Covid and Childcare: Spending Review Briefing September 2021

This briefing sets out the emerging findings from a Nuffield-funded research project into the impact of Covid-19 on childcare in England, which draws on information from interviews and surveys with parents, childcare providers and local authority staff, as well as administrative data sources. It shows that the pandemic has hit the childcare sector hard and unevenly, with families already facing disadvantage the ones most likely to miss out. Not only is a well-functioning childcare system vital in enabling parents to work, it is a proven strategy to narrow the gap between disadvantaged children and their peers, reducing the pressure on schools. The emerging findings from our research find a number of areas of concerns that have already and are likely to continue to impact on children's outcomes, particularly for the most disadvantaged. While there is not yet evidence of mass closures or market failure, weaknesses in the system, including a lack of infrastructure support, have been exacerbated by the crisis which require urgent action. Childcare is not a simple market commodity, but instead a social good with the potential to change lives.

The spending review provides the opportunity to make the necessary investments to achieve this potential. Investment in childcare also provides the opportunity to hit a number of the Build Back Better priorities. Childcare is a key pillar of strong public services, supporting children's education in the crucial early years. It is essential that all families across the country are able to access high quality childcare to allow parents to work and children to achieve in order to achieve the Government's levelling up agenda. And finally childcare is a crucial part of the infrastructure needed to support growth and enable parents to move into work.

Key points:

- Children have missed out on substantial amounts of early education, with large reductions in take-up. There is some evidence that take-up of the free entitlement for two, three and four year olds has fallen more amongst disadvantaged children than amongst their better-off peers.
- Partly as a result of missing out on early education, children's development has been adversely affected by the pandemic. Parents, childcare providers and local authorities all raised concerns about children regressing or not progressing as expected as a result of lower attendance at early education. There are also concerns about the widening of socio-economic gaps in children's development over the course of the pandemic.
- Income from parent fees has been declining due to changes in working arrangements and declining family incomes. This reduction could threaten the delivery of free early education entitlement places which many providers have previously subsidised from parent fees.
- Covid-19 has significantly increased childcare providers' struggle to recruit and retain qualified staff, threatening their ability to provide childcare places in the medium term.
- Shortages of places could also threaten parents' ability to work, and we are already seeing a significant drop in the supply of school age childcare.

Covid-19 and Childcare: local impacts across England

Covid-19 and Childcare: Local impacts across England is a study exploring the impact of the pandemic on early education and care services, funded by the Nuffield Foundation and being undertaken by a team of researchers from the Centre for Evidence and Implementation, University of East London, UCL, Frontier Economics, Coram Family and Childcare, and the Institute for Fiscal Studies. It will highlight lessons for improvements at both the national and local levels, to support a sustainable, high quality system. This briefing presents evidence from three early strands of the work:

- **Strand 1:** Telephone survey of 122 local authority Early Years Leads conducted in February and March 2021 and already published by Coram Family and Childcare and Frontier Economics (2021)
- **Strand 2:** Analysis of secondary data sources including Ofsted register data, DfE early years attendance data and aggregate Early Years Census data, forthcoming from UCL and IFS
- **Strand 3:** Qualitative case studies compromised of 99 interviews with parents, providers and early years staff in 10 different local authority areas conducted between May and August 2021, forthcoming from Centre for Evidence and Implementation.

Our early findings were discussed at three roundtable events with childcare providers, family organisations and civil servants. These discussions helped to refine this briefing.

Children are missing out on early education

There have been substantial decreases in uptake of early education for two, three and four year olds. Early Years Census (2021) data shows that around 19,000 fewer children were accessing the two year old offer in January 2021 compared to January 2020 – a 13% reduction (from around 143,000 in 2020). Most local authorities interviewed reported declines in demand for funded hours for two year olds, some substantially higher than this average reduction, with predictions that some of this decline will persist for some time (forthcoming results from Strands 1 and 3). Similarly, there were around 60,000 fewer 3 and 4 year olds accessing the universal offer in January 2021 than in January 2020 – a 4.7% reduction (from around 1.27 million in 2020) – and around 17,000 fewer 3 and 4 year olds accessing extended entitlement – a 4.9% reduction.

In case studies (forthcoming results from Strand 3), it was found that numerous parents discussed planning to put a child in nursery but then did not do so due to the pandemic, safety concerns (including wanting to protect grandparents), financial concerns and wanting one child home when another school-age child was home in a lockdown.

Consequences:

Reduced or non-attendance in early education has affected children's development, and many providers and local authorities reported a level of need that was not seen before (forthcoming results from Strand 3). Providers described children as having regressed, or not having progressed in line with age, and visible impacts of breaks in childcare attendance in children's language, behaviour, independence, ability to socialise, struggling with structure and group activity, and being quieter, more anxious and less confident than before the pandemic (forthcoming results from Strand 3). There is also an increase in children with social-emotional issues due to their families' circumstances (e.g. domestic violence, severe financial pressures) which were exacerbated as children were at home all or most of the time (forthcoming results from Strand 3).

Parents also have concerns about the development of their child due to the pandemic. They felt Covid measures decreased social interactions, and reduced informal and formal social networks such as parent-and-child and stay and play groups. Parents were concerned that their children were not meeting developmental milestones and that young children were not getting as much attention as their older siblings were home from school and needed help in home schooling (forthcoming results from Strand 3).

Settings are working with many children who are starting at a lower point developmentally compared with previous cohorts with more behavioural issues from having missed formal early education and interaction with other services, such as stay and plays (forthcoming results from Strand 1 and 3). Providers also described local authority support services such as referrals for SEND assessments and speech and language support as having been constrained during Covid and now reporting much longer waiting lists, leading to concerns that support services are struggling to meet rising need (forthcoming results from Strand 3). The Education Endowment Foundation (2021) report in their interim briefing that 76% of schools reported that children who started school in Autumn 2020 needed more support than children in previous cohorts.

Areas for action:

- National promotion of the benefits of early education, and greater support for local activity to encourage higher take-up of the free entitlement. This activity should build on approaches that have been proven to work, such as multi-disciplinary partnerships to promote the free entitlements, personal contact with eligible families, targeted marketing, simplifying application processes and using a range of languages to promote (Hempsall's and Coram Family and Childcare, 2021).

- Greater 'catch up' support for early years settings, including reception classes, to ensure providers have the resources necessary to enable children to 'get back on track' and reach the expected level of development.

- More creative/flexible use of funded entitlement to strengthen relationships between providers and families and support home learning particularly if take-up remains low.

Disadvantaged children in particular are missing out

There is some indirect evidence that the reduction in take-up of early education could be greater for more deprived children. While the number of three and four year olds accessing free early education who are eligible for the early years premium increased by 6% between January 2020 and January 2021 (Early Years Census, 2021), the proportion of school children eligible for the pupil premium rose by 20% over the same period (School Census, 2021). This suggests that take-up of early education places has fallen more amongst children who would have been eligible for the early years premium, therefore a large number of deprived children missing out on early education (forthcoming results from Strand 2).

Data from a survey of parents/carers undertaken earlier in the pandemic also suggested that 16% of vulnerable children are spending less time in early education than pre-Covid compared to 11% who are not vulnerable, with 28% of parents with vulnerable children saying their childcare provider is offering less flexibility in the days and times their child can attend than pre-Covid, compared with an overall figure of 9% of parents reporting lack of flexibility (DfE, 2020).

In the same survey (DfE, 2020), 22% of families where income is £10,000-£19,999 are not using formal childcare anymore because it's too expensive, compared to 15% of all families. This is the second most popular reason after 'I never use formal childcare'. Additionally, 19% of low income parents in the survey said their previous provider cannot provide the childcare hours they need, compared to 10% of all parents.

Discussion at our roundtable with childcare providers highlighted that they often struggle to access funding for children with SEND. While funding streams are available, the application processes can make them hard to access and they do not cover the full costs, for example, only covering 15 hours even if the child is entitled to the extended 30 hours offer. While this is a longstanding issue, the increased pressure on funding and services as a result of Covid will put pressure on support that was already vulnerable.

Consequences:

One of the key aims of funded early education is to narrow the achievement gap between disadvantaged children and their peers, but this cannot be achieved if disadvantaged children are not attending. This low uptake could delay development amongst disadvantaged children and instead widen and entrench the achievement gap between them and their peers. For example, Hendry et al (2021) found that children from low income families who continued to attend early education showed enhanced language benefits, understanding more words than those that didn't attend formal childcare. This suggests that children from less affluent backgrounds who lost access were disproportionately disadvantaged.

Other inequalities will also be widened. For example, local authorities that saw larger reductions in take-up of the universal offer amongst three and four year olds had, on average, lower female economic activity rates prior to the pandemic and also had higher claimant counts (unemployment rates) around the time of the early years census in January 2021 (forthcoming results from Strand 2).

The developmental delays that have occurred could lead to an increase in SEND diagnoses if they are not addressed. High quality early intervention could help to address these issues and help children to catch up, preventing the additional costs that come from late intervention when issues are further developed and entrenched.

Areas for action:

- More and/or more effective funding targeted towards disadvantaged children, to ensure providers have the resources necessary to support children from more disadvantaged backgrounds, who have experienced the greatest developmental delays. For example, a reformed early years pupil premium with funding levels reflecting additional costs could be an effective way to support childcare providers to be able to effectively meet the needs that disadvantaged children may present with.
- Increase and simplify SEND funding to help improve access.
- Take-up activity focusing on disadvantaged children, to ensure that those who have missed out on early education have an opportunity to catch-up before going to school, and to ensure these larger developmental inequalities do not persist amongst new cohorts of children eligible for the free entitlements. For example, Hempsalls and Coram Family and Childcare (2021) find that personal contact can be most helpful in overcoming individual barriers. Approaches such as the Golden Ticket where families who are identified as potentially eligible for the two year old offer using DWP data are able to take up a place without going through the income check that is usually part of

the application process were felt to be particularly effective in reaching families otherwise unlikely to take up early education. Early years staff found that outreach work targeted at families with the strongest reservations about their child starting early education at two was most effective in supporting take-up of the two year old offer (Covid and childcare strand 3)

The future supply of early education places could be compromised: finances

Providers have faced a reduction in income, both from parent paid fees throughout the pandemic, and from free early education funding, especially since the changes that were made in January 2021 to how this was paid that returned to funding actual attendance rather than places. Providers have also faced higher costs as a result of meeting pandemic-related requirements. Just 47% per cent of open group-based providers and 56% of open childminders were reasonably confident that they would be financially sustainable to continue to run their childcare provision for another year or longer (DfE, 2021).

For some settings, the reduction in income from parent fees has been dramatic. For example on average, in November to December 2020 open group based settings expected to receive £3,592 per week from parent-paid fees but received, on average, £2,416 at the time of the survey – two thirds of the parent fees they expected. Open childminders expected to receive £618 per week from parent-paid fees but received, on average, £388 at the time of the survey (DfE, 2021). Local authorities reported that these reductions in parent fees were driven by families reducing the amount of childcare they used or stopping use entirely (forthcoming results from Strand 3).

Some childcare providers were supported through the nationally funded Coronavirus Job Retention ('furlough') Scheme, the self-employment support grants (SEISS) and changes to free entitlement funding. However, these did not fully off-set income losses because providers had incurred salary costs for furloughed staff or workers not entitled to SEISS and they faced other non-staff costs. Some also received discretionary funding from their local authority including discretionary sustainability grants to support settings, using the underspends from overall early education funding, topping up the free entitlement funding from local funds and the use of Covid recovery or business scheme grants (forthcoming results from Strand 1 and 3).

The reduction in income from paid-for hours poses additional challenges as many providers find that funding levels for funded entitlement places do not cover their delivery costs and so cross-subsidise from parent fees (forthcoming results from Strand 3). Indeed this model of 'cross-subsidisation' underpins the rate at which the Department for Education funds providers for free entitlement hours (Early Years Alliance, 2021). This reduction in private income could therefore threaten the delivery of free early education places for some providers at current funding levels. Early in the pandemic, 20% of parents who used formal childcare before the pandemic said they have no intention of using formal childcare again (DfE, 2020), suggesting that at least some reduction will last into the medium term.

Given the harsh financial climate, there was concern among both providers and local authorities about the viability for some childcare providers to continue to provide childcare for children with SEND. For example, SEND funding is typically not available for 2 year olds because they are too young to have a diagnosis, and for 3-4 year olds it only covers the free universal 15 hours and is not available for the additional 15 hours most working parents are entitled to. Complex funding applications also mean that some providers miss out on SEND funding which adds to the financial pressures of providing places for SEND children (forthcoming results from Strand 3). Research has shown that more expensive SEND places are cross subsidised with income from parent fees, when the latter decrease, providers may have to reduce the number of SEND places to remain financially viable (Paull and La Valle 2018).

Consequences:

Current public and private income for childcare providers is attached to individual children, rather than the infrastructure funding to support providing early education and childcare places. This has led to a fragile market where some providers have little ability to weather periods of decreased demand, let alone the prolonged reduction in demand seen as a result of Covid-19.

Reliance on cross subsidisation of funded places by parent fees means any permanent reduction in parent fees may undermine some providers' financial viability or reduce providers' ability to offer early education places in future, especially for children with SEND. This will lead to a potential shortage of early education places, especially in areas where it is hard to raise fees. Alternatively, providers may decide to increase parent fees in order to maintain financial sustainability or continue to offer early education places.

Government and local authority funding available, while helpful, did not fully cover providers' costs (forthcoming results from Strand 3). These losses led some to take actions that could end up threatening long term financial sustainability. For example the Whittaker et al (2021) report noted that 26% of settings in deficit took on debts to stay afloat, and 58% used reserves. Coupled with the phasing out of both national and local additional support, this is likely to place additional burdens on many providers that are already in a very financially weak position and mean that financial pressure continue or even increase through the autumn and winter.

Areas for action:

- Increase funding rate to ensure cross-subsidisation is not required to deliver early education
- Consider providing infrastructure funding in order to ensure the supply of early education places even while demand is fluctuating

The future supply of early education places could be compromised: workforce issues

Providers described their current staff as being drained, exhausted and worn out with morale very low. There were concerns that there had not been sufficient investment in training the next generation of early years educators, and that free or subsidised in-service training was now scarce. Local authorities also report that childcare staff morale was very low due to high level of stress and lack of recognition for all the work and risks they have taken over the past year – the differential treatment of childcare settings and schools was seen as particularly unfair given that most settings remained opened while schools closed (forthcoming results from Strand 3). Childcare providers had struggled to recruit high quality staff for some time pre-Covid, but current pressures mean that recruitment issues were considerably worse than pre-pandemic, with some providers already planning to reduce places due to staff shortages. The low pay within the sector combined with high vacancy rates and the perception of lower safety risks in other occupations were causing many to leave the sector, including older, more experienced professionals (forthcoming results from Strand 3).

Consequences:

The struggle to recruit and retain qualified professionals threatens the ability of childcare providers to continue to provide sufficient places. Some providers already reported reducing the number of childcare places they offered as they could not recruit enough staff (forthcoming results from Strand 3).

Not only does this threaten the supply of places, but it also has a negative impact on the quality of provision. Frequent staff turnover and the inability to recruit staff with the necessary qualifications or experience are likely to have a negative impact on quality. Staff and their relationships with individual children are the greatest determinant of childcare quality and so essential in enabling childcare to achieve its potential to support children's outcomes. In addition, forthcoming results from Strand 1 show that several local authorities reported that the educational focus of provision had been diminished due to extra work "keeping children safe" and reducing the risk of spread of Covid.

Areas for action:

- Higher funding rates are needed to enable pay to increase sufficiently for early education settings to attract and retain qualified staff.
- A national childcare workforce strategy supported by funding.

Parents may struggle to stay in work

The need to balance additional childcare responsibilities with work has been a challenge for parents, with mothers disproportionately affected. ONS (2020) found that over 20% of parents reporting that childcare had affected their ability to work. This is echoed by researchers at the IFS (published in The IZA Institute of Labor Economics, 2020) who found that mothers and fathers report doing substantially more childcare during the pandemic - fathers were engaged in childcare during 4.2 one-hour slots and mothers during 6.7 slots in 2014/15 which substantially increased to 8.0 and 10.3 one-hour slots respectively in April 2020 (The IZA Institute of Labor Economics, 2020).

The Whittaker et al (2021) study found that of parents that took parental leave, over half (54%) said that childcare influenced their decision whether or not to return to work. 14% had to take extended/extra periods of leave to manage childcare, 7% said the difficulty in accessing suitable childcare is affecting my career progression and 7% said they had to reduce their paid work hours because they could not access suitable childcare. In case studies (forthcoming results from Strand 3) some parents reported limited childcare provision affected their progress in employment, the type of employment they worked, the number of hours they worked, and limited them to a 'job' rather than a 'career.' Therefore, for some families, childcare has affected their decision to return to work or progress in the workplace. Evidence shows that mothers, in particular, are most likely to be affected - 64% reported that childcare influenced their decision whether or not to return to work, compared to just 31% of fathers (Whittaker et al, 2021). This highlights the vulnerability of women's employment in relation to childcare disruption, and that childcare is likely to have continued impacts on women's employment opportunities.

Out of school care is used by twice as many families as pre-school childcare to enable parents to work but shows the most significant drops in supply (Coram Family and Childcare and Frontier Economics (2021)). Some of this reduction in supply is caused by a reduction in demand due to home working and children not being in schools, but other explanations included a lack of school premises or schools wanting to reduce multiple contacts. Many local authorities predicted that post-pandemic, demand could permanently reduce for hours outside the core 9am to 3pm due to continued and permanent changes in work patterns. The short hours required for this type of provision (normally 8am to 9am and 3pm to 6pm) mean that it can be difficult to make it financially viable. If demand is permanently lower or returns slowly, many providers may find that it is no longer financially viable to them to stay open leaving a gap for families who do still need this provision. There is also concern about home-based care (that is, childminders and nannies) as supply of this provision declined considerably in rural areas where many (working) parents rely on home-based care because of scarcity of group provision (Childcare and Covid, strand 3).

Consequences:

If parents cannot find the childcare they need, they may be unable to work, or may have to reduce their hours or take more flexible (potentially lower paid) jobs. It is more likely that mothers will leave employment or reduce earnings, meaning we may see an increase in the gender employment/wage gap. These lower employment rates could have adverse impacts both for individual families, through rising child poverty rates, as well as for the public purse, with reduction in tax payments, and an increase benefit payments.

Areas for action:

- Supporting the supply of school-age childcare and home-based care to meet demand.

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