

Sustainability – Process for Setting a Rate

The Scottish Government has published guidance for local authorities in relation to setting a sustainable rate for ELC. The most up to date guidance was published in May 2022. The Guidance requires local authorities to pay partners a sustainable hourly rate per child. A sustainable rate is defined as a rate that reflects the cost of delivery and also enables partners to pay the real Living Wage (RLW) to all staff delivering funded provision.

While payment of the Real Living Wage is a requirement for becoming a partner provider, clear legal advice has been published which makes it clear that nonpayment of the RLW is an insufficient reason to take action against any provider.

Funded ELC is free at the point of delivery for all children who qualify. The process for setting a sustainable rate must reflect the following principles:

- Funding follows the child.
- Funding is provider neutral.
- Funding offers a genuine choice for parents which includes placement with childminders.

The guidance highlights that the rates paid by local authorities to providers in the private, third and childminding sectors for the delivery of funded ELC should meet the following criteria:

- The rate will support delivery of a high quality ELC experience for all children.
- It will be a rate that reflects the cost of delivery, including the delivery of national policy objectives.
- The rate will allow for investment in the setting – staff, resources and physical environment.
- It will enable payment of the real Living Wage for those childcare workers delivering the funded entitlement.

Local authorities across Scotland are required to set sustainable rates in an open and transparent way. The detailed guidance provided by the Scottish Government outlines four possible approaches as detailed in Section 5 as follows:

- Survey (Costs) – Review detailed cost information provided by private and third sector providers.
- Working Group - Agree, for each cost, a percentage (%) figure and indicative cost through a working group.
- Survey (Prices) - Review current rates charged by private and third sector providers in the local area.
- Cost Modelling – Develop costs based on modelling of an 'average' local ELC setting.

Full details of how local authorities have set rates have been published in the *Scottish Government's Financial sustainability health check of the childcare sector in Scotland* (Scottish Government, 2021). The following excerpt from the Health Check illustrates how Moray Council set its rate.

- Survey (Costs) - Ipsos MORI surveyed Moray private and third sector providers. This established the baseline for a revised rate.
- Although Moray used the results of the Ipsos MORI survey as the evidence base for setting a sustainable hourly rate for 2021/22, there was a strong focus on co-production and consultation involved in this exercise.
- The key points are:
 - One of the PVI Managers operating in Moray has significant experience in developing an hourly rate. The Council supported this colleague to review the Ipsos MORI data and propose a rate.
 - This rate was then verified and refined by Moray Council's Head of Finance.
 - The process of establishing an hourly rate was overseen by the Moray ELC Financial Sustainability Group. This group includes representation from the Council as well as private and third sector representatives. The proposed rate was endorsed by this group before it was consulted on.
 - 86% of the 31 consultation responses supported the proposed rate; and
 - The final element of the process was that the rate was agreed by the Moray Council Education, Communities and Organisational Committee on 31 March.

No method of setting a sustainable rate is seen as full proof. Ipsos MORI and the Scottish Government's Improvement Service agree that all methods are based on assumptions which are open to challenge and that the data used to set rates is not as robust as possible. The Scottish Government has committed to strengthening the process of setting sustainable rates, improving how both local authorities and partner providers are involved in the process. The Scottish Private Nursery Association has argued that 'The manner in which Local Authorities have set their rate, no matter which method they used, are questionable' (Scottish Government, 2022).

Sustainability – Rates Set

The Scottish Government recently sought information from councils about their rates for 2022/23. This information has not yet been published. A sample of rates set for 2020/21 and 2021/22 is detailed below.

**Rates paid to funded providers for an hour of Early Learning and Childcare in
2020-21 and 2021-22**

Council	Year	Rate paid to funded providers for one hour of ELC		Comments
		2 year olds	3 - 5 year olds	
Aberdeen City	2020-21	£6.05	£5.45	
	2021-22	£6.05	£5.45	
Aberdeenshire	2020-21	£6.00	£5.31	<ul style="list-style-type: none"> Providers receive an enhanced hourly rate of £9.30 or £10.30 per hour, depending on the level of support required, if additional support is agreed for a child in a funded provider setting.
	2021-22	£6.34	£5.59	
Angus	2020-21	£6.50	£5.07	<ul style="list-style-type: none"> Childminders received £5.41 per hour for eligible 2 year olds and £4.91 per hour for 3-5 year olds in 2020-21.
	2021-22	£6.68	£5.21	
Argyll and Bute	2020-21	£6.00 (increased to £6.18 on 01/04/2021)	£5.31 (increased to £5.47 on 01/04/2021)	<ul style="list-style-type: none"> 3% uplift applied on 01/04/2021 - for eligible 2 year olds: £6.18, for 3-5 year olds: £5.47. Rates for 2021-22 to be confirmed by the end of October 2021.
	2021-22	TBC	TBC	
Dumfries and Galloway	2020-21	£6.18	£5.24	<ul style="list-style-type: none"> An hourly rate of £10.07 is paid to providers for children requiring additional support in 2021-22. This is in addition to the standard hourly rate of £5.26.
	2021-22	£6.20	£5.26	

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Council	Year	Rate paid to funded providers for one hour of ELC		Comments
		2 year olds	3 - 5 year olds	
Dundee City	2020-21	£5.60	£5.31	
	2021-22	£5.60	£5.31	
Edinburgh	2020-21	£5.31	£5.31	
	2021-22	£5.42	£5.42	
Highland	2020-21	£6.00	£5.31	
	2021-22	£6.40	£5.40	
Moray	2020-21	£5.85	£5.00	
	2021-22	£7.57	£6.30	
Perth and Kinross	2020-21	£5.50	£5.05	
	2021-22	£5.50	£5.31	
Scottish Borders	2020-21	£5.65	£5.31	<ul style="list-style-type: none"> Additional information is currently being collected from providers and data is being analysed.
	2021-22	£5.65	£5.31	
West Lothian	2020-21	£6.40	£6.40	<ul style="list-style-type: none"> All eligible 2 year olds places are

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Council	Year	Rate paid to funded providers for one hour of ELC		Comments
		2 year olds	3 - 5 year olds	
	2021-22	£6.40	£6.40	currently with childminders which is reflected in the hourly rate.

Salary Costs

The hourly rate paid to PVI partners has a major bearing on the overall costs of ELC provision. The Scottish Government has rejected setting a national standard rate.

During February and March 2022 Ipsos MORI carried out a survey of childcare partner providers on behalf local authorities across Scotland. The main aim was to produce up to date estimates of the actual costs to providers of providing an hour of ELC, in order to inform planning, modelling and discussions about rate-setting. It followed a model developed by Ipsos MORI for an earlier Scotland-wide exercise conducted on behalf of the Scottish Government in 2016, and repeated for Aberdeenshire and Moray Councils in 2020.

Prior to the 1140 expansion, commercial providers argued that the rate paid by local authorities was unsustainable and required to be subsidised by the rate charged to parents for additional hours. In 2017 the National Day Nursery Association (NDNA) noted that average payment rates at that time were £3.28 per hour and varied widely across Scotland. At that time the NDNA advised that a payment of £4.51 per hour was the minimum payment rate that would fully cover actual costs. In 2017, the Scottish Government assumed a 2020/21 rate of £5.31. Moray's Financial Template used this figure.

In May 2022, rates paid ranged from £5.00 per hour in Orkney to £6.40 in West Lothian. Higher rates typically apply for 2 year olds, children with additional needs and in some cases childminders. In 2022/23 the rate paid by Moray Council to partners is £6.30 for 3 and 4 year olds and £7.20 for 2 year olds. Moray Council pays the highest combined rate for a typical sized group of children.

A survey of PVI partners was carried out by Moray Council in Spring 2022. The survey showed the average commercial rate for additional ELC was £5 per hour. The Ipsos MORI survey gave a figure of £4.50 for this. This would suggest the cost of additional hours in partner providers no longer subsidises other elements and indeed the opposite position may now exist.

All providers taking part in the Consultation were paying at least the Real Living Wage to staff.

The latest IPSOS Mori data collection exercise provided information regarding salaries paid across the sector.

Salary Costs May 2022

Full Time Manager	Northern Alliance	Moray PVI
Median	£29 000	£29 978
Mean	£36 103	£54 257
Local Authority Equivalent Salary		£37 379 - £41 074

Full Time Supervisor	Northern Alliance	Moray PVI
Median	£20 930	£22 620
Mean	£22 015	£23 758
Local Authority Equivalent Salary		£28 255 - £30 819

Early Years Practitioners	Northern Alliance	Moray PVI
Median	£18 746	£20 296
Mean	£19 237	£22 296
Local Authority Equivalent Salary		£25 127 - £27 426

The median point is the mid point in a range of figures. The mean value is seen as a more accurate measure when considering averages.

Many respondents however argued that this rate was not enough to allow PVI providers to match local authority pay scales. It is clear that salary differentials do exist. PVI partners reported that, as a consequence, staff turnover is problematic as staff often leave for better pay and conditions in the local authority sector. Main grade staff who took part in the Consultation confirmed this to be the case.

Other Costs

All settings in Moray were invited to participate in the 2022 PSOS Mori cost survey. A wide range of data in relation to costs was collected. Findings were presented for the Northern Alliance as a whole and for Moray Council specifically.

Key findings Include information on total costs as detailed below.

Cost of provision per hour	Northern Alliance	Moray Council
Range	£2.72 - £8.08	£3.73 - £5.81
Median	£4.57	£4.29

Average staff cost per hour of ELC provided.	Northern Alliance	Moray Council
Median	£3.59	£3.92
Mean	£3.58	£3.76

Average Rental/mortgage costs per hour of ELC provided	Northern Alliance	Moray Council
Median	£0.19	£0.18
Mean	£0.29	£0.27

Average Utilities costs per hour of ELC provided	Northern Alliance	Moray Council
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Median	£0.07	£0.04
Mean	£0.10	£0.08

Average Consumables costs per hour of ELC provided	Northern Alliance	Moray Council
Median	£0.11	£0.08
Mean	£0.16	£0.09

Average Play and learning equipment costs per hour of ELC provided	Northern Alliance	Moray Council
Median	£0.08	£0.08
Mean	£0.09	£0.12

Average Play and learning equipment costs per hour of ELC provided	Northern Alliance	Moray Council
Median	£0.04	£0.05
Mean	£0.03	£0.05

Average fee per hour 4 year-olds	Northern Alliance	Moray Council
Median	£4.62	£4.31
Mean	£4.85	£4.50

Costs across the Northern Alliance are broadly comparable. PVI salaries are generally higher in Moray than in other Northern Alliance areas.

There is no suggestion that the rate setting mechanism used by Moray Council is not valid, open or transparent. Moray's ELC Financial Sustainability Group has relied on two data points from the full Ipsos MORI exercise. They have used this data to estimate the point at which they feel the Living Wage can be paid. It appears that this approach is not widely used across authorities. Given the variation in rates paid across both the Northern Alliance and more widely and the lack of variation in costs incurred, consideration must be given to the extent to which the rate paid to partners is sustainable for the local authority.

Reducing the partner rate in the current financial year is not realistic, given the undertakings contained in existing contracts. Contracts will be retendered in April 2023.

Recommendation 16

- Given the concern in relation to data collection, the service should sense check its rate using at least one other method suggested in Government guidance.

Sustainability- Data Collection

The rate set for partner providers must be sustainable for both partner providers and the local authority. The availability of accurate and real time financial information is crucial. Covid-19 and changes in the officer cohort have made this difficult. The service does not yet have sufficient up to date and accurate cost data for its own settings. At present it is not able to make direct comparisons between the original 1140 expansion Financial Template and current and anticipated spending for each budget heading. This presents a significant risk. The ELC Service do not have the financial information to allow it to manage its budget effectively at this time.

Recommendation 17

- Conduct a cost centre study of the hours provided and total costs incurred in local authority settings to allow for comparison of average costs per hour across all settings.
- Work with colleagues to revise role forecasts in light of updated national data to ensure anticipated demand has not changed.

While there are no direct savings associated with this action, accurate and real time financial information will allow the service to take action in the event of budget pressures. The risk associated with continuing with the present system is high