during-covid-19-pandemic/

> “[The local authority] ***has a higher than average number of voluntary providers due to the rurality of our county. Our financial survey alongside a local partner organisation survey specifically for the voluntary sector, highlighted that the voluntary charitable settings are extremely vulnerable locally.”***
> Service Manager, County Council

Another effect of the disproportionate impact on the voluntary sector was reflected by over three-quarters of respondents being concerned about the future of sessional pre-schools – a type of provision overwhelmingly provided by small voluntary organisations:

> ***“Our survey showed that childminders and pre-school playgroups (voluntary) experienced the biggest drop in income throughout COVID.”***
> Service Manager, County Council

Sessional pre-schools as a type of provision have been in steady decline anyway over the past two decades, as the gradual professionalisation of the childcare sector (and in particular the extension of the free entitlement to childcare) has shifted most provision towards a full daycare business model. **[5]** However, sessional care can often still be an important component of childcare provision in some remote or rural areas in counties which might otherwise be unable to sustain any other local provision on a full daycare basis. As such the impact of the pandemic presents a potential threat to easily accessible childcare and early education entitlement (for non-working parents at least) in small isolated communities.

About a third of respondents were worried about the future viability of other types of childcare provision. Mostly this was expressly about wraparound care such as before and after school clubs – although the lower levels of concern may be explained due to of this type of care most often being provided directly by schools themselves anyway, and thus expected to re-emerge naturally as schools reopen.

Few local authorities were directly concerned about the closure of creches – most probably as this type of provision rarely forms an essential component of a local childcare market, often being linked to specific employers in any case. Nonetheless some considered them a risk simply because they were concerned about the holistic nature of the impact of COVID-19:

> ***“All providers are at risk of closure, it is not dependent on the type of provision, but the location, associated costs with running their business and quantity of families wanting to return to childcare during the next year - this is heavily based upon the economy and those parents that require childcare for work or other commitments.”***
> Service Manager, County Council

[5] Indeed, over the last decade separate registrations for sessional care and full daycare by Ofsted have ceased and all group daycare registrations amalgamated. Since the government’s childcare and early years providers survey was reinstated in 2016 after a three year hiatus sessional care is no longer listed as a separate type of provision and exact figures for the number of providers of this type of care are no longer clear.

SUPPORTING LOCAL CHILDCARE MARKETS

QUESTION 5: What support has your local authority given to the early years sector since the COVID-19 pandemic started - financial or otherwise?

The CCN survey asked member authorities an open question to explain the ways which they had been supporting their local childcare market since the onset of the pandemic. Local authorities fed back a wide range information about initiatives they had instituted to help their providers to manage delivering care safely during a pandemic, as well as supporting them to manage the impact of lockdown on business.

The different type of support fell broadly into five categories. The tables below contain lists of many of the activities which county authorities have typically been engaged in to help maintain as much functionality in the childcare market as possible despite the unprecedented circumstances.

Direct Financial Support

- Following Government guidance on paying providers early years' entitlement funding in full throughout the pandemic period with no claw back mechanism.
- Providing an uplift in hourly rates of early years' entitlement funding.
- Paying a fixed amount per child or a premium rate of early years entitlement funding (e.g. double) to settings taking children of key workers and/or vulnerable children from other settings that had closed, and for staying open over bank holidays.
- Support with extra funding entitlement claims for additional key worker children accessing childcare places at alternative provision.
- Supporting families with additional childcare costs if required.
- Initiating Discretionary Funds/Hardship Funds/Early Years Sustainability Funds to support childcare providers.
- Rent holidays and payment plans for providers renting local authority accommodation.
- Debt holidays and payment plans to those who owe money to the LA (e.g. for over-claiming etc.).
- Suspension of administration charges by the LA.
- (In two-tier county areas) ensuring District and Borough councils within the county had up to date lists of all providers who could be eligible for the business rate holiday.
- Providing tools to support with cash flow forecasting, impact assessments and employment advice
- Operating a risk analyses of providers using financial data that is public information.

COVID-19 & Health Support - PPE/Test and Trace etc.

- Providing local COVID-19 risk assessment guidance and offering ongoing interpretation of central guidance for providers.
- Personal Protective Equipment (PPE) – funding, sourcing and delivering.
- Prioritising childcare as a central part of local Test and Trace arrangements.
- Liaising closely with child protection teams/MASH to embed early years and childcare as a key means of child abuse/domestic abuse identification during lockdown.
- Use of COVID-19 grant to support the sector with health and safety adaptations – e.g. further toilets; outdoor shelters to increase capacity for larger/more bubbles to support more children to return.

Guidance and Briefings

- Offering advice and guidance on funding sources available - business rates relief; business support grants; discretionary grant etc.
- Regular telephone and online briefings.
- Ongoing communications updates:
  - dedicated COVID-19 email addresses
  - bespoke webpages
  - weekly digests
  - social media – e.g. Facebook/Twitter/YouTube to provide updates, information and training
  - ‘keeping in touch’ calls from council officers.

Training and Qualifications

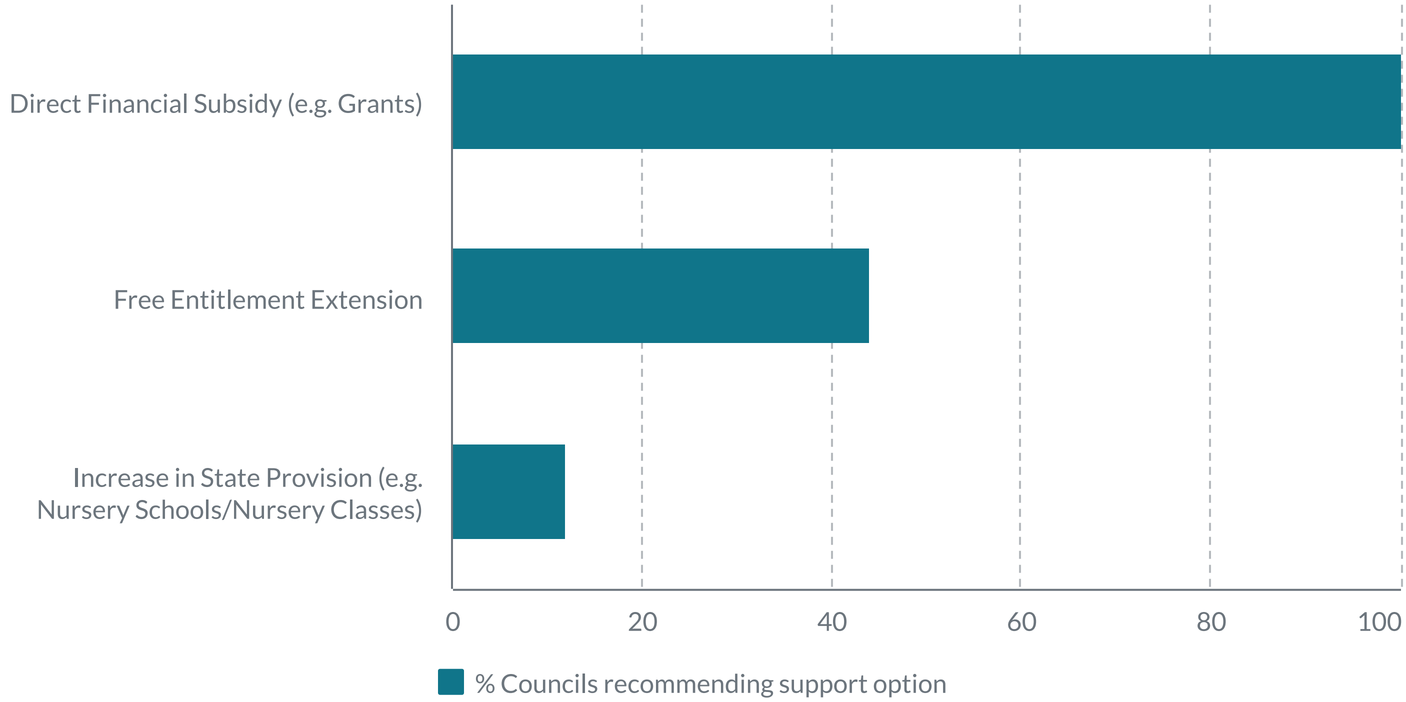
- Offering training courses around COVID-19 safety measures.
- Providing Early Help Assessment (EHA) training to support providers who may have experienced an influx in safeguarding concerns.
- Directing providers to online qualifications courses – particularly to support staff unable to work directly during lockdown.
- Webinar based training/other virtual platforms offering topical webinars (Risk Assessment; Key Person Globes; Supporting Bereaved Young Children)
- Signposting to educational resources/learning platforms etc.
- Continuing direct support for settings with Requires Improvement or Inadequate judgements during the pandemic.

Supporting local families and brokering local supply and demand

- Establishing a brokering service for childcare places between providers and critical workers/parents of vulnerable children (particularly important as some settings closed and eligible children needed reallocating to alternative childcare providers).
- Mapping open provision for vulnerable children.
- Family Information Service updates for open/closed providers and updated list of holiday childcare providers.
- Helping providers establishing virtual tours of premises for new customers.· Working with providers to offer home learning updates and online story times for children and families.
- Maintaining support with transition for children starting school in September 2020 – particularly for children with special educational needs and disabilities (SEND).
- Running local campaigns to reassure parents that returning to early years provision is beneficial to children.
- Staff brokerage – e.g. identifying staff that were available to support at another setting if the setting they were employed by was not open.

WHAT SUPPORT SHOULD CENTRAL GOVERNMENT PROVIDE?

QUESTION 6: What support from central government would best help your early years market to recover from the pandemic?



Finally respondents were asked to suggest which of three options for central government support they believed would be most effective in helping support the childcare sector to recover from the pandemic:

i) Direct Financial Support (e.g. Grants)
ii) Extending Free Entitlement Funding
iii) Increase in State Provision (e.g. Nursery Classes/Nursery Schools)

Every respondent to this CCN survey felt that the only way in which they could be confident their childcare market could be fully protected would be through direct financial support in the way of grants.

Fundamentally childcare providers have faced a period where they have lost income, but still incurred costs in line with many other businesses. With central government recommendation local authorities have continued to pay free entitlement funding during lockdown **[6]** as well as offering emergency funding from LA budgets and establishing other means of support outlined in the previous section such as supplying settings with PPE or offering advice and guidance on other sources of funding. **[7]**

However, where childcare as businesses have faced additional challenges this has been due to the varying proportions of public funding received by individual settings. The continuing supply of free entitlement funding by local authorities has been welcome and crucial to helping prop up the sector. But it must be remembered that for most providers this does not represent their only income, just a proportion based on how many children eligible for the entitlement they cater for. **[8]** Many settings rely on the income received caring for non-eligible children or for extra hours outside the entitlement to remain viable – which is discussed in more detailed further in this section.

This has not only distorted the extent of losses made from provider to provider during the crisis making it difficult for authorities to target support. The continuing state support has also blurred the support the childcare market has been able to receive from other sustainability funding issued during the pandemic such as the Coronavirus Job Retention Scheme (CJRS), despite being forced to close to most children just like schools but without the security of full state funding:

> *"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. This also applies to non-public sector employers who receive public funding for staff costs."* **[9]**

[6] Funding has been provided by local authorities regardless of whether a setting has stayed open or not. As referred to in the previous chapter some local authorities indicated that they had offered a premium rate to those providers staying open to care for vulnerable children and those of key workers. But only from the autumn term has it been stipulated that a setting must be open to continue receiving a rate of free entitlement at the same level as during autumn 2019 regardless of how many children attend in 2020.
[7] The Government issued guidance covering how to obtain emergency financial support during the pandemic for childcare providers alongside other children's providers: https://www.gov.uk/government/publications/coronavirus-covid-19-financial-support-for-education-early-years-and-childrens-social-care
[8] 15 hours universal entitlement for all three- and four-year-olds, 15 hours for the 20% most deprived two-year-olds, and 30 hours for three- and four-year-olds where every adult in the household is working full-time.
[9] https://www.gov.uk/government/publications/coronavirus-covid-19-financial-support-for-education-early-years-and-childrens-social-care

The reality is most childcare providers receive a variable combination of free entitlement funding and private fees to meet a similarly variable combination of fixed costs including staff wages as well as premises and equipment. It is understandable that the Government would not want to be double-funding businesses by accident – e.g. by paying CJRS to nurseries claiming free entitlement anyway – and CCN supports the IFS's recent findings that the right decision was taken with regard to eligibility for furloughing childcare staff to reflect the proportion of state income their setting receives, for example. **[10]**

However, given the complexity of the childcare market, its value as a public utility, and the key role it will play in economic recovery, it is also understandable that county authorities are in favour of grants now that wider national approaches such as CJRS and the Self Employment Income Support Scheme (SEISS) are being wound down. Targeted strategically to help protect the childcare sector such grants represent the best solution to cover expected losses in private fee income that otherwise commercially-viable providers will face until parents regain trust it is safe to return to normal – and more widely until the economy recovers properly:

> ***"The best support central government can give is a guarantee of income: e.g. getting paid roughly what they were paid last year. This is achievable via the Early Years Block for funded places however the short fall is in the expected longer-term drop in fee paying parents. Possibly grants to cover this drop in income would be useful."***
> Head of Early Years, County Authority

Obviously some local authorities indicated have to some extent already been supplying targeted grants of this sort to childcare providers in strategic fashion, partly funded by the emergency funding which has been provided to them by the Government. This may explain why they analysis of CCN members, whilst alarming, is not forecasting the impact of COVID-19 on childcare providers to be as devastating as some organisations have predicted.

However, as the impact of the pandemic continues to stretch across the year and councils face myriad pressures from all services – not least social care – the Government must seek to provide a more secure solution to ensure that this outlook does not deteriorate, particularly if a second wave of the virus during the winter causes further lockdown measures.

The need to cover the proportion of providers income obtained from private fees explains why less than half of local authorities thought that funding problems could simply be solved by extending the free entitlement any further. This issue is similar to one of the challenges councils have in addressing Adult Social Care where private funders are in many cases paying higher fees which cross-subsidise a shortfall in money that providers receive from the state:

[10] https://www.ifs.org.uk/publications/14990

> ***"Our concern with* [extending the Early Years Education Entitlement (EEYE) funding] *is that it would make more childcare businesses close in* [the local authority] *as they rely heavily on private fees. Currently the EYEE funding does not cover running costs and this is the difficulty the sector is facing now and prior to COVID. If* [the Government] *were to extend to all 2-year olds or all working families this restricts them from generating any other income other than EYEE."***
> Early Years Manager, County Authority

Therefore whilst some respondents were enthusiastic about the idea of extending the free entitlement further (and felt this may also bring some benefits in reducing administration costs if it reduced means testing for, say, the two-year old entitlement) they felt this would be ineffective unless it was accompanied by an increase in the hourly rate at which providers were funded:

> ***"A good idea but the funding rate would need to be addressed alongside."***
> Early Years Manager, County Authority

> ***"…it is recognised that the hourly rate for funded day care should be increased in order to bring this more in line with the rates charged by providers in order to cover their costs. The increase in the hourly rate and an extension of the free entitlement hours would not only take away the need for direct subsidies but would ensure the sustainability of provision in the longer term."***
> Director of Children's Services, County Council

It might therefore be asked why county authorities do not do this anyway given they have the powers to set their own funding rates. But notwithstanding the pressures placed on funding over the past decade, some of the problems are compounded by the consolidation of the comparatively small Early Years Block containing free entitlement funding within the much larger Dedicated Schools Grant (DSG) which provides overall funding for schools. Local Schools Forums – which make local decisions on the allocation of the DSG – naturally contain greater representation from schools than early years providers given the much larger proportion of this funding directed to schools. But this also means school interests are naturally more likely to be prioritised within DSG allocations – it is unlikely that a schools forum would agree to provide a significant increase in hourly funding for the free entitlement at the expense of money that would otherwise be invested in schools.

There is also additional pressure that is being placed on DSG allocations by its third component element, the High Needs Block, since reforms in the 2014 Children and Families Act extended school and local authorities' statutory duties towards children with special educational needs and disabilities (SEND) – a welcome move but one which has not been commensurately funded at a local level. CCN published a more extensive report on this issue in 2019 showing that costs of SEND are accelerating exponentially and limiting local authorities scope' to adjust DSG allocations to increase rates for the free entitlement in the early years. **[11]**

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[11] *Special Educational Needs and Disabilities: The Challenge Facing County Authorities* (2019)
http://www.countycouncilsnetwork.org.uk/download/2314/

Finally, whilst over recent years has accrued extensive evidence for the benefits of high quality formal early education in improving children's outcomes, there is still much conjecture over the optimum amount of time children should spend in such an environment. **[12]** Extending the free entitlement in some way (such as offering a universal 30 hour entitlement to three- and four-year-olds) may provide some benefits in stabilising the childcare market, but any decision will need to be balanced against the lack of clarity to what extent this may or may not impact on child outcomes.

Finally, only a limit number of respondents (12%) felt that the best means of rebalancing their post-COVID childcare market would be by looking to extend state provision - either by encouraging more schools to offer nursery classes or even to seek to reverse the long-term decline in the number of Maintained Nursery Schools. In particular local authorities were concerned at the costs – both capital and operational – of such a move:

> ***"An increase in state provision would require capital investment and it is likely to be less sustainable as generally, the operating costs are higher."***
> Director of Children's Services, County Council

It was notable that all the authorities which suggested this option as a solution only did so in combination with the other two options. This suggests that even where scaling up state provision was perceived as a means to mitigate some challenges in the childcare market going forward to some extent, it was still not felt viable that this option could be enacted as a standalone solution quickly enough to replace a large departure of voluntary and private providers from the market.

[12] The Government's own long-term Study of Early Education and Development (SEED) findings' strongly supports an element of formal education up to 15 hour for children's development. However, beyond this threshold it still found variable effects of the length of time spent in such environments on different child outcomes including both cognitive and emotional development and also impacted by the type and quality of childcare received.
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/867140/SEED_AGE_5_REPORT_FEB.pdf

CONCLUSION AND RECOMMENDATIONS

CONCLUDING ASSESSMENT OF THE PRESENT STATE OF THE CHILDCARE MARKET

The evidence presented in this paper shows that the combined efforts of local authorities and childcare providers have so far mitigated a potentially catastrophic shrinking of the childcare market due to the impact of COVID-19. At this point of the pandemic county authorities – whilst mindful of the threat of significant closures – are still confident that they will be able to meet their childcare sufficiency duties next year (subject to the impact of new restrictions) even if this will be in some part due to a reduction in demand.

However, there is scant room for complacency. The commitment of Government for free entitlement funding to be paid at 2019 rates during the autumn should sustain most of the market until the new year, but it must be remembered that this will be an artificial stimulation. When the market is expected to operate again unsupported in 2021 that is where the true impact of COVID-19 on the childcare market is likely to be seen:

> ***"We won't see the true picture of the COVID-19 pandemic on providers until later in the year, as the DfE has requested LAs to fund*** [the free entitlement] ***at Autumn 2019 as a minimum. The impact of the ending of the Furlough scheme and the childcare requests from parents who begin to change their work patterns/ possible job loss will become more evident then."***
> Education Support and Development Lead, County Unitary Authority

As well as the expected impact of reduced demand due to unemployment and the cost of operating safely – using bubbles, sourcing PPE, protecting vulnerable staff members – there are unknowns at this stage both in the short-term (a second wave/lockdown) and the longer-term (speed of economic recovery; future home-working patterns) which may threaten further market disruption and which local authorities will need to manage.

Although financial support is being withdrawn gradually across the autumn, the childcare market is unlikely to return to normality for some time putting many providers at significant risk. A central issue for county authorities is that where childcare provision is lost in this period it may create a drag on economic recovery efforts as the pandemic subsides. There is particular concern about the effect in remoter rural and coastal areas where just a few closures could result in people having to travel much further to access childcare, or in some cases not be able to access it at all.

County authorities have proved that they have stepped up to the plate, using creative solutions – both financial and operational – to keep their markets operating. But it is not likely that it will be a return to 'business as usual' for the foreseeable future. These additional pressures will add further burdens to local authority budgets going forward.

RECOMMENDATIONS

In light of these conclusions the report makes the following recommendations for the Government:

- **Recognise local authorities' childcare responsibilities in their Spending Review settlement and further rounds of emergency funding for COVID-19 costs**
  The COVID-19 pandemic has placed considerable strain on all local authority funded services including the childcare market. But as the recovery period develops some additional costs will remain longer than others. The impact on the childcare market is likely to be long-lasting and local authorities are likely to need to maintain some of the emergency measures highlighted in this report over the coming years. It is important that when considering local authorities' funding allocation in the forthcoming spending review and potential further rounds of COVID emergency funding that local authorities' childcare responsibilities are fully recognised.

- **Set up an emergency grant scheme to help support childcare providers which are strategically important for childcare sufficiency but need additional support to ride out the pandemic**
  Using the emergency COVID-19 funding provided by the Government local authorities have so far been able to help manage their childcare markets with additional hardship grants and increased payments for free entitlement funding. But this funding – covering all local services – will soon reach the limits of what it can achieve. Government must ensure the funding is available to help sustain childcare providers across the course of the pandemic particularly in the event of a second wave or local lockdowns. Local authorities are best placed to know which providers in their markets are likely to be sustainable in the long-term as well as which are vital to local sufficiency (such as those in remote locations) and should be tasked with administering this funding at a local level.

- **Review the levels of funding for the free entitlement within the Early Years Block of the Dedicated Schools Grant**
  Free entitlement funding is the most important lever local authorities have for supporting the childcare market. But its effectiveness has been eroded recently due to overall budget reductions and its proximity to wider schools' funding. The Government is urged to consider the levels of funding which are provided for the free entitlement with the Early Years Block of the Dedicated Schools Grant. It should also conduct a review as soon as possible which considers whether free entitlement funding should be extended further and the mechanisms by which local authorities can best deliver free entitlement funding.

COUNTY COUNCILS NETWORK

Founded in 1997, the County Councils Network is the voice of England's counties. A cross-party organisation, CCN develops policy, commissions research, and presents evidence-based solutions nationally on behalf of the largest grouping of local authorities in England.

In total, the 25 county councils and 11 unitary councils that make up the CCN represent 26 million residents, account for 39% of England's GVA, and deliver high-quality services that matter the most to local communities

The network is a cross party organisation, expressing the views of member councils to the government and within the Local Government Association.

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