

18th September 2020

# CHALLENGES FOR THE CHILDCARE MARKET – ADDITIONAL ANALYSIS

## Model estimates for MNS prepared for Early Education

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This note contains findings from additional analysis for the report “Challenges for the Childcare Market”<sup>1</sup>, providing estimates of the financial impacts of the COVID-19 lockdown and medium term scenarios for Maintained Nursery Schools (MNS). The estimates presented in this note should be considered in conjunction with the methodology and other findings described in the report.

### Caveats on estimates

The estimated impacts of the lockdown have some additional caveats for MNS:

- The modelling uses data from 2018 and the evidence indicates that MNS have been subject to substantial changes in government funding and delivery since that time.
- The sample of MNS is small and contains only 101 settings.

These estimates for MNS should therefore be considered as indicative rather than precise.

### Chapter 4: Lockdown scenarios

Three figures are presented from chapter 4 of the report:

- Figure 4.2 indicates that the proportions of MNS with income-to-cost ratios of less than 0.8 and greater than 1.2 were not affected to any notable degree by either lockdown scenario.
- Figure 4.3 confirms these patterns, with no MNS in the sample entering into the “significant deficit” category during either lockdown scenario.
- Figure 4.5 indicates that the replacement rate (furlough payments as a share of baseline income) for most MNS lay within a tight band of between 61% and 73%, indicating a higher degree of consistency in the level of support during lockdown for MNS than other provider types.

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<sup>1</sup> 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>

## Chapter 5: Medium term scenarios

One figure is presented from chapter 5 of the report:

- Figure 5.3 indicates that the medium term scenario of a 15% loss in fees (and no change in free entitlement funding) has no impact on MNS, but the scenario of a 15% loss in both fees and funding almost doubles the proportion with an income-to-cost ratio of less than 0.8 from 12% to 23%. These estimates assume that there is no adjustment in costs.

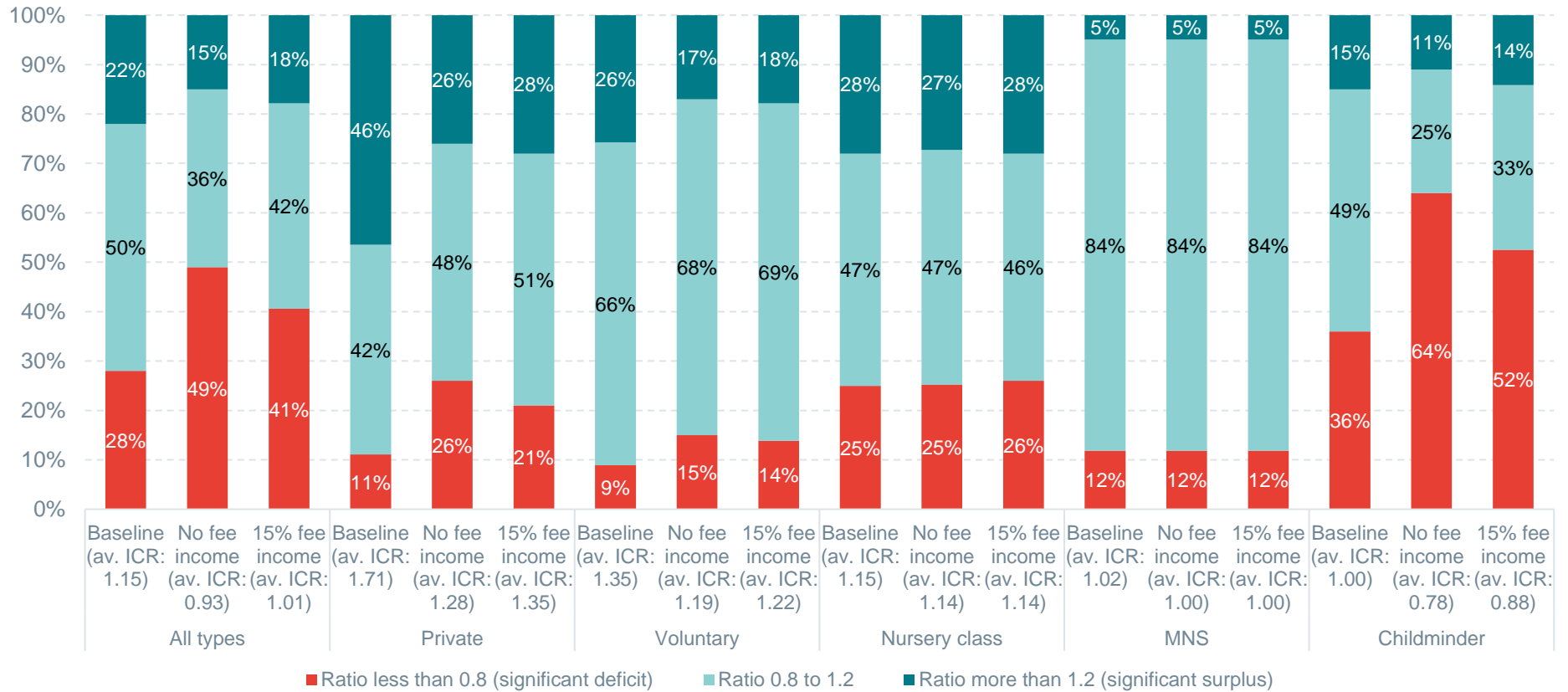
### Summary

The estimated impacts for MNS are very similar to those for nursery classes, consistent with both types of providers receiving most of their income from free entitlement funding (72% for MNS and 74% for nursery classes<sup>2</sup>). MNS were largely protected from the financial impacts of lockdown due to the continuation of free entitlement funding at pre-lockdown levels, but could face more substantial impacts in the medium term if funding levels were to decline due to the curtailment of funding at pre-lockdown levels from January 2021 and any lower take-up of places. If the decline in income were to persist, MNS might offset it by changes to their delivery models, including by cutting costs and/or reducing capacity.

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<sup>2</sup> Figure 1 in Cattoretti, G., Paull, G. and Marshall, L. (2019), *Providers' finances: evidence from the survey of childcare and early years providers 2018*, Department for Education Research Report DFERR896, March, <https://www.gov.uk/government/publications/provider-finances-evidencefrom-early-years-providers>

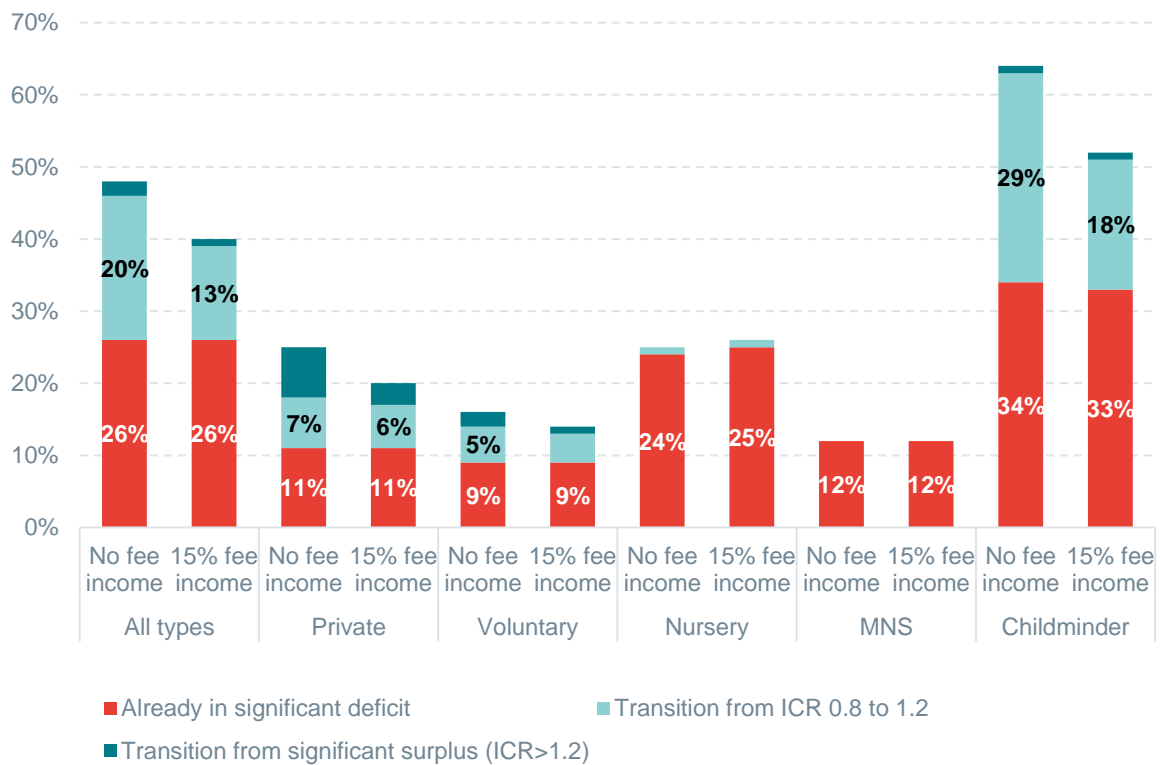
**Figure 4.2: Providers' income-to-cost ratios comparing baseline and lockdown scenarios**



Source: Authors' analysis of the 2018 Survey of Childcare and Early Years Providers.

Notes: We classify providers as running a significant deficit if their income-to-cost ratio is below 0.8 (more than £5 of costs for every £4 of income) and as running a significant surplus if their income-to-cost ratio exceeds 1.2. 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 20 are unclassified group-based providers.

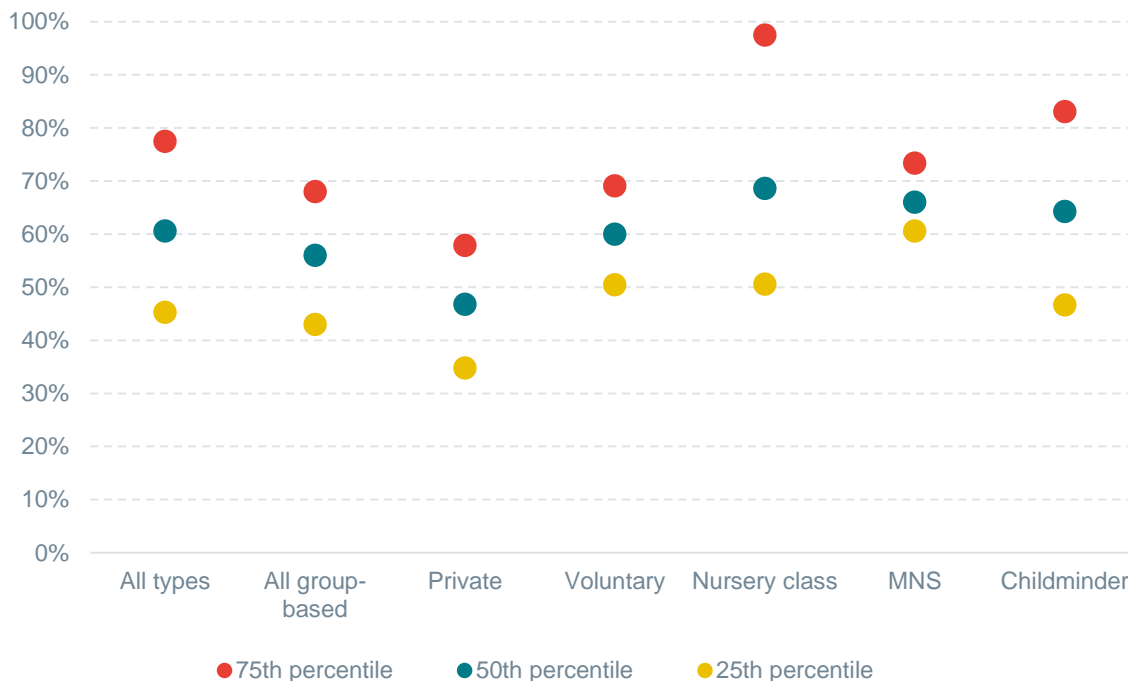
**Figure 4.3: Providers estimated to be in significant deficit (with an income-to-cost ratio <0.8) under lockdown scenarios, by baseline financial position**



Source: Authors' analysis of the 2018 Survey of Childcare and Early Years Providers.

Note: A small number of childcare providers who were previously in significant deficit saw their finances improve during the lockdown. Other notes as for Figure 4.2.

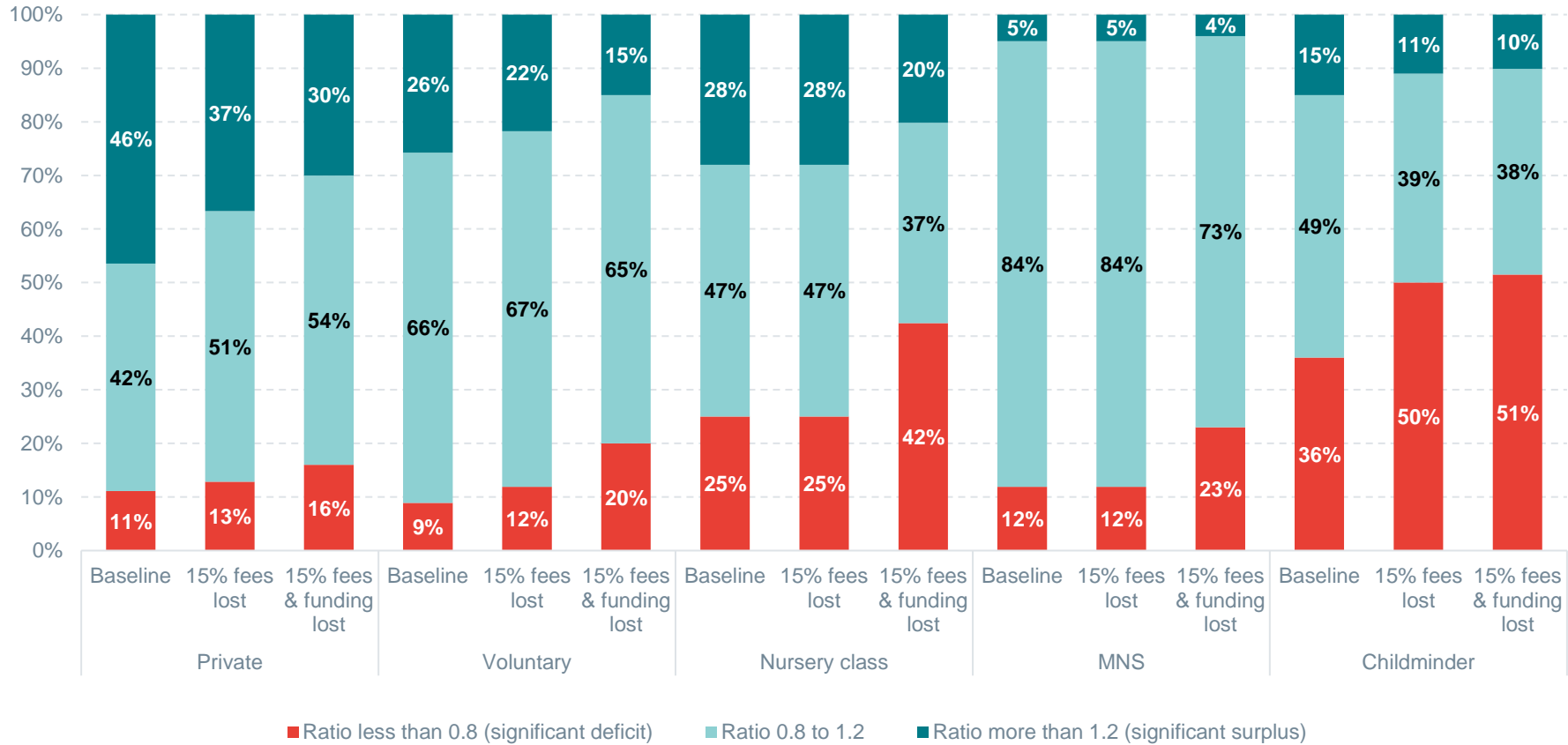
**Figure 4.5: Furlough or SEISS payments as a share of baseline fee income, assuming no fee income during lockdown**



Source: Authors’ analysis of the 2018 Survey of Childcare and Early Years Providers.

Note: The figure shows the ratio between the SEISS payment (for childminders) or the furlough payment (for other provider types) under the no fee lockdown scenario and the provider’s baseline private fee income. The figure is restricted to providers with some private income at baseline. The sample consists of 1,077 providers, of which, 316 are private providers, 333 are voluntary providers, 67 are nursery classes, 90 are MNS, 254 are childminders and 17 are unclassified group-based providers. ‘All group-based’ providers includes all types except childminders (i.e. all provider types broadly eligible for furlough payments rather than SEISS payments).

**Figure 5.3: Estimated provider income-to-cost ratios in the medium term, assuming different reductions in income with no change in costs, by provider type**



Source: Authors' analysis of the 2018 Survey of Childcare and Early Years Providers.

Notes: See notes to Figure 4.2.