

CHALLENGES FOR THE CHILDCARE MARKET – ADDITIONAL ANALYSIS

Model estimates for total sector losses prepared for the Fawcett Society

This note contains findings from additional analysis for the report “Challenges for the Childcare Market”¹, providing estimates for total sector losses during the COVID-19 lockdown. The estimates presented in this note should be considered in conjunction with the methodology and other findings described in the report.

Headline findings

The headline findings are:

- Under the scenario that there were no parent-paid fees during lockdown, it is estimated that 71% of settings suffered financial losses during the lockdown with a weekly loss to the sector of £23 million. This amounts to around 13% of total income for the sector.
- Under an alternative scenario that parent paid fees dropped to 15% of the pre-lockdown level, 67% of settings are estimated to have suffered financial losses during the lockdown, with a weekly loss to the sector of £19 million. This amounts to around 10% of total income for the sector.
- If the no fee scenario were applied to the entire 10 weeks of the lockdown, the estimated total loss to the sector across lockdown would be £228 million. If the 15% fee scenario were similarly applied, the estimated total loss to the sector would be £185 million.
- Actual losses from the lockdown may differ from these estimates as the estimates are based on modelling scenarios using pre-lockdown data.

Detailed findings

Table 1 presents the loss estimates under the scenario of no fee income:

- The proportion experiencing any loss is substantially lower for nursery classes than for other provider types, reflecting that nursery classes are more likely to be entirely dependent on free entitlement funding and were therefore protected from any losses in parent-paid fees.

¹ Blanden, J., Crawford, C., Drayton, E., Jarvie, M. and Paull, G. (2020), *Challenges for the childcare market: the implications of COVID-19 for childcare providers in England*, Institute for Fiscal Studies Report R175, September <https://ifs.org.uk/uploads/R175-Challenges-for-the-childcare-market-the-implications-of-COVID-19-for-childcare-providers-in-England-1.pdf>

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- Mean weekly loss per setting is highest for private providers, reflecting greater dependence on parent fee income and larger setting sizes.
- Most of the sector loss is accounted for by private providers and childminders (£14 million and £5 million of the total £23 million respectively), reflecting both the greater dependence on parent fee income for these provider types and that together these providers constitute around three quarters of all settings.
- In terms of the losses as proportions of total sector income, childminders are estimated to have been hardest hit (29% of income lost), with nursery classes and MNS having the lowest losses.
- If the no fee scenario were applied to the entire 10 weeks of the lockdown (23rd March 23rd to 1st June), the estimated total loss to the sector across lockdown would be £228 million.

Table 1: Losses during COVID-19 lockdown for scenario of no fee income

Type of setting	Proportion with loss	Mean weekly loss per setting (for those with losses)	Total sector weekly loss (for those with losses) (in £1,000)	Total sector loss as a proportion of total sector income
Private	71%	£1,295	£13,979	16%
Voluntary	74%	£397	£2,613	9%
Nursery class	34%	£124	£379	1%
Maintained Nursery Schools (MNS)	77%	£310	£99	2%
Childminder	75%	£167	£5,104	29%
All	71%	£361	£22,807	13%

Source: Authors' calculations from SCEYP 2018.

Notes: The sample consists of 1,341 providers, of which, 415 are private providers, 405 are voluntary providers, 113 are nursery classes, 101 are MNS, 285 are childminders and 22 are unclassified group-based providers.

Table 2: Losses during COVID-19 lockdown for scenario of 15% fee income

Type of setting	Proportion with loss	Mean weekly loss per setting (for those with losses)	Total sector weekly loss (for those with losses) (in £1,000)	Total sector loss as a proportion of total sector income
Private	71%	£1,101	£11,885	14%
Voluntary	74%	£338	£2,2254	8%
Nursery class	34%	£105	£321	1%
Maintained Nursery Schools (MNS)	77%	£264	£84	2%
Childminder	69%	£124	£3,487	20%
All	67%	£304	£18,540	10%

Source: Authors' calculations from SCEYP 2018.

Notes: The sample consists of 1,341 providers, of which, 415 are private providers, 405 are voluntary providers, 113 are nursery classes, 101 are MNS, 285 are childminders and 22 are unclassified group-based providers.

Table 2 presents the loss estimates under the scenario of 15% fee income received during lockdown:

- This table confirms that for group-based providers, the size of the losses and the losses as a proportion of total income are exactly 85% of the no fees scenario because the losses are proportional to the proportion of fees received.
- For childminders, the losses are reduced by more than 15% because the fee income does not affect the SEISS payment relative to the no fees scenario. Consequently, the total weekly loss for the sector is £19 million (which is 81% of the total loss for the no fees scenario).

Table 3 presents the net changes to income during the lockdown which balances the losses for some providers against the absence of any change and gains for other providers (the negative figures correspond to the losses in the previous two tables):

- For group-based provider, the net changes (losses balanced against gainers) are very close to the losses because there are very few gainers and any gains are small.
- For childminders, the net changes are somewhat smaller than the losses, reflecting that childminders were more likely than other provider types to have substantial gains during the lockdown from the SEISS support. Nevertheless, it should be noted that childminders still had larger negative net changes under both fees scenarios than other provider types.

Table 3: Net changes during COVID-19 lockdown

Type of setting	Lockdown scenario of no fees			Lockdown scenario of 15% fees		
	Mean weekly change per setting	Total sector weekly change (in £1,000)	Total sector changes as a proportion of total income	Mean weekly change per setting	Total sector weekly change (in £1,000)	Total sector changes as a proportion of total income
Private	- £896	- £13,626	- 16%	- £762	- £11,582	- 13%
Voluntary	- £277	- £2,462	- 9%	- £235	- £2,093	- 7%
Nursery class	- £5	- £46	0%	- £4	- £39	0%
Maintained Nursery Schools (MNS)	- £153	- £63	- 1%	- £130	- £54	- 1%
Childminder	- £111	- £4,527	- 25%	- £68	- £2,771	- 16%
All	- £238	- £21,322	- 12%	- £185	- £17,047	- 10%

Source: Authors' calculations from SCEYP 2018.

Notes: The sample consists of 1,341 providers, of which, 415 are private providers, 405 are voluntary providers, 113 are nursery classes, 101 are MNS, 285 are childminders and 22 are unclassified group-based providers.

Methodology and caveats on estimates

This analysis uses data from the 2018 Survey of Childcare and Early Years Providers (SCEYP) to extend the analysis in the previously published report to derive estimates of the

total sector losses during lockdown. Further details on the methodology can be found in that report.

The change in net income (total income minus total costs) during the lockdown was estimated under the two scenarios that providers received no parent-paid fees and that they received 15% of the normal level of parent-paid fees:

- 1) The change in net income for group-based providers was estimated as the loss in fees minus the staff costs for those covered by the CJRS (furlough) payment.
 - For most providers, there was a net loss because the furlough payment did not cover any non-staff costs. For some providers, there was zero change if they had no fee income, typically those only delivering Government funded free entitlement hours. For some providers, there was a gain because the reported wage costs exceeded total income.
 - The change in net income was directly related to the proportion of fees lost: the second scenario of 15% fees received produced estimated losses which were exactly 15% of those for the scenario of no fee income. This meant that the proportions of losers was identical under both scenarios.
- 2) The change in net income during lockdown for childminders was estimated as the loss in fees minus the estimated SEISS payment.
 - As the SEISS payment was based on historical reporting of withdrawn earnings by childminders and was not related to the amount of fees lost (only that there was some loss of fees), childminders could be losers or gainers during the lockdown and the proportion who were losers was lower under the scenario of 15% fees received than no the scenario of no fee income (the proportions decreased as receipt of fees increased).

It should be noted that the following assumptions were made to derive these estimates:

- Providers had no change in their non-staff costs during lockdown. To the extent that providers were able to reduce non-staff costs (or costs increased due to COVID restrictions), the estimates will overestimate (understate) the losses.
- Providers did not pay staff any additional wages on top of the furlough payments. To the extent that providers did make such payments, the estimates will understate the losses.
- There was complete take-up of the furlough scheme or SEISS for all settings which lost parent-paid fees due to the COVID-19 lockdown.

In addition:

- As the data was from 2018, all financial elements were indexed to 2020 using the CPI between March 2018 and March 2020.
- The most recent statistics for the total number of providers in the sector was taken from the SCEYP for 2019.²

² Specifically, the numbers were 14,700 private providers, 8,600 voluntary providers, 8,700 nursery classes, 400 Maintained Nursery Schools (MNS), 39,400 childminders and 800 other unspecified group-based providers. (Department for Education, (2019b), *Survey of Childcare and Early Years Providers: Main Summary, England, 2019*, November https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/845080/SCEYP_2019_Main_Report_Nov19.pdf)