Childcare and the recession - summary
Policy insight paper 3

This is the third briefing paper in a new series by Daycare Trust looking at a range of policy issues on early childhood education and care.

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Introduction

Over the last decade Government policy has increased access to early childhood education and care for two reasons. Firstly, to enable parents to return to work, maximising their family income and enabling women to balance a career with having a family; and second, to provide children with a quality early years experience to give them a head-start in life before they start school, redressing the effects of social and economic deprivation on children's life chances.

With childcare performing such an instrumental role for families and the economy as a whole, it is crucial that policy makers and childcare providers assess whether the childcare market is resilient enough to survive a recession intact. There is a danger that the investment in childcare places made by the Government could be lost if childcare providers in the private, voluntary and independent sector (PVI) fail due to falling occupancy, entailing a financial loss to Government and a loss to the millions of parents who use childcare, which would then need re-investment once the economy recovered.

Is accessible, affordable high quality childcare really under threat? This briefing paper examines the current pressure points in the childcare market, looks at what different voices in the sector are saying and identifies possible issues providers and parents may face in the future, suggesting practical policy solutions to build resilience and sustainability in the market.

The childcare market

The obvious threat to childcare providers is that when parents lose their jobs they will remove their children from their childcare setting, because they feel they can no longer afford to pay for childcare. Also, support for childcare costs through tax credits ends four weeks after the claimant becomes unemployed. If occupancy levels in a childcare setting sink low enough for long enough, then that setting will close, causing chaos for their remaining clients, who will then have to source alternative childcare quickly.

The Childcare Act in 2006 gave local authorities new duties to manage childcare markets and significant funding has been made available to stimulate childcare places since the earliest childcare strategy in 1998. If too many places are lost, the same funding may need to be found again to regain lost places.

Laing and Buisson's annual Children's Nurseries and UK Market report for 2009 values the childcare market at £4.1 billion. However, despite the total size of the market there are few large providers, and the PVI childcare market is comprised of a mosaic of small businesses of various sizes.

The fact that most settings are small scale operations, or part of a small chain rather than large national franchises means that settings are less able to absorb localized losses as part of their business model, and tend not to hold large cash reserves or capital assets. The available data suggests a market that is large but potentially brittle, with limited profitability, especially in the deprived areas most dependent on the free entitlement.

Predictions as to what the future holds for the childcare market are mixed, ranging from cautious optimism to outright pessimism. Despite stories of nursery closures in the trade press throughout the last quarter of 2008 and the first quarter of 2009, some providers are reporting increases in occupancy, which they most commonly attribute to mothers returning to work earlier than they may have done in previous years to boost family incomes. For example Treetops Nurseries, which has 20 settings in the Midlands, claim to have experienced a 20 per cent rise in take-up of places for babies aged from three months to one year.

Parental debt

Inevitably due to the caring relationship between childcare settings and children, most settings will not be as vigorous or punitive in chasing down debts as a utility company, who may cut off supply and send out red bills with threats of county court action in their third communication with a customer regarding a debt. Indeed, it would be wrong for childcare settings to do so; not only because it would be bad for parents and children; if parents are scared out of giving up their childcare place by red bills, interest payments, administration fees and legal threats, then the continuity of care for the child is compromised and one parent may have to give up work for a period, reducing household income. There is also a business case for lightness of touch in debt recovery, as parents who feel afraid or resentful of their childcare setting are unlikely to remain loyal customers or recommend the setting to friends and family; and pursuing a debt through the County Court system is time consuming, expensive in the short term with upfront administrative costs, and the prospect of having the debt repaid at the rate of just £1 or £2 per week.

Local authorities: the market manager

Under the provisions over the 2006 Childcare Act local authorities are the designated 'market manager' for childcare in their catchment area and have a statutory responsibility to ensure sufficient childcare is available. As market manager it is essential that local authorities have the powers and resources to be able to cope with the crisis caused by the closure of childcare settings in their area. If a childcare provider is forced to close then the local authority must take immediate steps to help worried parents find alternative arrangements so they are not forced to give up work. This may involve a specially trained taskforce of caseworkers to step in and give parents direct assistance, enhancing the current brokerage role which local authorities currently have under the 2006 Childcare Act and is usually undertaken by Family Information Services.

However, unless central and local government can work together to manage local childcare supply crises, then the market cannot be considered to be 'manageable' to an acceptable degree. Monitoring and reporting is important, but targeted action is essential when the market fails parents.

Early childhood education and care workforce

As we noted in our first policy insight paper ‘Raising the bar: what next for the education and care workforce’ the childcare workforce is 98% female and suffers from poor pay and conditions, historically characterised by a lack of training and development opportunities.

The possibility has been raised in some quarters that childcare providers could benefit from the recession by being able to recruit higher calibre workers for childcare settings. As long as wages remain so low in the sector, with a third of childcare workers earning on or below the minimum wage, it seems unlikely that merchant bankers and corporate lawyers who have been made redundant will take up the mantle in nurseries, but it would be desirable for candidates with strong management experience to move into childcare settings, which are often in need of greater managerial expertise and strategic direction. However, the current economic climate is certainly bad news for the early childhood education and care workforce, as any increase in applications for jobs in childcare settings will work against moves to drive up pay and conditions in the sector.

The Government may find that their ambition of having a graduate-led workforce becomes a reality if they are able to attract graduates who face making different career choices than they had anticipated. There is also the possibility that the Government’s long held ambition to attract more men into the childcare market could slowly start to happen as men facing unemployment widen the scope of their job search.

Employer-supported childcare

In April 2005 the Government introduced changes to the income tax and National Insurance contributions relating to employer-supported childcare, in a bid to encourage more employers to help their employees meet the cost of childcare.

However, in this challenging economic climate, there are fears that childcare vouchers and workplace nurseries are under threat as employers look to reduce costs. Following a European Court ruling, contractual benefits, including childcare vouchers, must continue throughout all maternity leave. As a result of the new regulations, critics have argued that employers will start to withdraw their supported childcare due to this new cost. We are aware of several employers who are currently investigating withdrawing childcare vouchers or deciding against starting a scheme, and one major employer, British Home Stores, who have withdrawn their childcare vouchers.

It is impossible to know what the precise effect of the new regulations has been to date, as no official data is collected from employers regarding the offer of childcare vouchers to employees. If employers choose to withdraw their voucher schemes due to additional costs incurred by the new regulations then there would be serious implications for many families. Many employees, mostly female, would have to reduce their hours or even give up work if the cost of childcare without vouchers becomes unaffordable for them. This would subsequently harm registered childcare settings as occupancy rates fall. Instability in what has become a core element of the UK childcare offer would be worrying at any time, but during the current economic crisis it is of particular concern.

However, the prevailing wisdom seems to be one of ‘wait and see’. Our soundings suggest that large organizations currently looking at this issue intend to conduct their reviews over years rather than months or weeks, but the Government must make it clear what their intentions are for this benefit; is it to be more fully explained and promoted to employers and employees alike, or is it to be allowed to wither on the vine? Clarity is needed.

Conclusion

The childcare market has expanded over the past ten years, fuelled by increased demand and increased government subsidy, one feeding the other. The market is now much larger than it has even been in a previous recession and we cannot say with confidence how it will stand the test of this recession. The resilience of the private, voluntary and independent (PVI) sector which provides the majority of early childhood education and care places will be tested by the recession.

The childcare market is not currently in crisis and seems to be holding up well in the face of the recession. There is a lack of reliable statistical data to give an accurate portrait of the state of play, but anecdotally it seems that patterns of usage are changing as increased demand for childcare for babies seems to be balancing falling occupancy rates caused by unemployment. However, if the recession deepens causing sharp rises in unemployment and falls in employment then childcare occupancy rates will fall across the board and more settings will certainly close, threatening the Government's ability to deliver their universal childcare entitlement to parents. It must be right that despite the relative stability in the sector at the moment, policy makers and providers must plan ahead against this possible scenario. Government has limited resources it is a difficult challenge to meet, but childcare must be high in the list of public spending priorities because of its vital instrumental role in the economy.

The role of local authorities as market managers is crucially important, especially in dealing with micro-crises where a major local employer closes, and the subsequent unemployment means falling occupancy in local childcare settings. Local authorities need to be given the funds, support and powers to ensure they are able to meet their obligation to ensure sufficient childcare is available. Local authorities will have to use their resources judiciously, assisting high quality childcare settings and prioritizing deprived areas. Local authorities must also ensure their financial practices as landlords do not work against their duty to provide sufficient childcare, and that when childcare settings close, the expertise and enthusiasm of the staff made redundant is not lost to their community.

The weakness of demand – led finance is already being exposed by the recession as job losses are quickly followed by the loss of tax credit based funding to parents struggling to pay fees. If there are questions over whether it is possible to deliver a universal childcare offer in a mixed market, then the credit crunch will provide some of the answers.

Our recommendations include:

- The poorest parents should be able to claim up to 100% of their childcare costs through tax credits rather than the current maximum of 80 per cent.
- Central Government should increase the run-on period for the childcare element of Working Tax Credit when you lose your job from four to twelve weeks.
- Central Government should create a fund for local authorities to draw on in order to protect childcare places which are at risk.
- Central Government to run an information campaign targeted at small and mid-sized employers and their employees reiterating the long term benefits of childcare voucher schemes and making obligations clear.

- Capital funding to expand places at maintained settings where necessary.
- Create a specially trained taskforce of caseworkers at local authority level to step in and give parents direct assistance if they lose their childcare place, building on the brokerage role of Family Information Services.
- Local authorities should improve business support and advice for PVI childcare settings.
- Increase free childcare entitlement to 20 hours per week for children aged 2 to 4 years.
- Local authorities should not increase rents for PVI settings when they are the landlord in a recession.
- Local authorities should assist childcare workers who have been made redundant to continue any ongoing professional qualifications.

The full report is available to purchase for £10 by emailing publications@daycaretrust.org.uk or by contacting 020 7840 3350.