ELC: Review of Sustainable Rates

December 2023

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Background and Approach to the Review

Introduction

1. In December 2018 the Scottish Government and COSLA published the details of the Funding Follows the Child policy framework to support the delivery of Early Learning and Childcare (ELC) alongside the statutory roll-out of the expanded ELC offer.

2. Funding Follows the Child was developed following consultation with the sector on the overall policy framework and funding models between October 2016 and January 2017. Evidence at this time indicated that the rates paid to providers in the private, third and childminding sectors did not always meet the costs of delivery and also highlighted the challenges of low pay. At that time most childcare workers in private and third sector services were earning below the real Living Wage.

3. A key aspect of Funding Follows the Child is for local authorities to set sustainable funding rates for providers in the private, third and childminding sectors who deliver funded ELC. In addition, these rates should be set at a level to enable payment of the real Living Wage to childcare workers delivering funded ELC. Separate guidance was also produced, in April 2019, to support local authorities to set sustainable rates. The three year funding agreement between Scottish Government and COSLA reached in April 2018 to deliver the 1140 expansion included the funding to enable payment of sustainable rates, as have subsequent single-year settlements.

4. The decision to adopt this policy framework and introduce a new approach to setting sustainable rates represented a significant change in approach for local authorities and providers. Nationally, the policy has resulted in real progress being made to increase the rates paid to funded providers in the private, third and childminding sector and in helping to support the payment of significantly higher wages in the sector.

5. Since 2017, the average rate (calculated as the mean of all local authority rates) paid to providers to deliver an hour of funded ELC for 3-5 year olds has increased by 57%, from £3.68 per hour in 2017-18 to £5.80 per hour in 2022-23. In 2022-23 the average rate paid across all local authorities to funded providers for an hour of ELC to 3-5 year olds in Scotland was significantly higher than the rate in Wales (£5.00 per hour, the national rate reported at gov.wales) and the average across local authorities in England (£5.15 per hour, an average of rates reported at gov.uk) for the delivery of funded childcare.

6. However, the delivery of the expansion to 1140 funded hours at the time of the Covid-19 pandemic had an impact on the financial outlook for providers of ELC in the private, third, and childminding sectors, and their business models, and required local authorities to adapt how they provided support to providers. The rates data publication from August 2021 found that a majority of local authorities had not increased the rates paid to funded providers since 2019-20.

7. Alongside this, the Scottish Government carried out a Financial Sustainability Health Check which captured evidence on the impact of the pandemic on the childcare sector. It also set out a programme of actions for strengthening the process for setting sustainable rates for the 2022-23 academic year. 90% of local authorities have increased their rates payable for delivering an hour of funded provision for 3-5 year olds since rates data was last collected in August 2021, and the average rate paid by local authorities increased by 6.6% in that year. However, in 2022-23 childcare providers and local authorities, alongside the whole Scottish economy, faced significant inflationary pressures as a result of the costs crisis. Inflation, as measured by increases to the Consumer Price Index, reached 11.1% in the year to October 2022.

8. The Scottish Government published 'Best Start', a strategic plan for Early Learning and School Age Childcare, on 6th October 2022. This plan committed the Scottish Government to working with Local Government to review the approach to setting sustainable rates for providers of funded ELC in 2022-23, in the context of the additional programme of work undertaken to improve the process since summer 2021. Subsequently, the COSLA Children and Young People Board agreed in November 2022 that COSLA would undertake a joint review of sustainable rates with the Scottish Government. The review would take an evidence-led approach, and utilise intensive engagement with stakeholders, from both local government, and funded providers and their representatives.

9. The objective of this review is to learn lessons from the implementation of policy in 2022-23, to identify where the process can be improved further, and to ensure that sustainable rates are set in-line with the guidance. This includes reflecting the costs of delivering funded ELC and payment of the real Living Wage to staff.

10. The findings from this review will inform what further action may need to be taken ahead of the 2024-25 financial year and the wider approach to rate setting over the rest of this Parliament. This includes consideration of any required updates to the supporting sustainable rates guidance, and what can realistically be achieved within the context of the currently available budget for delivering ELC.

Background – Policy for setting rates for the delivery of funded childcare

11. Until 2007, the Scottish Government set a minimum advisory 'floor' level of funding for local authorities to pay to partner (funded) providers in the private, third and childminding sectors. The last advisory floor, for 2007, was set at £1,550 per child when the (then) funded offer of free pre-school education had just increased to 475 hours; which would have been an hourly advisory floor of £3.26 per hour.

12. From 2007 to 2017, local authorities set their own rates for partner providers. During this period, the approach to setting rates varied across local authorities – with some electing to uplift rates from the previous floor in line with inflation,

some at a higher or lower rate than inflation, and with some rates remaining at 2007 levels.

13. Prior to the expansion to 1140 funded hours, the Scottish Government published a Financial Review of the ELC Sector, and Cost of ELC Provision in Partner Provider Settings (the latter produced by Ipsos MORI) in September 2016. Evidence from the Ipsos MORI report showed that in 2016, the rates being paid would not cover costs for around 40% of funded providers in the private and third sector. Analysis in these reports also highlighted that levels of pay for staff working in partner settings in the private and third sector was low. In 2016, around 80% of practitioners and 50% of supervisors in private and third sector settings delivering the funded entitlement were paid an hourly rate below the real Living Wage.

14. Following consultation on various options in 2016-17, Funding Follows the Child (FFTC) was implemented alongside the statutory rollout of 1140 funded hours in August 2021, to provide the underpinning policy framework to support delivery of funded Early Learning and Childcare (ELC). Reflecting the impact of the pandemic, the policy was implemented with a small number of flexibilities with supporting Interim Guidance published most recently in May 2022. A key aspect of Funding Follows the Child is the payment of sustainable rates to providers in the private, third and childminding sectors for the delivery of funded ELC.

15. Reflecting the evidence gathered, under Funding Follows the Child the rates paid to providers in the private, third and childminding sectors for the delivery of funded ELC by local authorities should be sustainable. Specifically, the rate should:
    - support delivery of a high quality ELC experience for all children
    - reflect the cost of delivery, including the delivery of national policy objectives
    - allow for investment in the setting
    - enable payment of the Real Living Wage (RLW) for those childcare workers delivering the funded entitlement

16. For most providers delivering funded ELC, they will receive income from both their local authority (for the delivering of funded ELC) and from private income sources (fees paid by parents for non-funded hours). The Financial Sustainability Health Check reports that the average share of income from funded provision, for services delivering ELC, was 46% for private sector services and 84% for third sector services.

17. Ahead of the expansion, in April 2019, guidance was published to support local authorities when setting sustainable rates. The guidance was produced based on feedback gathered from across the sector, and sets out the principles that should underpin any approach to setting sustainable rates, as well as options for taking the process forward.

18. The guidance also highlights that the rate must be sustainable and affordable for local authorities in terms of their overall budget. The rate must:
    - not have a detrimental effect on the local authority's ability to continue to pay for the service in the long-term

- be considered in the context of the wider package of 'in-kind benefits', which are separate to the sustainable rates and are available to the funded provider as part of the contract with the local authority
- not need to be cross-subsidised by parents and carers through charges for non-funded hours

19. In July 2019, the Scottish Government collected information on the rates paid by local authorities for the period 2017-18 to 2019-20. Information on the rates paid for 2020-21 and 2021-22 was published in August 2021. The Scottish Government then committed, in the Financial Sustainability Health Check, to publishing information on the sustainable rates set by local authorities annually.

20. In light of the findings of the publication, in August 2021, of the sustainable rates set by local authorities for 2021-22, the Financial Sustainability Health Check, (also published in August 2021) set out a programme of actions for strengthening the process for setting sustainable rates for the 2022-23 academic year. Significant work was undertaken including:
    - COSLA and local authorities, through the Improvement Service, commissioned Ipsos Mori to undertake an independent cost collection exercise to improve the evidence on costs of delivery that local authorities could draw on.
    - The Scottish Government provided grant funding to the Improvement Service to enable them to provide local authorities with dedicated support, including a series of workshops for authorities on rate-setting.
    - The Scottish Government and COSLA published updated joint guidance on setting sustainable rates on 26 May 2022, which highlights the need for local authorities to reflect the most up-to-date cost information in setting rates, and emphasises the importance of ongoing consultation and dialogue between local authorities and their local ELC providers.

21. The remainder of this review considers what lessons we can learn from the process of rate-setting undertaken in 2022-23 – including the programme of support made available – and whether the process can be improved further, based on evidence gathered from private, third and childminding sector providers and from local authorities.

Collection of Evidence

22. The review has taken an evidence-based approach that captures views from both local authorities, and from funded ELC providers in the private, third and childminding sectors. This included both written feedback, captured through surveys, and feedback gathered through direct engagement with local authorities and providers. The review has also utilised data available on sustainable rates from previous surveys, and from concurrent work being done by other policy officials, and the Improvement Service.

23. The primary evidence sources this review has drawn on are:

    - Surveys of local authorities on the sustainable rates currently paid to funded providers in the private, third and childminding sectors to deliver funded hours (reported alongside details of meal rates and the additional support packages made available by local authorities). The most recent survey, published December 2022, has been utilised; along with data from surveys in previous years. Additionally, we have updated average calculations on current rates to include the most recent information from Moray and North Ayrshire (which weren't available at the time of the December 2022 publication), these calculations are included at Appendix C.

- An update to the Financial Sustainability Health Check of the Childcare Sector funded providers due to be published in July 2023. We estimate around 6% of all registered private and third sector day care of children services participated in the updated health check.
- Reports and analysis by the Improvement Service. This includes reports evaluating the delivery of the expansion to 1140 hours, and a 'lessons learned' review conducted jointly with local government on the Ipsos Mori cost collection exercise carried out in 2022.
- Written feedback on rate-setting collected from local authorities during the December 2022 survey of sustainable rates and summarised at Appendix A2.
- Engagement meetings involving local authority officials and representatives, COSLA and Scottish Government officials held during February and March 2023 as part of the review. These meetings included discussion of sustainable rates and the issues surrounding the policy in more detail. This evidence is summarised at appendices A3 – A6.
- A survey of funded providers carried out as part of the review during January and February 2023. Providers were given the opportunity to provide feedback on the sustainable rate-setting process in their area, what engagement took place between them and local authorities with respect to this process; and on the Ipsos-Mori cost collection exercise carried out in 2022. This evidence is summarised at Appendix B2.
- Engagement meetings involving Funded Providers, COSLA and Scottish Governments officials held during March and April 2023 as part of the review. These meetings included discussion of sustainable rates and the issues surrounding the policy in more detail. Officials invited contributions from the national childcare sector representative organisations. Early Years Scotland took up this offer by supplying written evidence from the Early Years Scotland Members' Steering Group to complement the data from our provider engagement meetings; and SCMA met with officials to ensure engagement included sufficient evidence around the particular concerns of childminders. This evidence is summarised at Appendices B3 – B6.

24. We estimate that responses to the survey were representative of feedback from around 99 private, third and childminding sector settings. At the last census there were 985 providers of funded ELC operating in the private, and third sectors, so the response reflects around 9% of potential participants from these sectors. We also estimate that around 1% of the number of childminders currently approved to provide funded ELC participated in the survey. That is why the review team also sought input from key stakeholders in the private, third and childminding sectors, who collectively represent a majority of childcare provision in Scotland (SCMA, for instance, also had run their own survey work that the team could draw on).

25. It is important to note that due to the relatively low response rate to the provider survey, caution should be taken when interpreting this strand of the data and it has not been possible to break this down to regional or local level, for example. However, the review team has been able to combine this with analysis of the robust data provided through the 2022-23 rates collection and other sources.

26. The sector has had a high number of requests for information post-Covid, including the Ipsos Mori cost collection exercise in 2022, provider surveys in relation to the Financial Sustainability Health Check, further surveys by representative organisations, and information requests from local authorities. This likely contributed to a relatively low response rate to the data collection. Further information on how evidence was gathered from providers is included at Appendix B1. To avoid 'survey fatigue' the Scottish Government will consider carefully how future requests for information from the sector can be improved so that participation is maximised and the burden of dealing with requests is reduced.

27. A majority of local authorities participated in the review, with 28 responding to the request for written feedback during the rates survey, and 21 attending engagement meetings; provided alongside input from COSLA. Representatives from ADES, Directors of Finance and SOLACE also attended an engagement session. Further information on how evidence was gathered from local government is included at Appendix A1.

Findings and Discussion of Evidence

28. This section discusses the key findings from the evidence and is broken into six sections. The first section looks at quantitative data on the sustainable rates set by local authorities since the start of the expansion to 1140 hours in 2017-18, with more detailed analysis of the sustainable rates set in 2022-23. The remaining sections look at the qualitative data available from the other evidence sources, including the surveys and engagement meetings, and are separated thematically into: Sustainability, Rates & Rates Setting; Funding, Equity & Workforce; Communications & Engagement; Cost Data Collection; and Other Findings. The evidence is available in more detail within the appendices to this report.

Recent Trends in Sustainable Rates

29. Table 1 provides a summary of the changes in the rates paid by local authorities for the delivery of funded ELC to 3-5 year olds. From this data, we can see changes to sustainable rates during the period over which FFTC and the Sustainable Rates guidance have been introduced. This data is presented by academic year, however it should be noted that the current rates guidance does not explicitly stipulate annual increases in rates, but does require that inflationary and real Living Wage increases should be reviewed on a regular basis, to understand any changes to these and their impact on costs. The timing of increases will also vary by local authority. Between the 2017-18 and 2022-23 rates (reported here at Appendix C):

    - **The average rate paid has increased by 57.6%** for the delivery of funded ELC to 3-5 year olds, from £3.68 per hour to £5.80 per hour;
    - **The gap narrowed between the highest and lowest sustainable rate** paid for the delivery of funded hours to 3-5 year olds, from 40.5% in 2017-18 to 21.5% in 2022-23 (a decline from £1.32 to £1.17). The gap was initially higher in 2018-19 and 2019-20 reflecting variations in local phasing plans (with a higher rate generally being introduced as the funded offer was increased beyond the then statutory level of 600 hours).

30. Since the introduction of the legislative duty to deliver 1140 in August 2021:
    - The rates reported in August 2021 represented only a small increase (1.7%) in the average reported rate for 3-5 year olds when compared with those reported for the previous year, and rates had remained unchanged in 19 local authorities.
    - The average rate being paid by local authorities during the current academic year (2022-23), for 3-5 year olds, is 6.6% higher than when rates were reported in August 2021, following a programme of actions to strengthen the process for setting sustainable rates.
    - While rates have increased, this is against a background of headline CPI inflation peaking at 11.1% in the year to October 2022, whilst the Real Living Wage was set to increase by 10.1% from April 2023.

- In the financial year 2022-23, the ring-fenced component of the ELC budget was reduced by £15 million to give a total settlement of £1.006 billion, largely reflecting the fact that there were 7.5% (or 8,500) fewer 3 and 4 year olds eligible for the universal offer than was anticipated when the multi-year funding agreement was reached in 2018. However, Local Government have indicated that reductions in population do not directly translate into reduced costs for local authorities. This represented a 1.5% reduction against the 2021-22 total ELC allocation. Local authorities also reported wider long-term pressures on local authority core budgets and services, and some noted concern over the impact of inflation on available budgets.

Table 1: Summary of Changes in 3-5 Year Old Rates, 2017-18 to 2022-23

Reporting Year (Aug-July)	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Lowest rate	£3.26	£3.37	£3.65	£5.00	£5.21	£5.45
Highest rate	£4.58	£5.31	£5.50	£6.40	£6.40	£6.62
Average (mean) rate	**£3.68**	**£4.02**	**£4.71**	**£5.35**	**£5.44**	**£5.80**
Annual % change in average rate		9.5%	16.8%	13.9%	1.7%	6.6%
Gap between highest and lowest	£1.32	£1.94	£1.85	£1.40	£1.19	£1.17
% Gap between highest and lowest	40.5%	57.6%	50.7%	28.0%	22.8%	21.5%

Overview of Sustainable rates paid by local authorities in 2022-23

31. The most recent survey of rates set by local authorities was published in December 2022. At the time of publication 30 out of 32 local authorities had confirmed their sustainable rates for 2022-23. Since publication, the two remaining Councils (North Ayrshire and Moray) have now confirmed their final rates for 2022-23. This new information has now been included to give a complete data set for 2022-23 and Appendix C sets out the final rates for each local authority.

32. 29 local authorities have increased their hourly rates for 3-5 year olds since the last report in August 2021. Three have kept the same rates as in 2021-22. As highlighted in Table 1, **the average rate for 3-5 year olds across all local authorities is now £5.80 per hour**, which is an increase of 6.6% since the time of the previous report in 2021-22 (an increase in the average confirmed rate from £5.44 per hour). For those local authorities who increased their sustainable rate in 2022-23, the increases ranged from 1.8% to 16.9%. The average rate does not include any rates payable only to childminders.

33. 25 local authorities have increased their hourly rates for eligible 2 year olds since the last report in August 2021. Five local authorities have kept the same rates as in 2021-22, 1 local authority has decreased their rate, and the remaining local authority introduced a new rate. **The average rate for eligible 2 year olds**

across all local authorities is now £6.43 per hour, which is an increase of 5.8% since the time of the previous report in 2021-22 (an increase in the average confirmed rate from £6.08 per hour). For those local authorities who increased their sustainable rate in 2022-23, the increases ranged from 1.6% to 42.2%. The average rate does not include any rates payable only to childminders.

34. The data relating to rates payable to childminders has not changed since the December 2022 report. For the 8 local authorities paying a separate rate for childminders in 2022-23, these rates vary from £4.76 to £6.03 per hour for both eligible 2 year olds and 3-5 year olds. The average rate for 3-5 year old childminding provision is £5.31 per hour, and the average rate for eligible 2 year old childminding provision is £5.53 per hour.

35. As set out in Table 1 for 2022-23, **the highest rate payable to deliver an hour of funded provision for 3-5 year olds (£6.62 per hour) is 21.5% higher (£1.17 per hour) than the lowest rate (£5.45 per hour)**. This variation in the rates paid by local authorities was often highlighted by providers during the review. While variation is to be expected to reflect differences in local circumstances and costs, we do not have robust enough evidence on varying costs of delivery across each local authority area to indicate what level of variation should be expected. The level of variation has narrowed since 2017-18 where the highest rate was around 40.5% higher than the lowest rate (a gap of £1.32 per hour).

36. There is a **much higher variation in the rates payable for 2 year old children** eligible for funded hours - in 2022-23 this ranged from £5.50 per hour to £8.50 per hour – a gap of 54.5%. There are also differing approaches across authorities as to how 2 year old places are funded. 24 local authorities now pay a higher rate for 2 year olds in 2022-23. In the last year, 6 local authorities have introduced a separate 2 year old rate, whilst one local authority removed their separate 2 year old rate during 2022-23.

37. The data on meal payments collected during 2022 also highlight some variations in the level of payment made to settings for delivery of free meals. Where a payment is made per meal/day this varies from £1.99 to £3.11 per meal. Where local authorities choose to provide an additional top-up to the sustainable rate for delivery of the meal commitment this 'top-up' to the sustainable rate varies from £0.30 to £0.50 per hour.

38. By comparison, the range of meal payments reported in the August 2021 rates data collection exercise was broadly similar, with rates varying from £1.80 to £3.11 per meal, or £0.30 and £0.50 per hour. 6 local authorities have reported an increase between the time of that report, and the latest publication in December 2022, with 22 reporting they were paying the same rate (3 of the remaining authorities changed the way they calculate payments, and 1 did not report a rate in 2021).

Sustainability and Rate Setting

39. The review team drew on a range of evidence, both quantitative and qualitative, in order to consider the potential impacts of sustainable rates on the sustainability of ELC providers.

40. The Scottish Government published an updated [Financial Sustainability Health Check] in July 2023. This included analysis of Care Inspectorate registration data to the period 31 March 2023. This shows that while there has been no significant increase in the annual cancellation levels and rates for private or third sector day care of children services (across the whole childcare sector), there have been significant declines in overall third sector and childminding provision across the whole sector, and a trend towards more capacity being delivered by larger providers. A key driver of this, compared to pre-pandemic trends, have been decreases in the number of new third sector and childminding services entering the sector in recent years. Whilst this provides useful context, it is not possible to differentiate the ELC and non-ELC within the Care Inspectorate data.

41. The Financial Sustainability Health Check also presents evidence from detailed surveys of childcare providers. All types of providers reported that their confidence in their financial sustainability has declined across all types of childcare services since the previous Health Check (2021). This includes a marked decrease in self-reported sustainability from funded ELC providers (with 31% reporting significant concerns regarding their sustainability – compared to 9% in Summer 2021). ELC providers reported the largest percentage point deterioration in self-reported sustainability between the two Health Checks of any provider group. Providers reported that this was driven by increased costs of delivery over the last year due to the costs crisis, particularly in relation to significantly higher energy and food prices; higher staff costs (in particular due to increases in the Real Living Wage) and concerns regarding loss of staff; and, increases in income not keeping pace with cost increases. Some funded providers responding to the Health Check surveys highlighted that they felt that the hourly rate that they received from their local authority for delivering funded ELC did not cover their current costs of delivery.

42. The Improvement Service collects data from local authorities to monitor progress in delivering funded ELC, including the share of funded ELC delivered by funded providers in the private, third and childminding sectors. The most recent Delivery Progress Report was published on 23 June 2023. This highlights that providers in the private, voluntary and childminding sectors were reported to have provided 31% of all funded provision in April 2023, and that this share has remained relatively static since August 2021. The share is higher than had been forecast earlier in the expansion, with data reported by local authorities for the [June 2019 Delivery Progress Report] forecast that around 24% of ELC would be delivered by funded providers in the private, third and childminding sectors.

43. The evidence assessed by the review team found that local authorities and providers had very different views about whether the rates paid in 2022-23 were sustainable.

44. On one hand, the majority of council officers we spoke to were confident that the rates they were paying were sustainable. Although not necessarily a direct

measure of the overall sustainability of a provider, it was reported that they had seen very little evidence of funded services in the private, third or childminding sectors reporting to them that they had been under financial duress or of services closing due to financial sustainability pressures. A number of local authorities also reported they were taking some reassurance from the numbers of applications they had received from new providers to enter into funded provision.

45. Most funded providers who engaged with the review process had a different view – a significant proportion did not think the rate they received in 2022-23 met their current costs of delivery, including meeting the substantial increases in the real Living Wage (with an increase of 10.1% announced in September 2022) and general cost increases. They also highlighted that, in their view, the rate did not provide them with adequate resources to provide quality ELC over the longer term.

46. Some providers noted that while they had been able to maintain their business at current rates, this was not necessarily a good indication of their long-term sustainability. They reported that the rates did not enable them to adequately reinvest in their business or pay their workforce fairly (workforce concerns are described below). As highlighted below in the section on cost data, there is a gap in terms of the information available on average surplus/profit rates for providers in the sector. Many providers were worried about the impact of inflation costs over the last year (for example, the Consumer Prices Index peaked at 11.1% in the year to October 2022, and price rise pressures have been higher for some elements, in particular food) and felt that this hasn't been reflected by recent rate increases.

47. There was concern from some local authorities over the challenges involved in the setting of a single rate within their area, given the diversity of provision. This was mirrored by evidence from providers, some of whom do not think the current rates process adequately reflects their particular business model.

48. Some providers, particularly those with a high proportion of funded places, have significant concerns over a further expansion to funded childcare provision under the current sustainable rates policy. A few providers reported that they were utilising higher pricing for private provision to support their overall business model – despite the requirement within the sustainable rates guidance for rates to be set at a level that eliminates any need to cross-subsidise funded provision. Conversely, in some areas it was reported that funded provision may be subsidising prices for non-funded hours. Two local authorities with access to local pricing data reported that the sustainable rate they were paying was higher than average local prices. In either case, the ability of business owners to influence their overall business sustainability, and profitability, would be limited with any further expansion to funded hours if a larger proportion of overall income becomes determined by public sector funding.

49. This evidence must also be viewed in the context of the variation in rates being paid by local authorities, particularly for eligible 2 year old provision, which is highlighted in the summary section above. Some providers raised concern during

our engagement regarding the level of funding for eligible 2 year old provision in their area where a separate rate was not paid.

50. The evidence on rate data highlighted in the findings on rates paid shows that there is a variation in the sustainable rates paid by local authorities. A level of variation is to be expected, reflecting differences in local circumstances and costs (e.g. between local authorities with differing levels of rural and remote provision). The overall level of variation between the highest and lowest rates has narrowed since 2017-18. However, the gap remains particularly pronounced in relation to rates paid for eligible 2 year olds. It also shows that while rates have increased for most providers in 2022-23, there is a significant variation in these increases, and the changes in rates may not have kept pace with inflation and increases to the real Living Wage. Given both the variation in rates set, and the diversity of business models being supported on a single set of rates within each local authority area, there is a risk that some funded providers are not being as effectively supported as others by current sustainable rates.

51. There was a significant variation in the approach to rate-setting, and in their views on the overall process, across local authorities. A large number of local authorities would like a more standardised and straightforward approach to rate-setting. Many local authorities highlighted that they would appreciate further support with interpreting cost data, and the support from the Improvement Service during 2022-23 was seen as being beneficial. Some local authorities found rate setting timescales challenging, with a few citing the timing of budgetary decisions, and the short time available to implement the updated guidance published in in May 2022. A smaller number of authorities wanted to ensure local flexibility and ownership of the rate setting process was retained.

52. Accurate pricing data for private provision, which would provide another reference point for authorities to consider the sustainability of the rates they are setting, is not currently available to almost all local authorities and is very challenging for them to acquire locally. Many report that providers are reluctant to share information with them which they regard as commercially sensitive. Some local authorities reported that pricing details had become more difficult to locate since the expansion to 1140 hours, with some providers having since removed pricing information from their websites.

Local Government Funding

53. The guidance states that sustainable rates must be sustainable and affordable for local authorities in terms of their overall budget. Affordability was cited as a primary concern by a large majority of local authorities when setting rates. A number of councils cited longstanding pressures on local authority core funding, reductions in the ELC ringfenced grant 2022-23 and 23-24, difficulty setting a rate when their budget allocation for the next financial year was not yet known, and a lack of clarity on the future ELC budget beyond 2023-24 as key factors.

54. An important factor informing future local authority ELC budgets is demographic change. As highlighted in the section on trends above, there were fewer 3 and 4 year olds eligible in 2021-22 for the universal offer than was originally projected

when the multi-year funding agreement was reached in 2018, and projections suggest that the total eligible population across Scotland is set to continue to decline. Changing demographics will vary by local authority, and we are aware that, for example, the eligible population is increasing in some areas.

55. Some local authorities highlighted that their rates are currently at the limit of affordability, and that they are concerned at the pace of annual rate increases arising from cost inflation and RLW increases. In this context, concerns were reported about their continued ability to meet these increases in line with the sustainable rates guidance without a commensurate increase in funding.

56. A small number of local authorities gave a stronger indication of concerns relating to the affordability of current rates, reporting that their spend on ELC was higher than the amount they were allocated, or that spend had necessitated the utilisation of reserves or budget which had been carried forward from previous years.

57. Other risks to affordability noted by a few local authorities included the potential long-term cost of increased numbers of children deferring entry into school, the cost of delivering on any expansion to 2 year old places, and any future increased cost of their own staff contracts. These local authorities were managing the risk to affordability by examining their own service delivery models and the efficiency of their ELC spend. A few local authorities noted that communications on rates could be more reflective of local authorities' position (including the realities of how overall council budgets are set), and the requirement for rates to be affordable.

Equity of Funding and Workforce

58. There was concern amongst many funded providers who engaged with the review over the perceived lack of equity in how funding is distributed between local authorities and funded providers under FFTC; and the impact this has on the quality of provision in funded provider services. There is a growing call from some funded providers that the total funding available for ELC should be distributed equally across all providers, including local authority services, according to the number of hours delivered.

59. This view does not take account of the costs incurred by local authorities in discharging their duties as guarantors of quality, or in making provision available where this is not financially viable. It would also represent a significant departure from the existing policy set out in FFTC described above, where the sustainability of rates is defined without reference to costs in local authority settings.

60. Local authorities indicated that these expectations around funding may have arisen from a lack of awareness amongst some of their funded providers as to how their funding is allocated, the reality of their current budgetary allocations, the funding implications arising from their statutory duties (including their duty to assure that statutory ELC provision is accessible to every eligible child in their respective areas); as well as the monetary value of any additional benefits package offered by the authority. Local authorities will often provide services

which are not commercially viable, for example, through smaller services in remote and rural areas. This is highlighted in the Financial Sustainability Health Check, which reports that, as at 31 March 2023, the majority of smaller registered childcare services are delivered by local authorities - with local authorities delivering 59% of services with a registered capacity of 25 or less (and 81% of services with a registered capacity of 1-10 places).

61. This perception of inequality was most often highlighted by these providers in relation to workforce pay disparity, and the contingent concerns around recruitment and retention of capable and fully qualified ELC practitioners. Funding Follows the Child policy and the Sustainable Rates guidance is clear that sustainable rates should be set to enable payment of the Real Living Wage to workers delivering funded ELC.

62. On the other hand, average rates of pay in local authority services, which reflect locally determined pay ranges for staff that are driven by national bargaining arrangements, are often significantly above the RLW. Local authorities noted that, as per current policy, current funding allocations do not support payment of staff within the private and third sectors beyond the RLW, and that providing any financial support to pay staff in the private and third sector beyond the RLW would require a change in policy and additional funding.

63. The aim of the policy, to enable payment of the RLW, needs to be viewed in the context upon which it was introduced. As highlighted earlier, before the ELC expansion to 1140 hours, approximately 80% of staff delivering funded ELC within partner providers were paid less than the real Living Wage. The latest update to the Financial Sustainability Health Check (FSHC) reports that 81% of funded ELC providers were paying the real Living Wage to either all staff or staff delivering funded ELC, representing significant progress when compared with the childcare sector before the expansion. The evidence is different with regards childminders. Both SCMA data, and data from the FSHC update, shows that a large majority of childminders across the whole childcare sector are not paying themselves the RLW (72% according to the latest FSHC update).

64. However the cost of maintaining wages at the RLW has risen rapidly, increasing by 10.1% during the period covered by the 2022-23 rate setting process. Providers who participated in the review highlighted that as well as the funding provided through the sustainable rates, they also had to find the funding to increase wages for all staff in their setting. Workforce challenges were a dominant theme throughout the engagement sessions with funded providers, with almost all noting that the recruitment and retention of staff remained a key ongoing concern. There was a broad consensus from providers with whom we engaged, that sustainable rates (where the wage element of the rate is based on the RLW), did not provide scope for them to pay significantly beyond the RLW, and that this presented a significant challenge to their business, particularly given the gap in wages with ELC staff working in local authority settings.

65. Some providers noted recent problems arising from losing staff (either to local authority nurseries or other sectors), and noted that it was often the most experienced staff who moved to local authorities. Recruiting to the sector and

investment in training were significant additional costs. Some were worried about the potential impact of high turnover on quality within their settings, and councils also reported that the limited availability of staffing was negatively impacting the relationship between the local authority and its funded providers.

66. Recruitment and retention challenges are currently affecting the wider ELC sector (as well as other sectors such as adult social care). In June 2023, the SSSC (Scottish Social Services Council) published analysis of the movement of day care of children staff in the 2021-22 financial year. This analysis covers movement of staff across all registered day care of children services and doesn't allow for specific analysis of movements from services delivering funded ELC (for example, as of September 2022 it is estimated that only 56.5% of all registered private and third sector day care of children services delivered funded ELC) and only provides a snapshot for the period 1 April 2021 to 31 March 2022. The report highlights that in 2021-22 staff retention levels were lowest in private sector service; and that 34.3% of staff leaving private services for another childcare service in 2021-22 moved to a local authority service (59% of staff left to another private setting, 6.7% left to a setting in the third/voluntary sector). Retention levels were highest in local authority services and the majority (92.5%) of staff in local authority services who moved, did so to another local authority service.

Communications and Engagement

67. There was a significant variation as to how positively relationships between local authorities and funded providers were viewed by both different local authorities and funded providers. Local authorities, in general, reported that relationships with a majority of providers are good. However, a few local authorities reported that they have had significant challenges with a minority of more vocal providers who they felt had not always been willing to engage constructively, creating an additional challenge to the rate-setting process. For example, concerns were reported that a few providers had sought to undermine the cost data collection exercise undertaken by Ipsos Mori by dissuading other providers from participating.

68. There was a mixed picture from providers who participated in the review. Some reported that their local authorities had communicated and engaged effectively – this was generally where there are experienced staff proactively managing relationships. The most positive comments around local authority support were generally in relation to operational aspects. Successful engagement had included regular meetings and communications, quality assurance and training support, engagement relating to the Ipsos Mori cost collection exercise, and participation in local surveys.

69. Many of these providers were more critical when discussing engagement specifically on sustainable rates. A significant proportion of the providers we engaged with reported that they felt as though they were not being effectively engaged with during the rate setting process, or did not receive effective communications on how and when rates were being set.

70. A common theme raised by these providers, is that engagement often doesn't include the ability for providers to comment or negotiate on rates as they are being set. For these respondents there is an expectation of being involved at the point of decision making, rather than only when evidence is being gathered. Some of these expectations extend beyond the remit of current policy and guidance. For example, the guidance sets out the need for consultation with funded providers but does not provide for a bargaining or negotiating arrangement on the value of rates (which would not be possible within the current framework of local authorities' duties and functions in relation to budget-setting and procurement, and how this currently operates). Some local authorities also noted that these differences in expectations may be contributing to feelings that engagement was not adequate, despite their efforts in this area.

71. Several providers noted that a change in local authority staff had been instrumental to either an improvement in their relationship, or that the loss of a local authority staff member had resulted in a deterioration of the relationship. The engagement sessions with providers demonstrated the crucial role that effective personal relationships between individual staff members in local authorities and their setting had been to their relationship with their local authority. These funded providers considered the availability of experienced ELC staff members within a local authority to be of particular importance.

72. The mixed evidence on the communications and engagement experience reported during the review, and the resulting diversity in relationships between local authorities and providers, highlights the importance of equally effective communication and engagement (in line with the joint guidance) taking place within all local authority areas. It also suggests a need to ensure the position of local authorities is fully understood by all funded providers, and the need for clear expectations on how engagement should be approached by both local authorities and funded providers.

Cost Data Collection

73. Regardless of the model used to distribute funding to support delivery of ELC, under a mixed economy of provision there will be a need to obtain robust data on costs across the different types of provision. For example, the UK Government, which distributes funding using national rates, also collects costs data using a national survey.

74. While overall national participation rates by providers in the Ipsos Mori cost data collection exercise were higher than the previous exercise in 2016 (a usable response rate of 34% of funded providers in 2022, compared to 22% in 2016), they remained low in some local authority areas. Many of the providers who engaged in the Review highlighted a lack of trust in this process. A few local authorities highlighted specific data gaps within the outputs, notably that it did not include data on profits/surplus and reinvestment levels, which the sustainable rates guidance requires them to consider.

75. The data available produced robust figures at Regional Improvement Collaborative (RIC) level. However, a large number of authorities did not have

data specific to their area as a result of low participation and/or data sample size limits. Cooperation on data sharing and rate setting at Regional Improvement Collaboratives was seen as being beneficial where local data was not available.

76. A driving factor in low participation rates reported by providers during the review was concern around whether cost data would be uplifted to reflect current costs, and a lack of awareness as to how the information (some of which is commercially sensitive) would be used and who had access to this. Some providers indicated that that they believed that the survey was flawed because it asked for actual most recent cost figures (described as 'historical'), and did not ask those participating to make financial projections on current and future costs. The Ipsos Mori survey asked for actual cost figures so that the starting point for calculating rates in-line with the Guidance was based upon a robust evidence source (with further cost increases calculated on a consistent basis later within the rate-setting process), which is standard practice in cost collection exercises of this type, and the information requested was readily available for providers to report.

77. Some providers also reported that they found the survey to be too difficult or time consuming to complete; while others felt that the questions were generic and did not apply well to their particular business; and/or the survey was too comprehensive or intrusive, asking questions about their wider business rather than just funded provision. A further minority of providers had not been aware of the survey. SCMA noted that both engagement strategies, and the cost data collection exercise, require significant adaption to be effective for childminders.

78. Some local authorities noted significant previous efforts to engage with providers ahead of the 2022 Ipsos Mori survey, or their own local surveys; and the continued lack of trust in these processes. Some also reported that a minority of providers had sought to directly undermine participation in the cost collection exercise. Despite the issues described, and some gaps in the methodology to capture all aspects required to set sustainable rates (in particular information on surplus/profit), the 2022 Ipsos Mori survey has provided useful evidence on costs of delivery (and other important metrics), across different regions of Scotland and for some local authorities, during a time of significant economic challenges.

Other Findings

79. The provider engagement and survey highlighted concerns that some providers had over their current meal costs. They stated that the amounts received for meals had either not increased in line with inflation or did not currently meet the costs of delivering meals, with several mentioning rapidly rising grocery costs (the Food and non-alcoholic beverages component of CPI peaked at 19.1% over the year to March 2023, and has been consistently running above the main inflation index). There was a specific challenge for an island-based provider who reported that they had limited options for buying in bulk to reduce unit costs, and that they already faced an "island premium" in relation to food costs. A few providers also highlighted difficulties arising from the different approaches to payment - when a meal payment was added as a top-up to the sustainable rate (and not given as a

per meal payment), concerns were raised that the full costs of meal provision would not be fully reflected.

80. Some providers raised concern over the level of funding available to provide the required care for children with Additional Support Needs (ASN). Feedback from Early Years Scotland noted the large disparity in the levels of support offered for children with ASN across Scotland, both in terms of funding rates and other types of support (e.g., additional staffing or access to equipment). Information from local authorities shows that there is a range of approaches to supporting funded providers delivering provision for children with additional support needs, both financial and in-kind, and the diversity of requirements for these children will necessitate some flexibility in how this support is provided.

Summary of Findings

81. The Review has drawn on a wide range of evidence, both quantitative and qualitative. In summary:

- Sustainable rates have increased by an average of 57.6% since the expansion to 1140 funded hours, and in 2022-23 were at a higher average rate than anywhere else in the UK. Overall capacity across the whole sector has been sustained during delivery of a near doubling in hours.
- Nearly all local authorities increased their sustainable rates in 2022-23, with an average rise of 6.6% in the 3-5 year old rate, although the rate of increase varied significantly across authorities, as did the timing of decisions on the increases.
- However, this was against a backdrop of very high inflation in 2022-23 (with CPI peaking at 11.1% in the year to October 2022).
- Although not a measure of long-term financial sustainability, data to 31 March 2023 highlights that there has not been a rising trend in Care Inspectorate service closure or cancellation rates for private and third sector services (across the whole childcare sector) in the period from March 2018 to March 2023.
- However, evidence from the Financial Sustainability Health Check reports a marked decrease in self-reported sustainability from funded ELC providers (with 31% reporting significant concerns regarding their sustainability – compared to 9% in Summer 2021).
- There is a mixed picture in terms of local authorities' and providers' perceptions of how effectively rates for 2022-23 are supporting the long-term sustainability of providers. There is a risk that some providers are not being as effectively supported as others by current rates.
- There is a significant variation in the rates payable with respect eligible 2 year olds (in 2022-23 there was a gap of £3 per hour, or 54.5%, between the highest and lowest rates) – and some providers highlighted that these rates were set too low to cover the costs for them to deliver to eligible 2 year olds.

- Many local authorities would like further standardisation of the rate-setting process, so they have stronger guidance on how to apply the policy effectively.
- Affordability is as a primary concern of local authorities when setting rates, with pressures on local authority core funding and a lack of clarity on future ELC budgets cited as key factors.
- Many providers report a perceived lack of equity regarding how funding is distributed between local authorities and funded providers under the current agreed policy framework, which is most keenly felt in relation to the differing levels of pay for staff working across different parts of the sector.
- The ability to recruit and retain qualified staff, and being able to pay higher wages for staff, are central concerns for many of the funded providers who participated in the review. Many noted the gap in wages between ELC staff working in private and third sector settings, and those in local authority run settings.
- Some funded providers we engaged with are finding it challenging to meet the costs of paying the Real Living Wage given the scale of recent increases, and some highlighted that current rates restrict them from paying significantly beyond this. The current funding settlement, and rates policy, is based upon the RLW, and paying rates that support wages beyond this would require significant additional funding.
- The strength of relationships between local authorities and funded providers, and the approaches to communications and engagement on rates, varies significantly.
- ‘Survey fatigue’ and issues of trust in how the data would be used were key barriers to higher local participation rates in the cost data collection exercise conducted by Ipsos Mori in 2022. Whilst the data was sufficiently representative nationally and regionally, in many areas it could not be broken down to provide robust financial data at a local authority level and other sources had to be used (as set out in the Rates Guidance, the Ipsos-Mori data was intended to be one part of the rate setting process for local authorities to consider, alongside local ELC market conditions and ongoing consultation with their local ELC providers).
- Payments made to some funded providers for meals are not keeping pace with the inflationary increase in costs to deliver these meals.
- The financial support available to care for children with additional support needs is of concern to some providers.

Next Steps

82. The purpose of this review is to learn lessons that can be utilised to improve the existing sustainable rates process. Some of the evidence presented during the review, notably in the areas of local authority funding and pay for ELC staff within funded provider settings, are wider in scope and would require change to the existing ELC policy framework and funding settlement. This is important evidence for Ministers to consider as part of future Scottish Government Budget processes, and as they consider the design and delivery commitments to deliver funded ELC to one and two year olds, as well as building a system of school age childcare.

83. Within the remit of the current review, and existing budgets, to improve existing policy and process the following actions are recommended:

- Update the Sustainable Rates Guidance for 2024-25, with a view to
    - (i) Enhance guidance on the approach to rate-setting, in order to provide a more standardised approach and minimise any unwarranted variation between the rates set by local authorities (recognising that a certain level of variation is expected), including how frequently they are set
    - (ii) Further develop guidance around the rates payable for eligible 2 year olds to help ensure these rates are sustainable and are reflective of the costs of delivery
    - (iii) Further develop the guidance in relation to meal rates, to help ensure these are set sustainably and are reflective of costs
    - (iv) Set clearer expectations around engagement and communications for both local authorities and funded providers in the private, third and childminding sectors regarding the rate setting process – including ensuring that providers have greater certainty and clarity on rates to support their financial planning
    - (v) Ensure the guidance adequately supports local authorities when setting sustainable rates for, and engaging with, childminders
- Deliver further support for the Improvement Service through to 2024-25, enabling them to:
    - Support local authorities with provider communications, including working with COSLA to create a national communication on the role of local authorities with regard to the delivery of funded ELC. This should cover their roles, responsibilities, statutory duties, local government finance, and associated funding requirements (including those provisions with particularly high costs); and aim to increase funded providers' awareness of the local authority position when setting rates.
    - Host Regional Focus Groups, to talk through rate-setting processes, share best practice, and support understanding of any updates made to the sustainable rates guidance
    - Publish Rate-setting Case Studies, to further support understanding of the approach to sustainable rate setting and the interpretation of cost data
- Drawing on learning from previous approaches, work with local government and funded providers (and their representatives), to consider:

    - options for obtaining more robust and reliable cost data, that accurately reflects funded providers’ costs of delivery
    - consideration of a more central approach to cost evidence collection and analysis, to produce more robust financial evidence to use when setting rates
    - the timescales for implementing any recommended changes and how the impact of any changes would be monitored
- Collect evidence on how local authorities are supporting funded providers to meet the needs of children with Additional Support Needs, to determine if further consideration of this policy area would be beneficial.

Appendix A - Synopsis of Evidence from Local Authorities

A1: Evidence Gathering

1. The Scottish Government (SG) wrote to local authorities on 29 September 2022 to request an update on the hourly rates that are currently paid to providers for the delivery of funded early learning and childcare and the rates local authorities have set for 2022-23. All local authorities provided a survey response on sustainable rates, and the results of this survey were published on 22 December 2022.

2. The results of this have been considered by the review, and included (for 2022-23): hourly rates for 3 - 5 year olds, and eligible 2 year olds, for the delivery of the funded ELC entitlement; payments for the delivery of free meals by providers; a summary of approaches adopted by local authorities to setting sustainable rates; and a summary of the additional support package offered to funded providers by local authorities. This evidence, which is already published, is not included in this summary.

3. As part of this exercise, local authorities were also given the opportunity to provide any general feedback they wished on the current rate-setting process. This information was not part of the published results. The specific question asked was: 'The Scottish Government is interested in feedback from local authorities regarding the process for setting sustainable rates for 2022-23 ahead of the forthcoming review. Please use the box below to provide any general feedback you have on the rate-setting process within your area.'

4. 28 local authorities chose to provide general feedback in response to this question; with four electing not to provide general feedback on sustainable rates. A summary of Feedback obtained from responses to this question is summarised at A2 below.

5. Local authorities were then invited to meet with COSLA and SG officials on an individual basis during February and March 2023 to discuss sustainable rates and issues surrounding the policy in more detail. Meetings were held with all 21 local authorities who requested a meeting before the invitation deadline of 2nd February 2023.

6. The agenda for these meetings was agreed by COSLA and SG, and informed by the aforementioned general feedback obtained from local authorities during the rates survey; and also by responses to a survey of funded private, third and childminding sector providers completed during January and February 2023 (which is summarised separately within Appendix B).

7. Feedback obtained during engagement meetings with local authorities is summarised at A3 – A5 below, and has been broken into 4 broad categories: Rate setting data and methodology (including the Ipsos Mori 2022 cost collection exercise); Rate value and sustainability; Provider engagement and Funding.

A2: Written Feedback from Survey of Sustainable Rates (December 2022)

8. The most common feedback, mentioned by twelve local authorities, related to the affordability of paying sustainable rates from current ELC funding allocations to local authorities. This feedback included comments on both the overall funding available; as well as setting rates whilst the level of future funding remained uncertain. Three local authorities noted the upward pressure on the sustainable rate from inflationary pressures and the Real Living Wage increase. Two local authorities noted wider pressures on the ELC budget from other commitments, for example deferral and eligible 2 year olds. Two local authorities noted the difficulty of setting rates when the settlement for the next financial year was unknown.

9. The second most common issue raised within feedback related to the Ipsos Mori cost collection data. Nine Local Authorities reported concerns with either participation rates, or the credibility and usefulness of outputs to this exercise. One local authority noted the presence of misinformation circulating between providers on the survey, impacting providers' trust in the process, while another two noted that more engagement was required if providers were to have confidence in the process. Low response rates were reported by several local authorities, with some smaller LAs not having access to data specific to their area. Conversely, Regional Improvement Collaboratives (RICs) were mentioned as having been beneficial to the rate-setting process by four authorities. The need to share Ipsos-Mori data at RIC level appears to have promoted collaboration between authorities when setting rates.

10. Five local authorities noted that they had found the timeframe available to set a rate was challenging. One local authority found that publishing new guidance in May meant that setting sustainable rates for the new term was time pressured; while another noted the same issue, also stating that Ipsos Mori data not being available until July had also contributed to the pressure. One local authority noted a challenge had arisen given the pressure to set rates for the start of term when funding for 2023-24 is unknown, while another asked for a realistic timeline to set a rate.

11. Four local authorities commented on comparisons between private and public funding; and/or increasing expectation on parity of funding and wages between the sectors. One of these authorities noted that the costs of provision between the sectors should not be regarded as comparable. Another noted the gap in pay between the sectors, and that this could only be bridged by both additional funding for funded places, as well as providers increasing prices for private places. One authority noted the growing expectations around funding parity, and that the complexity and costs involved in removing the disparity are poorly understood. The last authority expressed concern that monetary benefits that derive from being a partner are not always included in the sustainable rate, for example, training provision.

12. Two local authorities wanted rate-setting simplified. One of these suggested a simplified approach under Funding Follows the Child, with worked examples; while the other suggested a national approach to setting rates, with the calculation methodology standardised across all local authorities.

13. Two local authorities had concerns that having a single rate for their area did not properly account for the differences in costs between providers. Both noted the differences in costs for smaller rural settings. One also noted that a rate appropriate for private settings may not be appropriate for the third sector. The other authority had conducted some investigation into cost differences however had continued to set a single rate for the time being.

14. Two local authorities noted that comparisons between local authority rates could be unhelpful and problematic. Both cited concerns over rates based on different local context and demographics being compared out of context.

15. Other notable points included one authority highlighting the importance of an efficient and flexible staffing model when setting rates. Two authorities both highlighted unhelpful communications or lobbying having an adverse impact. One noted a lack of data around childminders.

A3: Feedback from Engagement with Local Authorities - Rate Setting Data and Methodology

16. A widespread concern, across a majority of local authorities interviewed, related to the task of obtaining robust cost data, and challenges around the Ipsos Mori cost collection exercise carried out in early 2022. At least 12 authorities interviewed noted that participation had been lower, in some cases much lower, than expected, while only 4 reported a good response rate. This had resulted in many local authorities not having sufficient data for their local area and relying on RIC level results.

17. 14 local authorities noted that partner providers had lacked trust in the process. There were several reasons for this, which align with information received from the provider survey. Firstly, many partner providers had noted to local authorities that the survey was flawed as it asked for ‘historical’ data, rather than projections. Some local authorities asked for better communication around future exercises to build trust in the process, and explain why asking for projections would not be beneficial, and how data provided could be uplifted in line with the guidance. More than one local authority noted that some vocal providers had operated nationally to undermine participation in the survey, and that communication around this exercise and driving participation was a key challenge.

18. 6 local authorities noted that some of their providers had difficulty completing the exercise and found the task onerous, one local authority noting that childminders found it particularly difficult. A few local authorities mentioned that there was reluctance from some providers to release commercially sensitive information to them as they were regarded as a competitor, or were worried that other providers might be able to access this information.

19. 6 local authorities questioned the accuracy of the outputs from the Ipsos Mori exercise. This was in part due to the low participation rates already highlighted. One local authority had concern that the data was probably influenced by the higher likelihood of third sector organisations to participate; and another had examined this in detail and noted that the split between private and third sector

data had moved considerably since a previous survey. One local authority noted the presence of significant outliers in the data which had needed filtering before it could be deemed usable. Given the differing response rates within a RIC area, there is a possibility that RIC level data is being heavily influenced by particular local authority areas.

20. 9 local authorities found the Ipsos Mori data difficult to interpret with one noting that even their accountant had taken some time to understand the data. Many of these authorities sought more central support during the rate-setting process, with 3 noting that previous support by the Improvement Service in this area had been highly valued. Conversely, 5 local authorities found the Ipsos Mori data useful and appeared to be more confident interpreting the data.

21. 2 local authorities noted the limited availability of evidence on investment returns, asking that the any future survey should capture information on this; and 1 authority noted that the survey should cover meal costs (the previously used Ipsos Mori methodology has a line for 'external catering', but not food costs, in the setting). 4 local authorities had opted to use their own cost survey – 2 of these had the same participation challenges as the Ipsos Mori exercise, while 2 rural authorities had seen better take-up through concerted local engagement.

22. At least 8 local authorities reported that price data for use as part of the rate-setting process was very difficult to obtain. Many providers do not publish prices and would not be comfortable sharing with the local authority, with intel on prices usually due to anecdotal knowledge of prices by Council staff. There were only two areas where price data was more readily available, and it may be concluded that a majority of authorities do not have access to robust information on pricing to utilise as part of the rate setting process. In the two areas where price data was more readily available, survey results had shown that average prices for private provision was lower than the rate being paid by the local authority for funded provision.

23. 5 local authorities had moved to setting rates for the financial year, rather than the start of the academic year. This was seen to have had a beneficial impact on the process, as it brought decision making more in line with budget setting, and real living wage increases. In addition, one local authority noted it provided certainty to funded providers of the rate they would be paid for the first two terms prior to the academic year starting, which their partners had preferred to uncertainty over the rate for the full year, even when the first term was already underway.

24. 10 local authorities mentioned the need for a more standardised approach to setting rates, including the methodology used and the assumptions being applied to cost data. Different approaches to setting rates between authorities had led to unhelpful comparisons between authorities, and a greater degree of prescription in the guidance, and support with cost data, might make the process of setting rates easier and less time consuming. 3 authorities went as far as noting that a national rate (or rates) would be worth considering, but noted practical challenges. Conversely, 4 authorities noted that local decision making on rates, and the flexibility this allows, including the ability to set rates for their particular demographic, was highly valued. A key challenge may be determining how to improve the approach to rate-setting through greater consistency and simplification,

whilst maintaining local authority discretion and ownership of determining the final rate(s) to reflect local circumstances.

25. 6 local authorities noted that benchmarking against neighbouring authorities, and local authorities within their RIC, was an important aspect of the rate-setting process; and some noted the importance of the Scottish Government's annual data collection exercise to this process.

26. 5 local authorities noted they had difficulty setting a single rate across all their providers given the diversity in business models, locations and demographics using these services. 2 local authorities discussed their enhanced rate(s) for ASN provision, 1 authority suggested negotiating rates with individual providers.

A4: Feedback from Engagement with Local Authorities - Rate Value and Sustainability

27. There was widespread reporting that almost all providers had accepted the final rate offered by their local authority in 2022. 7 local authorities stated that a majority of their providers were either happy with the rate, or had not directly criticised the rate after it had been agreed; and a further 10 other local authorities noted that they currently didn't have any instances of partners refusing to enter into partnership because the rate was too low. Only 1 council reported significant numbers who had rejected the rate, which was a number of childcare settings attached to the independent schools sector. 4 local authorities who had access to at least some local pricing data reported that the rate paid by them for funded provision was higher than the average price for private provision charged by providers locally.

28. 1 local authority commented on the upward pressure on rate values from neighbouring authorities who may have chosen to pay a higher rate. 2 noted that providers had asked for rates to reflect costs for caring for children with additional support needs, while another noted the same with respect to meal costs.

29. A majority of participants had confidence that the rates they were paying were, in the main, adequate to support the sustainability of their partners. 10 local authorities reported that they had seen no evidence of serious financial challenges, such as closures, amongst their own partners. 5 local authorities went on to state they were currently seeing evidence of sector growth in their area. 9 local authorities stated they had seen isolated examples of settings encountering financial challenge, usually these were not specifically due to the value of the sustainable rate – 4 of these related to voluntary, charitable or third sector organisations; and 3 were related to rural settings with low attendance.

30. 9 local authorities noted that a major challenge amongst their partners was workforce recruitment, retention and pay; while only 1 local authority reported an absence of workforce pressures. 5 local authorities had concerns over the training available to new staff in the private and third sectors, and/or the quality of care that could therefore be delivered by new recruits. 5 local authorities reported that a setting had closed locally due to quality issues, and 3 noted a number of their partners were on service improvement plans. 1 local authority noted that many of their partners were close to capacity, and 1 local authority had concerns over the

ability of partners to cover the costs for caring for children under 3 and reports of some providers scaling back provision for this age group.

31. Most local authorities interviewed were not actively monitoring payment of the real living wage by their partner providers, though when asked, local authorities noted that they had covered it within their contracts where they were legally able to do so. At least 4 local authorities were considering how to address monitoring, and stated they faced challenges acquiring data. One local authority was actively monitoring payment of the real living wage as part of their system to monitor compliance with the National Standard. 7 local authorities reported that they were aware that the real living wage was not being paid to all staff in all partner settings, with providers sometime opting not to pay the real living wage to trainees, younger workers or those not actively delivering funded childcare.

A5: Feedback from Engagement with Local Authorities - Provider Communications and Engagement

32. A large number of local authorities were positive around their relationships with the majority of funded providers. 10 local authorities mentioned strong local relationships, and 8 noted that their engagement process had been regular and robust. 3 local authorities reported that relationships with many of their providers were challenging.

33. Even where the majority of relationships were considered good, many local authorities reported a great deal of challenge centred around a minority of vocal providers. 10 local authorities reported that a small number of vocal providers were dominating engagement, with some going as far as noting that these providers were sending unacceptable communications to Council staff, exerting influence over less vocal providers, or undermining the national cost collection exercise. 6 noted the challenge arising from groups co-ordinating campaigns nationally, including via social media.

34. 8 local authorities mentioned increased expectation of funding ‘parity’, a growing feeling that the total funding available should be allocated on a per child, or per hour, basis. 5 local authorities noted that there was a general misapprehension of the funding aims stemming from the ‘Funding Follows the Child’ policy and moniker, 2 of whom noted that even some Councillors were unsure of the aims of the policy.

35. 3 authorities noted the differing expectations some providers had of engagement, with a feeling from some providers that rates were expected to be the subject of negotiation. 5 local authorities wanted better national communication around the aims of the sustainable rates policy, with the aim of building trust in the process and managing provider expectations.

36. There was a wide range of other opinions on this topic. 2 local authorities noted that funded providers did not understand other partners’ business models, and that the highly diverse nature of their partner settings made engagement more challenging. 3 local authorities noted that engagement was made easier due to long serving and experienced members of their ELC team. 2 local authorities had

recently engaged directly with parents and had a positive response around 1140 provision. 2 local authorities wanted provider representative bodies to be challenged on how to improve the rates process, while 1 noted that the sector had a high degree of ‘survey fatigue’ from engagement on Scottish Government policies over the last few years. 1 authority wanted a more detailed communication strategy for new entrants to the sector, while another wanted more guidance around quality assurance and the real living wage commitment.

A6: Feedback from Engagement with Local Authorities - Funding

37. 17 local authorities, when questioned on funding, responded that this was a key consideration and/or challenge when setting rates, which are required to be sustainable as well as affordable within the budget available. A number of local authorities noted the impact of budget pressures on sustainable rate-setting. Within this amount, 5 local authorities noted specific concerns arising from a reduction in their ELC budget or allocation; and a separate 5 other local authorities mentioned that uncertainty over future budgets was making rate-setting more difficult.

38. 3 local authorities indicated that they were spending more on ELC than they were receiving, with two indicating they had utilised reserves. 2 other local authorities noted the availability of budget being carried forward from previous years.

39. 3 local authorities raised concern over the long-term cost of an increasing number of children deferring entry into school, while 1 had concern over the cost of any expansion of 2 year old places. 2 authorities were concerned over the funding of their own staff contracts. 4 local authorities were currently examining their own service delivery models, to ensure that they can continue to maximise the efficiency of their spending on ELC in the context of budget pressures.

40. 7 local authorities noted their concern over the cost of anticipated future annual increases, with one mentioning they were ‘maxed out’ and another noting they could not envision affording an increase in 2023-24. 1 local authority noted that spending in ELC was increasing much more rapidly than other services.

41. As discussed under rate-setting, 5 local authorities had moved to setting rates for the financial year, with a further 1 investigating this. Those who had done so, reported benefits in terms of lining up with budgetary decisions and real living wage increases. Conversely 3 local authorities preferred to set by the academic year, with one noting this lined up with their procurement.

42. 4 local authorities wanted central communication on rates to be more reflective of local authorities’ position (including the realities of council budget setting), and the requirement for rates to be affordable. 3 local authorities drew comparisons between rate increases, and the social care sector, with one noting that funding for the real living wage was handled separately to core funding (as a separate specific grant). 1 local authority was currently investigating whether a higher rate could be paid only when the real living wage is delivered (a strategy already in use within 1 local authority for 2022-23). 1 local authority wanted more information on how best to fund ASN, while another had particular challenges funding small rural settings.

Appendix B- Synopsis of Evidence from Partner Providers

B1: Evidence Gathering

1. During the review, funded providers were surveyed, and given the opportunity to provide feedback on the sustainable rate-setting process in their area, what engagement took place between them and local authorities with respect this process; and on the Ipsos-Mori cost collection exercise carried out in 2022. The survey was live from 12th January until 8th February 2023, the deadline having been extended. The survey was distributed via sector representative bodies (and other provider groups), and promoted via Care Inspectorate provider notices.

2. We received a low number of responses to the survey. 65 survey responses were received. 58 of these came from nursery partner providers in the private, voluntary and independent sectors. In some cases a single response has been sent in on behalf of a chain of nurseries. Due to the anonymous nature of many responses, it is not possible to be wholly accurate - however we estimate these responses to be representative of feedback from around 99 settings. At the last census there were 985 providers of funded ELC operating in the private, voluntary and independent sectors, so the response reflects, broadly, around 9% of potential participants.

3. A further 7 responses appear to be from childminders (the survey did not ask the participant to declare whether they were a childminder or nursery, so this information is derived from the response). This is less than 1% of the number of childminders currently approved to provide funded ELC.

4. Responses were spread across the country, with the number of separate survey responses across each local authority varying between 0 and 8. There was also no consistent difference in the response rate when compared with the monetary value of the sustainable rate set by each local authority.

5. As a result, a high degree of caution will need to be applied to the feedback obtained, as it represents a small sample of providers nationally. In addition, it is not possible to identify any trends for any particular local authority, region or sustainable rate value.

6. The sector has had a high number of requests for information post-Covid. In addition, Ipsos Mori conducted a cost collection exercise in 2022, and providers are also expected to engage with their local authority. Given the possible fatigue being experienced on information requests, caution should also be applied before drawing any interpretation from the low response rate.

7. The feedback from this survey is summarised below at B2.

8. A selection of those funded ELC providers who had participated in the survey of providers were subsequently invited to meet with CoSLA and SG officials during March and April 2023. These meetings were offered on an individual basis to maximise participation from the relatively low pool of respondents to the provider survey, and to ensure honest and open discussions. Officials included, as much as

the limited sample allowed, providers with different business models and situated in different local authorities.

9. Meetings were held with the 12 providers who responded to an invitation by the deadline given. Officials also took written evidence from the Early Years Scotland Members' Steering Group to complement the available data; and, met with SCMA to ensure engagement included sufficient evidence around the particular concerns of childminders.

10. The agenda for these meetings was agreed by COSLA and SG, and informed by the responses to the survey they had participated in, and also by the written feedback obtained from local authorities during the sustainable rates data collection exercise at the end of 2022 (which is summarised within Appendix A).

11. Feedback obtained has been broken into 4 broad categories: Rates and Provider Sustainability; Communications and Engagement; Cost Data Collection (including the Ipsos Mori 2022 cost collection exercise), and additional evidence in relation to Childminding.. This feedback is summarised below at sections B3– B6.

B2: Written Feedback from a Survey of Partner Providers (February 2023)

12. Survey participants were asked to 'provide any feedback on the sustainable rates setting process for 2022-23 in your local authority area(s) that you would wish to be considered as part of the Review'.

13. The most common response received (from 26 participants) was in relation to the level of funding for partner providers not being fair when compared with the level of funding that local authorities are seen to be spending on their own settings. The core message in these responses is an expectation of parity of funding per hour delivered for private and public sector (which is not an objective of the sustainable rates guidance) and in some cases that local authorities are pre-disposed to favour their own provision. One respondent noted 'if funding follows the child, every child across Scotland should receive the same amount regardless of where they live or what type of setting they attend'. This expectation of fairness or parity often appears independently of sustainability concerns.

14. 14 responses mentioned workforce pressures in relation to the rates set, while 12 mentioned more general business sustainability concerns, again in relation to the level of rate being set. Workforce pressures mentioned include the pay disparity between private and public nurseries, and difficulty recruiting.

15. 5 responses noted difficulty obtaining adequate funding or support for children with additional support needs. 4 responses noted they were not receiving adequate funding for providing meals. Some respondents mentioned issues with the Ipsos Mori data collection during this section, which is covered during the next question.

16. Survey participants were also asked to 'Please provide details of any engagement that you have had with your local authority as part of the sustainable rate setting process for 2022-23.'

17. 19 responses from funded providers noted that there had been either no, or a minimal amount, of engagement with their responses prior to setting rate. A further 9 responses noted that there had been engagement, however they would have liked more.

18. 14 responses noted that while there had been engagement, they did not find it meaningful. A common theme in these responses, is that engagement doesn't include the ability for providers to comment or negotiate on rates as they are being set, for example 'no ability to negotiate' or 'advised outcome only'. For these respondents there may be an expectation of being involved at the point of decision making, rather than only when evidence is being gathered.

19. 14 respondents noted that engagement had included meetings, while 10 respondents mentioned engagement relating to the Ipsos-Mori cost collection exercise. 2 respondents mentioned surveys of providers.

20. Survey respondents were finally asked if they had participated in the Ipsos Mori data collection exercise – 45 had, and 18 stated they had not. All participants were then asked for follow on feedback, either why they had not participated, or what feedback they had on the process.

21. The most common feedback (both from those that had participated, and those who had not) was that the survey was flawed because it asked for historical cost figures, and did not ask those participating to project either current or future costs. 19 responses mentioned this, with one respondent noting 'Pointless. Was backward looking and not based on forecasts.' These respondents did either not know, or have confidence, that the historical data could be a starting point, with projected increases applied by a local authority later.

22. 12 respondents had issues with the content of the survey. This was commonly because they felt the questions were generic and did not apply well to their particular business; or because they felt the survey was too comprehensive or intrusive, asking questions about their wider business rather than just funded provision.

23. 8 respondents felt the survey was too difficult or time consuming, and 1 mentioned a lack of support whilst completing the survey. 5 respondents who had participated were complimentary and found the process straightforward. 4 respondents who had not participated had been unaware of the survey.

B3: Feedback from Engagement with Partner Providers – Rates and Provider Sustainability

Rates

24. 8 of the 12 providers interviewed raised concern over the fairness of how funding for ELC is allocated between local authority provision and partner provision, with a widespread perception that local authority settings receive more resources per hour of funded ELC delivered than private, voluntary or third sector settings. The evidence from Early Years Scotland also noted this issue. This perceived

unfairness was most keenly felt in relation to workforce, where the current policy objective, to support payment of the real living wage for childcare workers delivering funded ELC, was frequently compared with the significantly higher rates of pay available to ELC staff within local authority settings.

25. 7 providers indicated that current rates did not cover their costs of delivery and were not sustainable, with 4 indicating that the rate they were receiving had not kept pace with RLW increases or inflation. 3 providers noted their private prices were higher than the sustainable rate they received for funded provision, while 1 had set a price lower than the sustainable rate. 1 provider noted their private pricing was subsidising funded provision, and 2 noted they had recently had to increase prices.

26. 5 providers noted they were able to maintain their business at current rates, but were clear that just because they were operating within the funding available, this was not necessarily a good indication of long term sustainability (for the reasons described below). The rates also did not enable them to adequately reinvest in their business. 3 noted that the 1140 expansion had increased demand, and that this was beneficial. Early Years Scotland feedback noted that the term ‘sustainability’ was not always helpful, as it indicated that just making ends meet was acceptable, when partner providers sought equity and parity of funding for their funded provision.

27. 8 providers were concerned that the current rate-setting process did not properly account for different business models throughout the sector. This was mentioned in relation to rural settings, settings specialising in outdoor play, as well as community based voluntary and third-sector settings. 2 voluntary settings noted that access to other funding, such as grant awards, had become more difficult in recent years.

28. 5 providers indicated they had concerns over any further expansion to funded childcare given current rate values and/or policy. Notably, those most concerned were typically those most reliant on funded provision, who already had the least ability to influence their business model via private pricing. 2 providers raised concern at the current level of funding for eligible 2 year old provision in their area (noting that not all areas have a separate rate despite the different staffing ratios). There was one instance of a provider being unable to offer funded places for eligible 2 year olds for the rate their local authority paid, and an eligible child is therefore attending on a private basis.

29. 4 providers noted the significant variation in rates being paid by different local authorities, with the term ‘postcode lottery’ being used to describe the funding available by one provider, and another provider with experience of provision in multiple areas asked how the value of these differences could be justified.

30. 3 providers wanted rates set nationally, with 1 noting it should be by an independent body, and 2 noting that multiple rates would be needed for different business models and areas. The group providing evidence for EYS felt that the funding gap between partner settings and local authority settings would continue to widen unless a rate was agreed nationally. 2 providers indicated they wanted more transparency on how local authority settings are funded, and 1 said that local

authorities had a conflict of interest while setting rates given responsibilities arising from their own provision.

Sustainability Concerns

31. Workforce challenges were a dominant theme throughout the engagement sessions, with 11 of the 12 providers noting that the recruitment and retention of staff remained a key concern. There was a broad consensus that sustainable rates, as currently implemented, limited what partner providers could pay staff, and that this presented a significant challenge to their business. In particular, for some providers their current rate limited their ability to offer pay above the real Living Wage. 6 of these providers noted specific recent problems arising from losing staff, often to local authority nurseries, sometimes to other sectors. While replacement staff were usually found after a concerted effort, 3 providers noted that they would often lose the most experienced staff to local authorities, and were only able to recruit people new to the sector, who then had to be trained. Some were worried around the high turnover having a potential impact on quality. The one provider who had not had significant workforce challenges recently noted that the local authority whom they partnered was proactively seeking to recruit new people to the sector, rather than relying on recruiting existing partner provider staff.

32. 11 providers commented on their current rates of pay, with 2 unable to pay the real living wage (RLW) to all staff, and the other 9 paying at least the RLW (2 of these providers noting they were paying significantly above). 2 providers noted that they relied on paying modern apprentices less than the RLW in order to maintain their business sustainability. Another 2 noted that as they operated a payscale with the RLW at the minimum level, that increases to the RLW had a contingent effect on more senior staff throughout the business in order for them to maintain differentials, which was not supported by current rate policy.

33. 8 providers indicated that current funding did not support an adequate level of reinvestment in their setting, and 1 noted that more clarity was needed on what was an acceptable return on investment.

34. 8 providers noted the current impact of inflation on other costs across their business, including utilities and property costs. Notably, 6 providers had concerns over their current meal costs and stated that the amounts received had either not increased in line with inflation, or did not currently meet the costs of delivering meals, with several mentioning rapidly rising grocery costs. There was a specific challenge for an island-based provider who reported that they had limited options for buying in bulk to reduce unit costs, and that they already faced an “island premium” in relation to food costs.

35. 4 providers raised concern over the level of funding available to provide the required care for children with additional support needs. Early Years Scotland feedback noted the large disparity in the levels of support offered for children with ASN across Scotland, and the staff providing their care. 3 providers noted that there were still additional costs arising from the pandemic, and the resulting impacts on wellbeing and health.

B4: Feedback from Engagement with Partner Providers – Communications and Engagement

36. When asked, in the broadest sense, to describe relationships between partner providers and their respective local authority, 5 providers indicated they were generally good, or had improved; while 5 indicated that they were poor or had deteriorated. Another provider, operating in two areas, indicated the relationship in one area was usually good, while the other was significantly worse. These results are indicative of the variance in providers' experiences of communications and engagement from partner local authorities, and significant divergence in how effective this was felt to be, that was evidenced during the engagement sessions.

37. 5 providers noted a change in their local authority staff had been instrumental to either an improvement in their relationship, or that the loss of an LA staff member had resulted in a deterioration. 3 providers specifically noted the importance of having a trusted contact, and 1 provider noted that it was helpful to have access to a financial decision maker. Generally, the engagement sessions demonstrated the crucial role of effective personal relationships between individual staff members in local authorities and partner settings, with partner providers considering the availability of experienced ELC staff members within a local authority to be of particular importance.

38. The most positive comments around LA support were generally in relation to operational aspects. 4 providers noted the value of the additional support package provided by their local authority, including support meeting quality criteria and training for staff. 2 providers noted regular meetings, and 1 provider noted they benefitted from regular communication from their LA.

39. 4 providers noted that increased awareness of LA responsibilities, and how their funding worked in practice, would be helpful to relationships. 2 asked for more national action to be taken to ensure all local authorities were delivering the same level of communications, and 2 also stated that there should be more structured requirements around communications and engagement.

40. Providers were generally more critical when discussing engagement specifically on sustainable rates. 8 providers noted that they felt they had not received enough engagement prior to rates being set, with some noting a lack of meetings or discussion in this area. 5 providers went as far as to state that engagement on rate-setting had not been meaningful, and they had simply been informed of the sustainable rates once they had been set.

41. 8 providers stated that communication on rates had not been timely, or that they had not been given clear timelines on rate decision making. 6 providers stated that when the rate was communicated to them, it was not made clear how the rate had been arrived at, and 2 noted that the rate-setting process needed to be more transparent. The evidence from the EYS group was more positive, with some members giving examples of positive feedback on their engagement with their relevant LAs around rate setting.

42. 2 providers noted that there needed to be more providers involved with their respective LAs, and 1 noted they had been unable to engage effectively as they were not a part of the working group in their area. 1 provider felt that the approach by their local authority was not one of true partnership, while another provider felt that their local authority did not understand their business model.

B5: Feedback from Engagement with Partner Providers – Cost Data Collection

43. 4 providers felt that the survey of cost data collection, conducted by Ipsos Mori (IM) in 2022, was flawed as it had asked for existing costs, perceived as historical costs, and that these were not representative of costs that would be incurred throughout the coming financial year. There was similar feedback from the EYS group, who felt the survey was reinforcing the fact that many settings have had to make heavy cutbacks and savings to be 'sustainable' on the rates offered, but that these costs do not reflect the true costs of their services going forward. Generally, there was a lack of trust in how the data would be uplifted to represent current costs – 3 providers asked for greater clarity on how data would be used, and 2 said that a more standardised approach to how the data would be used when setting rates would help build trust in the process.

44. A lack of trust in the process was also demonstrated by some providers with respect to the intentions behind the data collection, with 3 stating they did not fully trust their LA's motives, and 2 stating they felt that the data would be used to set rates at the lowest possible amount.

45. 4 providers noted concerns around data security, and who their data would be visible to (mentioning local authority, or other providers, potentially accessing commercially sensitive data). The information from the Ipsos Mori cost survey was processed in a way to that protected the confidentiality of providers and data was only provided, at local authority or RIC level, where the response threshold, a sample of at least 10 providers in the area, was met. However these providers were either unaware, or did not fully trust, this safeguarding.

46. 5 providers noted that the questions asked by the Ipsos Mori survey were not able to adequately reflect their costs of delivering funded provision, with one describing the questions as 'limiting', and some stating that the questions asked were not appropriate to their business model.

47. 4 providers found the cost collection exercise too difficult or time consuming to complete. It was evident from the engagement sessions that completion of the survey was easier for settings who had dedicated staff for financial management.

48. 4 providers noted that there should be better communications and awareness around the exercise, and in particular its importance for rate setting. 3 providers noted their disappointment that low participation had meant no local data being available in their area. 2 providers wanted partner providers to take more of a lead in developing a future exercise, and 1 noted that LA settings should be subject to the same scrutiny.

B6: Feedback from Engagement with Partner Providers – Additional Feedback in relation to Childminding

49. SCMA withdrew support from the Ipsos Mori cost data collection exercise as they indicated it did not appropriately represent the costs of delivery for childminders, noting that childminders typically work a number of unpaid hours to administrate their provision; and that total costs should be looked at. The SCMA reported that the exercise would require significant reworking in order to increase childminder participation – it should be shorter, and more focussed on key data.

50. The SCMA reported their view that some LAs do not adequately support a blended model of nursery/childminder provision, and the term time model of paying sustainable rates can be problematic for some childminders. Childminders also require IT support to receive rate payments from some LAs, which SCMA are delivering.

51. According to SCMA data, only 13% of childminders can pay themselves at least the real living wage currently; and, in some cases, need to pay an assistant the RLW, which may then exceed their own wage. They feel the onboarding process for childminders needs to be simplified, as the current level of paperwork is seen as bureaucratic and diminishes the effective hourly rate.

52. The sustainable rate needs to reflect the cost of delivery for childminders. The SCMA report that 1 in 3 childminders have increased prices recently, which they are generally reluctant to do. It is felt that separate rates for nurseries and childminders can be divisive and raises questions over how these differences are justified.

53. Childminders are subject to the same inflationary pressures as other providers, with energy, travel and food costs rising, which is not always reflected by increasing sustainable rates.

54. SCMA reported that relationships between childminders and local authorities are mixed, and vary across different areas, with some local authorities more transparent when setting rates. Better relationships are enabled when Local authorities have a strong understanding of childminding provision.

55. SCMA reported that childminders are often unable to attend meetings or respond to communications during the day, and therefore for an LA to engage effectively with childminders they should provide evening options and tailor their strategy around their working hours. Childminders frequently feel their voice is not included in decision making processes, and engagement needs to be more democratic.

Appendix C - Sustainable Rates paid by Local Authorities in 2022-23

This table is republished from the 2022 Survey of Sustainable Rates, published in December 2022. The data here is identical, excepting it has been updated with new sustainable rate information received in the intervening period from Moray Council and North Ayrshire Council. This means the average rate being paid, across all local authorities, is now £5.80 for 3-5 year olds, and £6.43 for eligible 2 year olds.

Table C1: Rate paid to funded providers for an hour of Early Learning and Childcare in 2021-22 and 2022-23

Council	Year	Rate paid to funded providers for one hour of ELC		Month during which increase is applied from	Comments
		2 year olds	3 - 5 year olds		
Aberdeen City	2021-22	£6.05	£5.45	August 2022	Rates for childminders: £5.75 (2yo), £5.45 (3-5yo)
	2022-23	£6.15	£5.55		
Aberdeenshire	2021-22	£6.34	£5.59	April 2022	Currently reviews rates around April each year
	2022-23	£6.61	£5.83		
Angus	2021-22	£6.68	£5.21	April 2022	Currently reviews rates around April each year Rates for nurseries operating from Council premises: £6.96 (2yo), £5.39 (3-5yo) Rates for childminders: £6.03 (2yo), £5.53 (3-5yo)
	2022-23	£7.18	£5.61		
Argyle & Bute	2021-22	£6.54	£5.78	August 2022	Pay a higher rate of £7.18 (2yo) / £6.35 (3-5yo) upon funded provider paying their staff the increased real living wage of £10.90 per hour Childminders receiving this increased rate from November
	2022-23	£6.90	£6.11		
Clackmannanshire	2021-22	£5.42	£5.42	August 2022	Rate for childminders: £5.42
	2022-23	£6.07	£5.57		

Council	Year	Rate paid to funded providers for one hour of ELC		Month during which increase is applied from	Comments
		2 year olds	3 - 5 year olds		
Dumfries and Galloway	2021-22	£6.20	£5.26	September 2022	Paid an interim rate of £5.53 for 3-5yo from January 2022 to September 2022
	2022-23	£6.73	£5.71		
Dundee City	2021-22	£5.60	£5.31	August 2022	
	2022-23	£5.75	£5.45		
East Ayrshire	2021-22	£5.50	£5.50	N/A	Rate for childminders: £4.76 (from August 2022)
	2022-23	£5.50	£5.50		
East Dunbartonshire	2021-22	£6.40	£5.31	August 2022	
	2022-23	£6.95	£5.77		
East Lothian	2021-22	£5.31	£5.31	August 2022	
	2022-23	£7.55	£6.04		
East Renfrewshire	2021-22	£8.50	£5.31	August 2022	Providers with eligible 2yo receiving the 21-22 rate will continue to be paid at this rate for that child until they turn 3
	2022-23	£5.69	£5.69		
Edinburgh	2021-22	£5.42	£5.42	August 2022	
	2022-23	£6.48	£6.03		
Falkirk	2021-22	£5.55	£5.55	August 2022	Rate for childminders: £5.20
	2022-23	£5.70	£5.70		
Fife	2021-22	£5.31	£5.31	August 2022	
	2022-23	£5.65	£5.65		

Council	Year	Rate paid to funded providers for one hour of ELC		Month during which increase is applied from	Comments
		2 year olds	3 - 5 year olds		
Glasgow City	2021-22	£6.40	£5.40	August 2022	
	2022-23	£6.86	£5.79		
Highland	2021-22	£6.13	£5.43	August 2022	The increase in rates for 22-23 is due to a temporary uplift which will be paid until April 2023; rates beyond April 2023 are subject to review
	2022-23	£6.66	£5.75		
Inverclyde	2021-22	£5.31	£5.31	August 2022	
	2022-23	£5.69	£5.69		
Midlothian	2021-22	£6.50	£5.31	August 2022	The 2022-23 rate is a temporary rate until the end of the financial year
	2022-23	£6.50	£6.02		
Moray	2021-22	£7.57	£6.30	April 2022	
	2022-23	£7.95	£6.62		
North Ayrshire	2021-22	£5.31	£5.31	August 2022	
	2022-23	£5.76	£5.76		
North Lanarkshire	2021-22	£5.80	£5.55	August 2022	
	2022-23	£6.03	£5.77		
Orkney Islands	2021-22	N/A	N/A	N/A	Orkney does not use private nurseries for funded provision - only childminders. For consistency with other authorities, these rates are stated below, not in the main table Rate for childminders: £6 (2yo), £5 (3-5yo)
	2022-23	N/A	N/A		

Council	Year	Rate paid to funded providers for one hour of ELC		Month during which increase is applied from	Comments
		2 year olds	3 - 5 year olds		
Perth and Kinross	2021-22	£5.50	£5.31	August 2022	
	2022-23	£5.65	£5.45		
Renfrewshire	2021-22	£8.50	£5.31	August 2022	
	2022-23	£8.50	£5.71		
Scottish Borders	2021-22	£5.65	£5.31	August 2021	The rate for 22/23 is being backdated to August 2021
	2022-23	£6.55	£6.21		
Shetland Islands	2021-22	£7.13	£5.48	August 2022	The quoted rates are for providers who are not in receipt of the LA's Building Support Package Rates for nurseries eligible for Building Support Package: £7.30 (2yo), £5.62 (3-5yo)
	2022-23	£7.77	£5.97		
South Ayrshire	2021-22	£5.31	£5.31	August 2022	
	2022-23	£5.76	£5.76		
South Lanarkshire	2021-22	£5.90	£5.31	August 2022	
	2022-23	£6.34	£5.71		
Stirling	2021-22	N/A	£5.55	August 2022 (2yo) April 2022(3-5yo)	All eligible 2 year olds were with childminders in 2021-22 Rate for childminders: £5.20 (including lunch)
	2022-23	£6.51	£5.70		

Council	Year	Rate paid to funded providers for one hour of ELC		Month during which increase is applied from	Comments
		2 year olds	3 - 5 year olds		
West Dunbartonshire	2021-22	£5.31	£5.31	April 2022 (2 year olds) August 2022 (3-5 year olds)	
	2022-23	£5.84	£5.67		
West Lothian	2021-22	£6.40	£6.40	N/A	Rate for childminders: £5.90
	2022-23	£6.40	£6.40		
Western Isles	2021-22	£5.31	£5.31	August 2022	
	2022-23	£5.75	£5.55		

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