Financial Impact of COVID-19 on the Early Years Funding Block

Report being considered by:	Schools' Forum on 7th December 2020		
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Item for:	Information	**By:**	All Group Members

1. Purpose of the Report

1.1 To update the Schools' Forum on the financial impact of COVID-19 on the Early Years Funding Block.

2. Background

2.1 The majority of early year's settings, in common with schools, remained open throughout the lockdown providing childcare to key workers and vulnerable children. Since July those who work all year round have been completely open and since September all settings have re-opened offering provision in line with National guidance.

2.2 During this time early years providers have received funding based on those children who are or would have been attending and where providers have a proportion of their funding coming from private income they have been able to access the furlough scheme.

3. Impact on providers from Covid-19

3.1 Following a recent meeting of the Early Years Funding Group, it has become increasingly apparent that there are much longer term effects of Covid-19 on this sector. The Institute of Fiscal Studies found that 25% of private sector nurseries ran a "significant deficit" during lockdown, with less than £4 of income for every £5 in costs. Even though they reopened in June, demand for places was still 70% down in the summer holidays compared with pre-covid levels.

3.2 Vulnerable children have been impacted the most during this pandemic. This group needs where possible to be protected against any rate cuts. Currently EYPP is 53p per hours and West Berkshire make this up to £2:00 per hour. These children are a priority both nationally and locally and this has become even more of a focus during the pandemic.

3.3 More staff are required to manage bubbles of smaller than the normal sized groups. Also to provide cover for staff absence. Those accessing the furlough scheme have been rotating staff to gain maximum benefit from this vital business support.

3.4 30 hours entitlement is only available when both parents are working. There's been a decrease in the number of parents eligible for this funding, therefore hours have decreased. Or parents are uncertain of the job stability once the furlough scheme ends and are therefore being cautious about relying on childcare or the entitlement of additional hours.

3.5 Some families are still anxious about taking up their places and have delayed registration. The confidence in childcare providers is building but many families are not yet accessing their full entitlements. To address this the early years' service is taking a more flexible approach to eligibility cut off dates and the increase of hours mid-term is being funded.

3.6 Those providers who have to date been accessing furlough were only able to use the scheme against the income part of their business. For many small providers they couldn't access any funding as they don't income generate, operating using only the public funding and by fund raising. The Institute for Fiscal Studies recons the median furlough payment for nursery staff was worth just 55p for every £1 of lost fee income.

3.7 There has been a large reduction on private income for providers as parents are using less hours than previously and not wanting to pay for additional services or hours on top of their free entitlement. This income is an important part of the business model for many providers.

3.8 There has been no additional funding for PPE, cleaning or other related cost for any early years providers including our maintained nursery schools. The DfE potion on this is, Maintained Nursery Schools (MNS), along with the rest of the nursery sector, cannot claim for the same additional costs as primary and secondary schools (for additional cleaning, required due to confirmed or suspected coronavirus cases over and above the cost of existing cleaning arrangements; increased premises costs needed to keep schools open during school holidays).

3.9 This position should be viewed in the context of the overall support available, which includes the supplementary funding paid to LAs for maintained nursery schools, which, along with the funded entitlements, has continued to be paid to LAs throughout the pandemic.

3.10 All nurseries, including MNS, benefit from the continuation of early years entitlement funding during the coronavirus outbreak. Further, maintained nursery schools, like private nurseries, typically rely on private income for a significant proportion of their income, unlike most state-funded schools. Therefore, we ensured that access to the Coronavirus Job Retention Scheme was also available to maintained nursery schools, in line with published guidance.

Total Funded Children				
	Autumn 2019	Autumn 2020	Difference	% Reduction
2YO	252	203	49	19
Universal 3& 4 YO	1903	1799	104	5
Extended 3&4 YO	848	797	51	6

Funded Hours			
Autumn 2019	Autumn 2020	Difference	% Reduction
53,680	40,565	13,115	24
377,368	362,707	14,662	4
149,527	141,464	8,062	5

3.11 The tables above provide a comparison of the numbers of funded children and the funded hours autumn 2019 and in this autumn 2020 period. Although there are always year on year fluctuations due to cohort size it is useful to see the differences in both numbers and hours. There is marked reduction in both children funded and the hours they are accessing. This raises a concern about the statutory requirement to secure provision for vulnerable 2 years old, the uptake of the universal offer for 3 and 4 year olds and also the number of parents eligible for the extended offer.

3.12 Current information from providers indicates that while parents have remained loyal to their providers they are not accessing the same level of hours as they were prior to COVID-19. Some of this is due to anxiety about the safety of their child, for others their childcare needs have changed. More parents working from home means that they are travelling less and not needing the wraparound care as their working day is shorter

3.13 Since lockdown there have been three closures and a fourth is planned for the end of December. These have in the main been settings that were already experiencing financial difficulties and the COVID-19 situation has compounded this. There has been one new setting open. We are aware of 5 further settings who are needing support and guidance as they are struggling financially and 8 others who have asked for on-going advice to manage their financial situations. All 13 are pre-school settings. These settings are facing a range of issues, redundancy costs, venue hire costs, additional cleaning and PPE costs. It should be noted that the majority of pre-schools are community committee run settings who are non-profit, so are not eligible for furlough or rate rebates.

3.14 In addition to the pre-schools there is a lot of additional advice and support going to childminders. Accurate figures for closures are just emerging as the deregistration process is managed by Ofsted and is behind due to COVID-19. They are also the group who are less likely to send in their weekly data returns. There could 10 plus who have closed during this time due to the restrictions and difficulties around the sharing of places for children.

3.15 The Institute of Fiscal Studies found that 25% of private sector nurseries ran a “significant deficit” during lockdown, with less than £4 of income for every £5 in costs. Even though they reopened in June, demand for places was still 70% down in the summer holidays compared with pre-covid levels. So with the end of furlough this month we will need to be aware of the potential impact on the private business.

3.16 The additional work that the impact of Covid-19 generates; increased contact with providers, information gathering, support to access and to follow government guidance, is putting considerable pressure on the small early year’s team. Coming at a time when the team are working with accountancy and the early years funding group to put in place a deficit recovery plan.

4. Conclusion – referenced to national

4.1 Nationally providers that rely mostly on public funding have seen their income largely protected. For providers with income from parent fees, support through the furlough scheme and self-employment grants was a significant help but provided far from full protection. The true picture of this locally is hard to determine.

4.2 Providers have been written to advising them of the planned cuts in rates and requesting that they provide information on the potential impact of this alongside their current financial position due to COVID-19.

4.3 Childminders, who are mostly self-employed, have also been badly hit by the crisis. Even if all childminders received self-employment grants, the total loss of parent fees could see an additional almost 30% of childminders now earning less than £4 of income for every £5 of costs (counting what they usually pay themselves in the costs). In practice, many childminders will see their earnings take a hit, which could jeopardise their ability or desire to stay in the market.

4.4 In our data, we find that smaller providers, those with more highly qualified staff or those from more deprived areas are no more likely to have run at a significant deficit during lockdown. These are also the providers who will be most affected by cuts to our local rates.

4.5 The key question in the medium term is how much demand for childcare recovers, and how quickly it returns. The Institute of fiscal Studies estimate that, for every 5 percentage point drop in fee income between 5% and 25% compared with pre-crisis levels, an additional 3–4 percentage points of providers are likely to face a significant deficit. These results are driven by childminders. If, in addition to low fee income, take-up of funded places is still below pre-crisis levels in January 2021, voluntary providers and nursery classes will be hardest hit.

4.6 The extent to which government support for the sector will be needed going forward depends on how the market adjusts to changing levels of demand. Before the pandemic, the childcare market featured significant turnover and there was some spare capacity at around 70% of providers, suggesting that the market is mature and could potentially adjust to rises and falls in demand (at least at the national level). But the current fall in demand is unprecedented and the blow to providers' finances could force some to close or shed places.

4.7 Although most of the providers who largely rely on free entitlement funding were financially cushioned from the impact of the lockdown, they could see their incomes hit in 2021 if demand remains low in January – when take-up of funded childcare is measured to determine future funding levels.