

Many childcare providers face big financial problems as a result of the pandemic

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New research carried out by a team of researchers from the Institute for Fiscal Studies, the University of Surrey, the University of Birmingham, Frontier Economics and Coram Family and Childcare, analyzed how childcare providers' finances are likely to have been affected by the lockdown, and how they might look going forward.

The researchers found that a total loss of income from parent fees would have put a quarter of private-sector nurseries at risk of running a significant deficit during lockdown, with less than £4 of income for every £5 of costs. That's more than double the number which were running a significant deficit prior to the pandemic and is despite government support through continued public funding and the substantial furlough and self-employment schemes.

While childcare settings were allowed to open to all children from the start of June, by the start of summer holidays demand for childcare places remained 70 percent below pre-crisis levels. There is a risk that some childcare providers will close, creating a shortage of places once demand returns to "normal" levels.

The research also finds that:

- Continued funding for the free entitlement during the lockdown means that providers that rely mostly on public funding have so far seen their income largely protected. Funding will be reassessed in 2021 based on January pupil numbers, risking a loss of capacity if demand is sluggish at the start of the year before picking up over the spring and summer terms.
- 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. We estimate that the median furlough payment was worth 55p for every £1 of lost fee income, and self-employment grants covered 64 percent of baseline fee income at the median.
- Many childminders are likely to have been hard-hit by falls in their income from parent fees. Even if all childminders received self-employment grants, the total loss of parent fees could see an additional almost 30 percent 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 jeopardize their ability or desire to stay in the market.

- Even by mid-July, after lockdown ended, childcare use was only around 30 percent of its pre-crisis level. Over the coming year, the key question will be how much—and how quickly—demand for childcare recovers. Assuming no further government support, we estimate that, for every 5-percentage point drop in fee income from pre-crisis levels, an additional 3-4 percent of settings risk tipping into significant deficit.

The research also examines the case for government support for the childcare market, and discusses potential interventions. It concludes that:

- Before the crisis, the childcare market featured significant turnover and there was some spare capacity at around 70 percent of providers, suggesting that the market is mature and could potentially adjust without [government support](#) to rises and falls in demand, at least at the national level. However, there may be risks around losing capacity amongst providers who are particularly reliant on fee [income](#), such as childminders and those catering for under 2s.
- Since the lockdown had the worst effects on providers that are mostly funded by private fees, raising the free entitlement funding rate will not be the most efficient way to target support to otherwise viable businesses that tipped into a temporary deficit as a result of the pandemic. Of course, government might have other priorities in delivering support to the sector.

Dr. Jo Blanden, reader in economics at the University of Surrey, said: "Childcare providers are an integral part in safeguarding the future of our economy. Not only are they a major recruiter themselves, they enable parents and guardians to continue in the workforce, helping to

drive the economy and our public services, via taxation. It is worrying that the future of providers, particularly those who are not reliant on [public funding](#), are now in jeopardy. The Government needs to carefully consider how it can support this sector and prevent unnecessary closures."

Josh Hillman, director of education at the Nuffield Foundation said: "High-quality, affordable childcare should be available to all families and is especially important as more parents begin to return to work. The COVID-19 crisis has exacerbated existing issues within the [childcare](#) sector, with some settings now at risk of closure. Childcare providers play a crucial role in the well-being and education of young children, helping to tackle the disadvantage gap before children enter primary school. This report sets out options for effective government intervention to support the sector."

Provided by University of Surrey

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