



**REPORT TO: EDUCATION, CHILDREN'S AND LEISURE SERVICES
COMMITTEE ON 19 SEPTEMBER 2023**

**SUBJECT: EARLY LEARNING AND CHILDCARE – FINANCIAL
SUSTAINABILITY**

**BY: DEPUTE CHIEF EXECUTIVE (EDUCATION, COMMUNITIES AND
ORGANISATIONAL DEVELOPMENT)**

1. REASON FOR REPORT

- 1.1 To inform the Committee of the financial support including grants provided to partner provider settings during the Early Learning and Childcare (ELC) expansion period and throughout the COVID-19 pandemic and the ongoing evaluation of the sustainable rate for ELC funded hours.
- 1.2 This report is submitted to Committee in terms of Section III (D) (1) of the Council's Scheme of Administration relating to all the functions of the Council as an Education Authority.

2. RECOMMENDATION

2.1 It is recommended that Committee:

- i) consider and note the overall financial support provided to partner provider settings during the ELC expansion period and throughout the COVID-19 pandemic;**
- ii) scrutinise and note the ongoing process to evaluate the sustainable rate for ELC funded hours;**
- iii) agree that no further uplift to the sustainable rate will be considered during the 2023/24 financial year; and**
- iv) agree that the sustainable rate will be reviewed for the 2024/25 financial year as part of the partner provider financial sustainability review.**

3. BACKGROUND

- 3.1 The ELC expansion project began in 2017 with the formation of a delivery plan to increase funded ELC provision from 600 to 1140 hours per annum.

- 3.2 This project aimed to provide a quality ELC service that was both flexible and accessible for parents and carers while ensuring childcare settings met an agreed standard as outlined in the guidance issued by Scottish Government in 2018: [Funding Follows the Child and the National Standard for Early Learning and Childcare Providers: Principles and Practice](#).
- 3.3 Additionally, the project's objectives included maintaining an affordable service to ensure a financially sustainable provision was in place that would make the most effective use of public funds.
- 3.4 Following the closure of the ELC expansion project in May 2022, further work has progressed to bring the ELC budget in line as noted in the report submitted to Education, Children's and Leisure Services Committee on 19 April 2023 (para 23 of the minute refers) which outlined recommendations from the external consultancy review of the ELC service and included a financial sense check of the sustainable rate.
- 3.5 As part of this continuing work, the ELC and Finance teams have been reviewing the financial sustainability of the ELC service for partner provider nurseries and childminders that are in partnership with the Council to provide funded ELC hours.
- 3.6 This includes reviewing the sustainable hourly rate which is currently £6.62 for 3-5 year olds and £7.95 for eligible 2 year olds. This rate includes the 5% uplift that was agreed at a meeting of Moray Council on 2 February 2023 (para 24 of the minute refers).
- 3.7 In addition to the sustainable hourly rate, partner providers receive Early Intervention Funding (EIF) for those children who qualify for Additional Support Needs (ASN) funds. This ASN funding ranges from £9.00 to £17.38 per hour of EIF allocation depending on the provider. Currently this funding stream process and hourly rate is under review by Education and Finance colleagues as part of the wider ASN evaluation.
- 3.8 Funded meal payments are also made to partner settings which choose to provide meals during funded sessions. The current rate is £2.35 per meal for each day of attendance. Those settings which do not provide meals directly, receive funded meals from the Council's catering team.
- 3.9 In evaluating the financial viability of the ELC provision, it is important to consider not just the sustainable rate but also the overall support that has been provided to partner provider settings from the start of the ELC expansion project and throughout the COVID-19 pandemic period.
- 3.10 Detailed financial support information can be found in **Appendix 1** which includes specifics on funded hour payments, a sustainable rate comparison with other authorities, meal payments, milk and snack payments, grant funding and additional support provided to partner provider nurseries and childminders from 2017 to current.
- 3.11 A significant amount of grant funding was available for partner provider settings from the start of the ELC expansion programme throughout the

pandemic period from both the Scottish Government and the Council totalling just under £1 million.

- 3.12 In addition to the grant funding opportunities, the Council also provided financial support to partner settings to aid with additional costs associated with COVID-19 totalling just under £600,000.
- 3.13 Ongoing work continues to progress with partner providers operating from Council owned premises to establish lease agreements which will take into account issues highlighted in the [Subsidy Control Act](#) by ensuring an equitable approach to rent and shared property costs for those providers operating from both Council and non-Council facilities.
- 3.14 Further to monetary funding, central ELC team support extends to areas not typically considered in terms of financial sustainability although it is an important aspect in ensuring a high quality ELC service is maintained.
- 3.15 This includes continuous professional development (CPD) training opportunities and support from central ELC team members: Continuous Improvement Officers (CIOs), Childminding Development Officer (CDO), Early Intervention (EI) Teachers, Teaching and Learning (T&L) Teachers, Equity and Excellence Lead (EEL) Practitioners and the Early Years' Service Manager.
- 3.16 A recent publication from the Scottish Government issued on 31 July 2023, [Financial Sustainability Health Check of the Childcare Sector in Scotland](#) and the supporting [Analysis and Evidence](#) paper, highlights evidence collected on the sustainability of the childcare sector and takes into account the impacts of the costs crisis, workforce pressures and the lasting impacts of the pandemic.
- 3.17 While authorities across Scotland have requested that the Scottish Government outline a standard approach to setting the sustainable rate, it has so far been left to local authorities to determine individual methodologies for these rates. As a result, there are now 32 different approaches which could contribute to local conflict with partner providers.
- 3.18 A further publication of the joint Scottish Government and COSLA Review of the approach to setting sustainable rates in 2022-23 is expected later this year which will highlight input from both partner providers and local authorities. This will be useful to inform the future review of our local rates for the 2024/25 financial year and onwards.
- 3.19 The findings from this review will inform what further action may be required in regards to a wider approach for setting the sustainable rate over the rest of this Parliament.
- 3.20 The sustainable hourly rate in Moray continues to be one of the highest rates in Scotland since the 5% uplift went into effect; however, partner providers report that this rate does not reflect up-to-date costs caused by inflation and Real Living Wage increases.

- 3.21 Further review of partner provider costs with support from Finance is required in order to determine the financial sustainability of providers in Moray. This may include exercises to audit accounts, review financial statements and on-going costs of providers in order to determine why providers in comparable authorities are able to operate with lower hourly rates.
- 3.22 If following this review the evidence gathered indicates an uplift to the sustainable rate is merited for the 2024/25 financial year, an additional report will be brought to this Committee to highlight what funding would be required.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

The report links to the priority of working towards a financially stable Council that provides valued services to our Communities and providing a sustainable education service aiming for excellence as referred to in the Moray Council Corporate Plan.

The report links to 'Building a better future for our children and young people in Moray' from the LOIP.

(b) Policy and Legal

There are no policy or legal implications arising directly from this report; however, it is important to note that the contract agreement between Moray Council and partner providers highlights the following points regarding the sustainable rate:

- inflationary and Real Living Wage increases will be reviewed on an annual basis;
- the extent to which any inflationary and Real Living Wage changes are reflected in the price for future years of the contract is subject to the overall level of funding agreed between Scottish Government and local government for the expanded ELC hours;
- in relation to the sustainable rate setting process, the Council will take into consideration statutory and non-statutory Guidance including as published by Scottish Government and COSLA;
- the Council may, as a result of the sustainable rate setting process, elect to amend the price during the period of contract and shall be the sole judge of whether the price is amended and is under no obligation to implement any price amendment at any stage;
- the process for setting the price will be conducted in line with [Funding Follows the Child and the National Standard for Early Learning and Childcare Providers: Guidance for Setting Sustainable Rates from August 2020](#); and
- the yearly sustainable rate and daily lunch rate will be determined annually by the Council.

The full contract agreement can be viewed on the [Public Contracts Scotland](#) site.

(c) Financial implications

There are no financial implications directly arising from this report; however, the following information is important to note.

The 2023/24 financial year budget required to pay the ELC hours delivered by partner providers is £8.2 million with the total funding from Scottish Government being £9.167 million. This funding is earmarked for the operation of the entire ELC service provision in Moray including both local authority and partner provider service provision. This highlights that close to 90% of Scottish Government funding for the 1140 hours of ELC provision goes towards partner provider payments. The remainder of the funding from Scottish Government along with the agreed Council budget for ELC is used to maintain the local authority ELC provision. Any further uplift in the sustainable rate would increase the cost of provision and would require additional budget commitments from the Council.

The Council is projecting a required savings of around £20 million across the next 2 financial years. In these circumstances all costs incurred by the Council must be subject to rigorous scrutiny.

(d) Risk Implications

There are two inherent risks when considering the sustainable hourly rate:

- If the rate is set too low, there is a risk that providers would not be able to remain financially viable. Should this be the case then some providers may seek to alter their service offer to manage business costs.
- If the rate is set too high, there is a risk that this would not be sustainable for the Council to maintain.

The process for setting the hourly rate aims to allow both factors to be balanced; however, there is a risk to the reputation of the Council as an accredited Real Living Wage (RLW) employer if the sustainable rate is set too low for providers to continue paying the RLW.

Additionally, there is a risk that the working relationship with partner providers is impacted due to requests made around finances, sharing of accounts and a moderate uplift in the sustainable rate approved by Moray Council in February 2023.

(e) Staffing Implications

There are no staffing implications arising directly from this report.

(f) Property

There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact

There is no requirement for an equality impact or socio economic impact assessment to be carried out as a result of this report.

(h) Climate Change and Biodiversity Impacts

There are no climate change or biodiversity implications arising directly from this report.

(i) Consultations

Depute Chief Executive (Education, Communities and Organisational Development), Head of Education (Chief Education Officer), Head of Governance, Strategy and Performance, Chief Financial Officer, Early Years Service Manager, Nicky Gosling, Accountant and the Democratic Services Manager have been consulted.

5. CONCLUSION

5.1 Committee is asked to consider and note the overall financial support provided to partner provider settings during the ELC expansion period and throughout the COVID-19 pandemic.

5.2 Committee is asked to consider and scrutinise the ongoing process to evaluate the sustainable rate for ELC funded hours.

5.3 Committee is asked to agree that no uplift to the sustainable rate will be considered for 23/24 and that the review of partner financial sustainability once completed is taken into account in the review of the rates for 2024/25 onwards in order to enable forward planning by both the council and partner providers.

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Background Papers: SPMAN-1315769894-39 / SPMAN-1315769894-346 / SPMAN-1315769894-353 / SPMAN-1315769894-360 / SPMAN-1315769894-391

Ref: SPMAN-1315769894-422 / SPMAN-1315769894-423