Sustainability of the early education and childcare sector during the coronavirus pandemic and beyond

The early education and childcare sector has played a vital role in the battle against the coronavirus pandemic. Data collected by Ceeda over the lockdown period indicates between 33% and 38% of private, voluntary and independent (PVI) nurseries and pre-schools and 51% to 53% of childminders were open for vulnerable children and key worker's families.[1]

The sector will continue to be pivotal in enabling return to a 'new normal' for many young families, as the country eases out of lockdown. But how secure is our childcare and early education infrastructure? Can providers survive prolonged periods of closure and a potentially slow return to pre-pandemic occupancy levels?

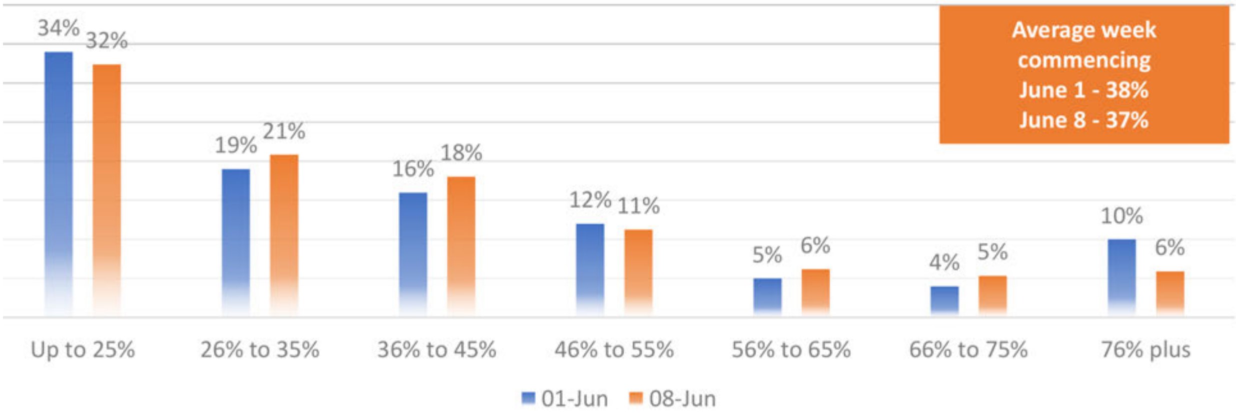
This short briefing paper analyses the financial impact of low occupancy rates and current funding levels for private, voluntary and independent (PVI) day nurseries and pre-schools in England. The analysis excludes provision in childminder settings due to data availability.

What has been happening with occupancy levels?

In spring 2019 term-time occupancy in PVI nurseries and pre-schools averaged 77%.[2] During lockdown, daily headcounts averaged just 7 children.[1] This represents a small fraction of typical setting capacity; non-domestic settings on the Ofsted Early Years register had an average of 45 places at December 2019.[3]

Following the easing of lockdown restrictions, setting occupancy averaged 38% in the week commencing 1 June and a third of settings reported levels of 25% or less. The picture varied little a week later. [4]

Figure 1: PVI nursery and pre-school occupancy levels in the weeks commencing 1 and 8 June



Source: About Early Years Covid-19 Tracker. Week commencing 8 June.

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[1] Ceeda (2020) Early Years in Lockdown – a series of bulletins covering the period 20 April to 22 May. The reported headcount figure is based on the median and combines key worker and vulnerable children. Occupancy rates could not be measured during lockdown due to the response burden for providers. Occupancy rates have been measured from 1 June onwards.

[2] Ceeda (2019) About Early Years Annual Report 2019.

[3] Ofsted (2020) Childcare provider level data at 31 December 2019.

[4] Ceeda (2020) About Early Years Covid-19 tracker. Week commencing 8 June.

What does low occupancy mean for providers' sustainability?

The impact of low occupancy on providers' unit costs (cost per child per hour) is substantial. Whilst settings have the flexibility to adjust staffing levels to reflect child attendance, many costs are fixed (e.g. rent, utilities, management and administrative labour, insurances etc.). Low occupancy over an extended period puts settings at very high risk of failure; particularly those with limited financial reserves and minimal scope for economies of scale.

Ceeda's scheduled About Early Years finance study was cancelled this spring due to the pandemic. The following analysis has therefore been modelled using data collected in April 2019,[5] adjusted to reflect April 2020 National Living Wage and Minimum Wage rates, and CPI inflation to April 2020. Please refer to the table notes for further detail on model assumptions.

Table 1 overleaf shows hourly costs modelled across a range of occupancy levels and compared against prevailing early years entitlement funding rates. On average, a provider operating at 35% occupancy *across the year* will incur an estimated loss of £3.81 per funded two year old child per hour (a 71% funding deficit). The loss on a funded 3 and 4 year old place is £2.71 per hour (a 59% funding deficit). For providers operating at 25% occupancy, these figures rise to an average loss of £5.17 (a 96% deficit) and £4.06 (an 89% deficit) respectively.

The model illustrates the variable positions that providers may encounter, depending on local recovery patterns. Whilst it is *anticipated* that a gradual rise in occupancy will occur as sectors of the economy are released from lockdown and more families return to work, this is far from guaranteed.

It is currently unclear:

- What the pace and extent of recovery in occupancy levels will be over the coming months.
- How this will vary across the country and for different types of provision.
- If providers will have the means required to remain solvent until occupancy increases.
- How this will vary according to providers' financial reserves, their funded/private fee income mix and eligibility for government support.

Any localised resurgence of the virus will make progress very fragile, easily dampened by a return to tighter restrictions and corresponding loss in parent confidence.

Emerging analysis of the demographic profile of Covid-19 mortality rates[6] and the impact on employment in lower paid sectors such as retail, travel and hospitality, suggest the pandemic will reinforce existing deprivation and inequality, hitting low-income households particularly hard.

As government assistance tails off, and in particular support through the Coronavirus Job Retention Scheme is phased out, some providers are likely to be at high risk of closure. In deprived areas the prospect for future private sector investment is slim. Alongside local authority withdrawal from direct supply of childcare provision[7] and the rapid demise of children's centres,[8] the outlook for some communities will be bleak indeed, without targeted government investment.

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[5] The About Early Years research programme is a panel study of PVI nurseries, pre-schools and childminders on the Ofsted Early Years Register. The 2019 spring finance wave collected detailed financial and operational information for 270 PVI nurseries and pre-schools.

[6] Office for National Statistics (2020) Deaths involving COVID-19 by local area and socioeconomic deprivation: deaths occurring between 1 March and 31 May. 12 June.

[7] Ceeda(2019) About Early Years annual report 2019.

[8] Sutton Trust (2018) Stop Start. George Smith, Kathy Sylva, Teresa Smith, Pam Sammons and Aghogho Omonigho. April 2018

Table 1: PVI nursery and pre-school estimated 2020/21 delivery costs per hour by age and occupancy level

	Average hourly cost modelled by occupancy Level:						
	15%	25%	35%	45%	55%	65%	75%
Age group	**PVI nursery and pre-school average delivery cost per hour**						
Delivery cost per hour for under 2s	£13.94	£10.95	£9.66	£8.95	£8.50	£8.18	£7.95
Delivery cost per hour for 2 year olds	£13.70	£10.55	£9.19	£8.44	£7.97	£7.64	£7.39
Loss per funded child per hour (funding rate £5.38 per hour)	-£8.32	-£5.17	-£3.81	-£3.06	-£2.59	-£2.26	-£2.01
Funding deficit %	-155%	-96%	-71%	-57%	-48%	-42%	-37%
Delivery cost per hour for 3 to 4 year olds	£11.79	£8.63	£7.28	£6.53	£6.05	£5.72	£5.48
Loss per funded child per hour (funding rate £4.57 per hour)	-£7.22	-£4.06	-£2.71	-£1.96	-£1.48	-£1.15	-£0.91
Funding deficit %	-158%	-89%	-59%	-43%	-32%	-25%	-20%

Table notes:

1. Costs relate to PVI day nurseries and pre-schools only.
2. Costs are modelled on data collected by Ceeda in spring 2019[9], updated to reflect 2020/21 National Living Wage and Minimum Wage Rates, CPI inflation to April 2020 and specified occupancy rates. No adjustment has been made to pay rates in excess of £8.72 per hour. See the cited source for further detail.
3. The model assumes that occupancy averages the stated level across a 12 month period.
4. The model assumes staff-child ratios as reported in April 2019, no adjustment has been made for the potential impact of working in 'bubbles.'
5. Business rates expenditure has been deducted from fixed costs to reflect the sector's exemption from business rates in 2002/21.
6. No allowance has been made for direct additional costs likely to be incurred due to the pandemic such as additional labour for cleaning, PPE, hygiene products, reconfiguration of space etc.
7. Costs include a 5% surplus consistent with DfE methodology for setting national funding rates.
8. Funding rates are sourced from the Department for Education Early Years Funding Benchmarking Tool 2019/2020[10], uplifted to reflect the 2019 Spending Review.[11]

[9] Ceeda (2019) Counting the cost in spring 2019.
[10] Department for Education (2019) Early years funding and benchmarking tool 2019/2020.
[11] HM Treasury (2019). Spending Round 2019. Published September 2019.

Investing in resilience

Amidst all the unknowns there is also certainty: a return to pre-pandemic occupancy levels will not be sufficient to protect the country's early years infrastructure and guarantee supply of highly quality learning and development opportunities for all children, regardless of ability to pay.

Occupancy has shown a steady upward trend in recent years. In summer 2017 average term-time occupancy in PVI nurseries and pre-schools was 69%, rising to 74% in spring 2018 and reaching 77% in spring 2019, boosted by the introduction of the 30-hour childcare offer and record employment levels.[12]

Despite this apparent sector buoyancy, in spring 2019 over a quarter (29%) of nurseries and pre-schools reported a financial loss and almost one in two (46%) felt less confident about their financial performance in the next 12 months compared to the previous year.[12] The primary reason was an ever widening gap between the cost of delivering a funded childcare place, and the hourly funding rate paid for that place.

In the highly unlikely scenario that occupancy recovers to April 2019 levels in the short term, the average gap between the hourly cost of delivering a funded 2 year old place and the funding rate paid for that place in 2020/21 is still an estimated -£2.01 per hour (a 37% funding deficit), falling to a loss of -£0.90 per child per hour for 3 to 4 year olds (a 20% funding deficit).

Furthermore, as outlined in previous Ceeda studies,[12] age-specific hourly funding rates do not accurately reflect how the childcare market operates in practice. At April 2019, delivery costs for under 2s were 47% higher than for 3 to 4 year olds due to the staffing levels required. Parents rarely pay this premium. The same survey found providers charged 6% more on average, whilst 31% charged exactly the same fee. This cross-subsidy is a central feature of childcare supply, enabling providers to offer a viable price-point for younger children. The average cost of delivery across all age groups, reflecting the occupancy level and age mix at April 2019 is an estimated £6.19 per hour in 2020/21.

The International evidence base further corroborates a picture of UK under-investment in early years. OECD analysis[13] shows that UK expenditure on early education and care for children aged 0 to 2 years is amongst the lowest of all 16 countries for which measures are available, at 0.1% of GDP. This compares with 0.3% in Germany and 1% in Norway. UK expenditure on pre-primary education from 3 years to the start of primary school is 0.4% of GDP, compared to the EU23[8] average of 0.7%.

The coronavirus pandemic has provided a powerful reminder of the importance of early education and childcare in all its facets and in particular, its pivotal role in developing resilient children, adults, communities and economies. Without radical and rapid transformation in the level and/or mode of public investment in the sector, the diversity and reach of this vital infrastructure is at risk.

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[12] Ceeda (2019) About Early Years Annual Report 2019.

[13] OECD: Education at a Glance 2019: OECD Indicators. The EU 23 average was calculated as the unweighted mean of the data values of the 23 countries that were members of the both the European Union and the OECD, for which data was available or could be estimated. At the time of publication these 23 countries included Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom.

Disclaimer

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