

A Childcare Infrastructure Fund

Protecting early years provision in England

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1. Introduction

- 1.1 **Spending on quality, accessible childcare is an investment in essential social infrastructure, with long-term benefits for the economy and society.** First, it helps to close the attainment gap between children from low-income families and their more advantaged peers, reducing inequalities and creating benefits that last throughout a child's time in school, and beyond.¹ Second, it removes barriers to employment, particularly for women, who are still disproportionately responsible for unpaid care. The UK has consistently performed poorly on both quality and access of childcare provision, therefore failing both of these functions.²
- 1.2 **The UK's childcare sector has been crushed by Covid-19 due to inadequate government support through lockdown closures.** In the short-term this is preventing key workers, and those who are unable to work from home, from accessing the childcare they need. In the longer term, there is a serious risk that there will be mass redundancies and many childcare providers will be unable to reopen. This will deepen both financial and educational inequalities, while slowing the recovery from the pandemic.
- 1.3 **The New Economics Foundation (NEF) proposes the creation of a Childcare Infrastructure Fund (CIF) to sustain the childcare sector and its workforce.** This would be a direct payment for all Ofsted-registered providers to cover all staff salaries (whilst raising them to the real Living Wage) and other essential overheads in order to maintain continuity of care and protect this essential infrastructure. In return, providers will be obliged to provide free childcare to parents, whether they take up their places or not, and to protect against redundancies in the childcare workforce.

¹ The OECD has identified a range of social benefits that can be derived from 'high quality early childhood education and care', including better health, reduced likelihood of individuals engaging in risky behaviour and stronger 'civic and social engagement', with positive 'spill-over effects' for society as a whole. OECD. (2011). 'Investing in high-quality childhood education and care (ECEC)', p.4.

² <https://www.ifs.org.uk/uploads/publications/bns/BN189.pdf>

2. The childcare sector is in need of emergency reform in order to play its crucial role in the crisis and after

- 2.1 Key workers with children need formal childcare now more than ever.** Key workers are more reliant on formal childcare provision than they were before the pandemic. Recent Office for National Statistics (ONS) data shows 18% of key workers have at least one child under five, and that the vast majority cannot depend on a partner for childcare.³ Key worker families are twice as likely as other families to rely on grandparents for informal care, but this is no longer possible due to social distancing.⁴ At the same time many will be expected to work longer shifts or cover colleague absences due to sickness or self-isolation during the Covid-19 crisis. Since 10 May, workers with children employed in sectors that cannot facilitate home working are facing the same challenges, and this number will grow as and when social distancing is gradually unwound.
- 2.2 Yet for many of these workers, formal childcare will be unaffordable or hard to access.** Many key workers (and those unable to work from home) may find the 30 free hours entitlement insufficient for the hours they are being asked to work, but the cost of additional hours of care can be prohibitive. Childcare fees have risen three times faster than wages since 2008⁵ and over a quarter of parents found it very difficult to meet their childcare costs last year.⁶ Key workers are more likely to be low-paid than other workers and more likely to rely on grandparents for childcare support which is not longer possible as elderly people are forced to self-isolate.⁷ Even those who can afford the required level of care may be struggling to access provision as only 37% of nurseries and 51% of childminders are currently open.⁸ Recent polling of the health and care workforce shows that 44% of health and care workers in London, where Covid-19 initially peaked, do not think that the government has done enough to provide adequate childcare.⁹
- 2.3 As social distancing is unwound, more people will require childcare to get back to work.** In this paper we make no judgement with regards to when, and to what extent, social distancing measures should be unwound further. However, as and when measures are relaxed further, childcare will become increasingly important to enable workers – especially women – to reengage with the labour market. Yet these parents will be met with all of the same challenges described above: increased need for childcare due to family members no longer being able to offer support; prohibitive costs; and piecemeal access to

³<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/coronavirusandkeyworkersintheuk/2020-05-15>

⁴ <https://www.ifs.org.uk/uploads/BN285-Differences-between-key-workers.pdf>

⁵ <https://www.tuc.org.uk/blogs/childcare-costs-rocket-three-times-faster-wages-2008>

⁶ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853358/CEYSP_2019_Report.pdf

⁷ <https://www.ifs.org.uk/uploads/BN285-Differences-between-key-workers.pdf>

⁸ <https://aboutearlyyears.co.uk/ReportDownload/DownloadReport/c6c3c7d9-7756-4375-8994-0f8ab8f8a0a3?guid=e5c007ab-bfe1-47d3-9aad-4cc793085952>

⁹ https://www.ippr.org/files/2020-04/1587632465_care-fit-for-carers-april20.pdf

formal childcare provision. Nurseries continuing to charge fees have already put parents under strain at a time when incomes have also taken a hit: in April, the Competition and Markets Authority listed childcare fees as one of the top three issues that they have received complaints about during the crisis.¹⁰

- 2.4 Without an immediate and bold intervention on the funding and delivery of childcare, we risk jeopardising both public health and the economic recovery at the same time.** The current recession is expected to see unemployment rise by around 2 million people this year. As social distancing measures are relaxed, and government income support schemes are unwound, parents will be increasingly forced back into work. Where access to childcare is limited or unaffordable, parents will have a stark choice. Either they will not return to work, which will risk increasing inequality (especially gender inequality, given mothers will disproportionately feel the pressure to choose between their job and their family)¹¹ and a slower economic recovery; or they will feel obliged to receive childcare support from friends or relatives, many of whom may be especially vulnerable to Covid-19. Poorer families who have previously used free hours entitlement to access childcare will struggle due to a lack of places, if settings close down for good. This will have an enduring impact on inequality. Affordable, safe and accessible childcare provision is needed now to avert both economic and public health risks.

3. Protecting essential childcare infrastructure is also vital for the longer term

- 3.1 Childcare providers are on the brink of collapse.** Before the pandemic the childcare sector was already fragile: 17% of providers in England's poorest areas were facing closure¹² and annual staff turnover had reached 24%.¹³ Now many more are struggling to survive, with a quarter of all childcare providers fearing closure within a year.¹⁴ The government is continuing to pay the free hours entitlement to providers for all children registered with them. The free hours entitlement only accounts for a proportion of settings income (as only some families are able access this scheme).¹⁵ Many families combine free hours and additional paid-for hours, and the sector has long argued that the free hours entitlement does not reflect their real running costs. Providers were only allowed to furlough staff for the proportion of the hours that they work that is paid for by parents' contributions, putting them under further financial pressure.

¹⁰ <https://www.daynurseries.co.uk/news/article.cfm/id/1625153/nurseries-investigated-competitions-watchdog-parents-fees-closed>

¹¹ <https://www.ifs.org.uk/publications/14860>

¹² <https://www.nurseryworld.co.uk/news/article/nurseries-in-poor-areas-facing-closure>

¹³ https://www.ndna.org.uk/NDNA/News/Press_releases/2019/Nursery_crisis_Stacking_shelves_more_appaling_than_educating_children.aspx

¹⁴ <https://www.eyalliance.org.uk/news/2020/05/quarter-childcare-providers-fear-closure-within-year>

¹⁵ 'Free hours' are only available to the 40% most deprived two-year-olds. Fifteen hours are provided for all 3 and 4-year-olds and 30 hours only for families where all adults work at least 16 hours per week on national living wage.

- 3.2 Settings that have remained open have generally provided care for only a small proportion of the number of children they usually serve, with severe impacts on their viability.** Around 30% of providers have relied on parents to keep them afloat by continuing to pay some portion of their fees despite not using the service.¹⁶ Schools have been able to access some government funding to help meet the additional costs of operating safely during this outbreak (eg, increased cleaning costs, new equipment and personal protective equipment (PPE) for staff and higher staff to children ratios) but this is not available to childcare providers who also need to cover these increased costs.
- 3.3 Less than half of parents of pre-school children plan to take up places as settings reopen after 1 June, and a fifth of parents have said they won't be using as many hours as previously.**¹⁷ Social distancing guidance requires providers to restrict the number of children allowed in the setting at any one time. This will bring further financial challenges for providers who have had to operate at close to maximum capacity in order to stay afloat. Free hours funding schemes are attached to families' employment status, which is likely to change, making financial planning extremely difficult. If further outbreaks occur, temporary closures will be required. This will bring further financial pressure. The precarious situation for providers also demonstrates the frailties of the current model for funding and provision, and risks collapse across the sector with severe short- and long-term effects. 69% of providers anticipate running at a loss for at least the rest of the year¹⁸ which is not financially sustainable in a sector that has struggled with low levels of investment for years. It is likely that those providers based in poorer areas will be hardest hit.¹⁹
- 3.4 Without an immediate and bold intervention on the funding and delivery of childcare, we risk jeopardising children's development and the economic recovery at the same time.** Research from the Sutton Trust has shown that the lack of formal childcare provision has had "the biggest impact on the poorest children" with potentially lasting impacts on the attainment gap.²⁰ Without the leveling effects of high quality affordable childcare, the poorest children can be up to 11 months behind their better-off peers before they even start at school at the age of four.²¹ Any widening in early years educational inequalities during Covid-19 risks becoming far more costly for society and the economy to tackle in later years.
- 3.5 Investing in childcare is a cost-effective focus for a fiscal stimulus plan.** Research by the Women's Budget Group shows that up to 1.5 million jobs could be created in the UK if

¹⁶[https://www.ndna.org.uk/NDNA/News/Press_releases/2020/Half_of_UK_nurseries_able_to_remain_op
en_for_critical_workers.aspx](https://www.ndna.org.uk/NDNA/News/Press_releases/2020/Half_of_UK_nurseries_able_to_remain_open_for_critical_workers.aspx)

¹⁷ [https://www.cypnow.co.uk/news/article/low-demand-for-childcare-puts-sector-s-future-at-risk-as-
lockdown-lifts](https://www.cypnow.co.uk/news/article/low-demand-for-childcare-puts-sector-s-future-at-risk-as-lockdown-lifts)

¹⁸ [https://www.cypnow.co.uk/news/article/low-demand-for-childcare-puts-sector-s-future-at-risk-as-
lockdown-lifts](https://www.cypnow.co.uk/news/article/low-demand-for-childcare-puts-sector-s-future-at-risk-as-lockdown-lifts)

¹⁹ <https://www.cypnow.co.uk/analysis/article/tackling-post-lockdown-shortage-of-places>

²⁰ <https://www.suttontrust.com/wp-content/uploads/2020/04/COVID-19-and-Social-Mobility-1.pdf>

²¹ <https://www.suttontrust.com/our-research/closing-gaps-early-parenting-policy-childcare/>

2% of GDP was invested in care industries, compared to 750,000 for an equivalent investment in construction.²² Investing public funds in childcare delivers across a range of measures, including boosting employment, protecting household income, underpinning economic growth and supporting gender equality.

4. Creating a Childcare Infrastructure Fund

- 4.1 The limited support measures introduced by the government so far have been inadequate for both parents and childcare providers.** Current government support allows Ofsted-registered childcare providers to claim their payments for free entitlements up to 30 hours, and to access the Coronavirus Job Retention Scheme (CJRS) covering 80% of salary costs. However, new guidance in April introduced conditions preventing nurseries from accessing the full early years entitlement funding and furlough scheme, putting providers under huge strain. Critics have also highlighted that, with so many salaries below the minimum wage in the sector, 80% of salary costs is in effect a starvation wage and not sufficient to maintain the workforce, who may instead move into unemployment benefits. Some childminders may be eligible for the Self-employed Income Support Scheme (SEISS), but PACEY, the sector body representing childminders, have raised concerns that thousands are not eligible, including those who are recently self-employed or a limited company.²³
- 4.2 Other governments with similar childcare provision have taken more decisive steps to protect this essential sector.** Ireland, Australia and Canada all operate childcare systems similar to that in England. The Irish²⁴ and Australian²⁵ governments have both created temporary interventions to underwrite childcare fees in order to protect the sector. In Canada, interventions have come via provincial governments.²⁶ Each intervention has ensured that key workers are able to access the childcare they need whilst they work through the crisis, that non-key worker families have not had to continue to pay fees whilst nurseries are closed to them, and that mass redundancies of childcare workers are avoided.
- 4.3 As an immediate first step to supporting parents, providers, and the wider economic, social and public health recovery, NEF proposes the creation of a new Childcare Infrastructure Fund (CIF).** Through repurposing and building on existing government support schemes, the reforms would present a significant, temporary improvement on the existing funding model for childcare – effectively replacing the free

²² https://wbg.org.uk/wp-content/uploads/2016/11/De_Henau_Perrons_WBG_CareEconomy_ITUC_briefing_final.pdf

²³ <https://www.nurseryworld.co.uk/news/article/thousands-of-new-childminders-at-risk-of-closure-without-government-support>

²⁴ <https://assets.gov.ie/73485/bff8620e5c9646428627d2ee344350e0.pdf>

²⁵ <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2F7272599%22>

²⁶ <https://www.childcarecanada.org/resources/issue-files/child-care-and-covid-19-canada/table-status-child-care-canada-and-covid-crisis>

hours entitlement with a larger direct payment enabling all Ofsted-registered providers (including those who currently rely heavily on parental income) to retain staff, meet essential overheads and deliver high quality childcare where it is most needed. The CIF will ensure that children's places are protected, regardless of income, and there is continuity of care during the phased reopening of the sector when social distancing measures are eased.

- 4.4 The new CIF budget would be held and administered by the Department for Education (DfE),** with funds diverted from both the existing free hours entitlement and payments made to childcare providers through the CJRS and SEISS. Contributions to tax-free childcare accounts should be frozen during this period. The DfE should work closely with sector bodies and local government in the implementation of the scheme, in particular working to prevent unnecessary additional bureaucracy. Local government would also act as intermediaries in the scheme liaising between DfE and local providers, supporting efficient uptake of funds and compliance with conditionality. The CIF should be implemented for an initial three months, with the option to extend the scheme on a rolling three month basis.
- 4.5 We propose two separate pathways for access to the fund, one for those providers that deliver care in group settings, and one for childminders.** The high level specifications for each of these pathways (respectively) are set out below.
- 4.6 Pathway 1, group settings:** All Ofsted-registered childcare providers would be eligible for financial support in the form of grants through the CIF covering 100% of average salary costs and a contribution towards other operating costs.²⁷ The contribution towards salary costs would also include a top-up to cover 100% of the costs of paying all salaries at a level at least equal to the Real Living Wage. This will be available up to a maximum of £3,125 per month (this is the same gross salary cap as other government protection schemes) per worker for gross salary, plus employee National Insurance Contributions (NICs) and pension contributions on a similar basis to the CJRS. This financial support would replace the CJRS, the Business Interruption Loan Scheme, and the free hours scheme for as long as the CIF remains in place.

Conditionality: In return for grants through the CIF, childcare providers must meet the following conditions:

- **Remain open and provide free care for all children aged between zero and five years up to current total capacity, but prioritising parents of vulnerable children, parents**

²⁷ In addition to funding 100% of staff wages, Ofsted registered group settings would also be able to receive financial support to cover operating costs. For modelling purposes these costs have been calculated at 27% of a settings running costs, with staff costs accounting for the other 74%. These proportions have been drawn from the 2019 'About Early Years' report from Ceeda²⁷ and are largely in line with similar figures collected from 2018. Settings applying for the Childcare Infrastructure Fund will receive an operating costs payment related to the staff costs they submit with the flexibility for further adjustment to reflect actual overheads.

previously eligible for the 15 free hours or 30 free hours childcare schemes, key workers and those unable to work from home, among others.

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- No longer charge fees for parents who are not presently using childcare provision. Places that are currently secured for parents not using childcare will be recognised after the phase of emergency childcare provision has ended.
- Not make any staff redundant, increase staff salaries and pay every worker at a rate equal to or above the Real Living Wage, and support all staff to access online or practical training to improve skills and further develop the childcare workforce.
- Provide clarity on tax status (on a country-by-country basis if a multinational company) and commit to not engage in dividends or share buy-backs during the period while in receipt of financial support through the CIF.

4.7 Pathway 2, childminders: Childminders who choose to remain formally open during the phased easing of lockdown will be eligible for financial support in the form of grants through the CIF. Childminders would register directly with the CIF, providing details of the hours they work each week and the number of children they care for. They will also be eligible for a payment for overhead costs.²⁸ This financial support would replace the SEISS and the government's free hours scheme for as long as the CIF remains in place. In addition, for those childminders who choose not to apply for the CIF, we propose that their access to the SEIPS is extended to ensure that valuable childcare infrastructure remains intact. For example, Ofsted-registered childminders could receive 100% income protection from the SEIPS (rather than 80%) and criteria excluding those who only became self-employed this year could be removed or relaxed.

4.8 Cost: We estimate the gross cost of the CIF would be approximately £634 million per month, or £1.9 billion for three months. Of which, the gross monthly cost for pathway 1 and pathway 2 (see above) would be £528 million and £106 million respectively. However, after making deductions for estimated payments already made to childcare providers under the free hours programme, the CJRS, and the SEIPS, we estimate that the net cost of the CIF would be approximately £236 million in its first month (if introduced in July 2020) or £728 million for three months.²⁹ We propose these costs are met through further bond issuance by government, with the Bank of England continuing to purchase bonds on secondary markets as appropriate in order to keep the costs of public borrowing at all-time lows.

4.9 Further development: This proposal will remain under live review as more data becomes available and the social distancing measures are unwound. The coronavirus crisis has demonstrated the vital role childcare infrastructure plays in supporting the economy. There are clearly a number of longer term issues for the sector to address, including the

²⁸ Overhead costs for childminders is based on figures published for the DFE by Frontier Economics, that 72% of childminders costs are staffing and 28% are for venue and other operating costs.

²⁹ These net costs change from month to month, in line with gradual withdrawal of government's Coronavirus income support schemes, which we include in baselines of existing government expenditure.

quality and flexibility of provision, accessibility of childcare to all families, and the training and retention of staff. We will address these issues, alongside the financial sustainability and funding of the sector in future proposals published in the coming months.

Methodology note

The policy costings estimate for net additional cost to government of implementing NEF's Childcare Infrastructure Fund proposal, on top of repurposing the existing free hours funding and estimated costs of furlough payments resulting from the coronavirus crisis. Free hours funding is defined as a combination of free childcare (universal and extended offer) and 2-year-old offer, at annual cost of £3.8bn as estimated by the Institute for Fiscal Studies (IFS, 2019).³⁰ The IFS list additional policy elements related to subsidising early education and childcare in England, but as these are offered via the tax and benefits system rather than direct free childcare payments, we do not include them in our baseline for current free hours expenditure, effectively assuming this expenditure remains constant for government.

We estimate proportions of furloughed childcare workers, both employees and self-employed, based on the Resolution Foundation survey estimating what proportion of workers in each earnings quintile are likely to receive government's coronavirus income support payments.³¹ Using those estimated proportions, we then calculate the amount of government support as 80% of those workers' average earnings prior to the crisis. For three month policy costings we assume the same proportions of workers remaining furloughed, given uncertainty in predicting how those numbers may change. We adjust estimates of government support levels in line with the announced policies on how the scheme will be changing from August to October 2020, and assuming full withdrawal of the scheme after October.

We estimate the existing costs of provision, which substantially exceed the government-provided funding, by separating it into salary and overhead costs. Total expenditure on salaries is calculated based on average earnings of workers at each qualification level multiplied by the number of childcare workers at those levels. The overhead costs of childcare provision are based on the calculated salary expenditure and the survey data on average proportion of expenditure on other running costs as compared to expenditure on staff wages. We are aware that 5% of the childcare workforce in group settings are 'bank staff' but due to lack of data we have been unable to include them in the financial modelling. Our expectation is that these staff will be able to access support through the SEISS.

Our policy proposal recognises the extremely low levels of wages in the childcare sector and calls for paying each worker at least the Real Living Wage, therefore we model costings for covering all staff wages based on increasing their earnings accordingly (including apprentices, and incorporating higher Living Wage rates for London). To ensure fairness, we maintain the differentials of pay between different qualification levels (in fixed cash terms) and model the costings accordingly. We keep costs of overheads constant with the baseline scenario.

We calculate the net cost to government of our policy proposal by deducting the existing government expenditure on free hours (defined as above) and furlough payments from the total estimated cost of overheads and uprating wages to the real Living Wage levels.

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³⁰ <https://www.ifs.org.uk/publications/14557>

³¹ <https://www.resolutionfoundation.org/publications/the-effects-of-the-coronavirus-crisis-on-workers/>

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