
NORTH AYRSHIRE COUNCIL

20 February 2024

Cabinet

Title: Review of early learning and childcare (ELC) hourly rate for funded providers

Purpose: To seek approval from Cabinet to increase the sustainable rate of payment to funded providers of early learning and childcare (ELC) in North Ayrshire who are contracted by the Council to deliver funded ELC to eligible 2–5-year-olds.

Recommendation: It is recommended Cabinet:

- a) Agrees an increase in the current hourly rate paid by the Council to funded providers from 1st of April 2024; and
- b) Agrees to receive a further report in advance of the next annual review of the sustainable rate for funded providers.

1. Executive Summary

- 1.1 North Ayrshire Council currently contracts with 15 funded provider nurseries and 66 childminders to deliver ELC entitlement to families across the authority. Funded providers - those in the private and not-for-profit sector and childminders - enter a contract with NAC which requires them to meet the National Standard for Early Learning and Childcare Providers. In return the Council pays an hourly (sustainable) rate for up to a maximum of 1140 hours per annum for each child in their care.
- 1.2 Cabinet approved an increase in the hourly rate paid to funded providers in the financial year 2022-23. This rate increase was paid retrospectively from 1st of August 2022 and will be in place until 31st of March 2024.
- 1.3 Non-financial assistance is also provided by Council staff in the form of teacher support, professional learning for staff and management, and quality improvement support to ensure national ELC standards are upheld.
- 1.4 Scottish Government published revised *Funding Follows the Child and National Standard for Early Learning and Childcare Providers: Operating Guidance* in December 2023. This guidance sets out how settings meet the National Standard criteria and the role of local authorities in delivering the approach. The principles in the guidance highlight the importance of the rate setting process being underpinned by an evidence-based approach; transparency; and partnership working between local authorities and funded providers in the private, third and childminding sectors.

1.5 The Council's grant funding for ELC has already reduced significantly and is anticipated to reduce further in 2024/25 because of lower levels of eligible children than anticipated when the original grant funding agreement was reached between Scottish Government and Local Authorities at the outset of the programme.

2. Background

2.1 Since August 2021, all 3 and 4-year-old children and eligible 2-year-old children have been entitled to 1140 hours of funded early learning and childcare per annum. To deliver this across Scotland, Councils work with both Council-run services and local partner providers in the private and not-for-profit sectors, including childminders, to ensure there is sufficient capacity to deliver 1140 hours to all eligible families in their local areas. In addition to the 43 Council establishments, North Ayrshire Council currently contracts with 15 funded provider nurseries and 66 childminders to deliver ELC entitlement to families across the authority. Funded providers enter a contract with North Ayrshire Council which requires them to meet the National Standard for Early Learning and Childcare Providers and in return NAC pay an hourly (sustainable) rate for up to a maximum of 1140 hours per annum for each child in their care.

2.2 Cabinet approved an increase in the sustainable rate in May 2023 which increased the rate from £5.31 per hour to £5.76 per hour for all eligible 2–5-year-olds. This increase was also backdated to August 2022 with agreement this would be in place until 31st of March 2024. It was also agreed this rate would be reviewed prior the 2024-25 financial year.

2.3 In addition to the hourly rate paid to providers, funded providers receive an additional payment of £3 per meal (or the provision of a meal through the North Ayrshire Council School Meals Service). Childminders receive £2.50 for each meal provided. All registered childcare providers have access to funding through the Scottish Milk and Healthy Snack Scheme to provide milk and a portion of fruit or vegetables for every child each day at the national current rate of 58.2p per day.

2.4 In December 2023, Scottish Government revised Funding Follows the Child and National Standard for Early Learning and Childcare Providers: Operating Guidance in December 2023. This guidance provides guidance on how local authorities should set sustainable rates, based on the following principles:

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

2.5 In April 2019, Scotland Excel provided guidance for local authorities which set out the following key principles for setting sustainable rates for the delivery of funded early learning and childcare (ELC):

- Local authorities and providers should approach the sustainable rate setting process with a focus on a high-quality ELC experience;
- The rate should be evidence-based;
- Local authorities and funded providers should work together to be as transparent and open as commercially reasonable when discussing rates and costs;
- Local authorities should clearly set out what is included (and not included) in the support package in addition to the hourly rate, at the point of application; and
- Inflationary and real Living Wage increases should be reviewed on a regular basis, to understand any changes to these and their impact on costs.

2.6 The guidance also highlights that, from a local authority perspective, the following points should also be considered:

- The rate should not have a detrimental effect on the local authority's ability to continue to pay for the service in the long-term;
- The wider package of 'in-kind benefits,' which are separate to the sustainable rate, available to the funded provider as part of their contract with the local authority; and
- The rate does not need to be cross subsidised by parents and carers through charges for non-funded hours.

2.7 The guidance sets out 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. As the Real Living Wage changes each year, in November, and the sustainable rate should reflect up-to-date information, an annual review of the sustainable rate is required. As part of Scottish Government's budget for 2024-25 it was announced that additional funding of £200m will be provided to ensure all social care and early learning and childcare workers in the private, third and independent sectors are paid at least £12 per hour from April 2024, which is the Real Living Wage. Further clarity is to be provided by Scottish Government on how this will be distributed and whether this will involve local authorities in supporting distribution.

2.8 North Ayrshire Council provides a range of in-kind benefits to funded provider partners which include the following measures:

- Funded provider staff are included in all professional learning that is delivered by NAC staff to early years practitioners;
- Funded provider managers and business owners are included in all ELC Head Teacher meetings and in all relevant professional learning opportunities; and
- Teacher access is provided by the Council and each funded provider nursery has an allocated teacher who provides learning and development and quality improvement support for staff and managers.

2.9 Based on a declining population and a lower than anticipated national and local uptake of 1140hrs of funded ELC, North Ayrshire Council has already received a reduction in core allocation and specific grant allocation for the delivery of ELC. The Scottish Government, as part of a national review of funding, now plans to replace the additional grant funding with an annual core quantum for the provision of ELC. North Ayrshire's budget will decrease by £1.6m per annum.

2.10 North Ayrshire Council has had a significant reduction in funding since 2022/23. The table below outlines reductions in NAC core and grant funding allocations for ELC:

Financial Year	ELC Specific Grant Funding	ELC Specific Grant Funding Reduction	NAC Core Allocation	NAC Core Allocation Reduction	Funding Revision	Total Funding Reduction
	£m	£m	£m	£m	£m	£m
2021/22	14.013		11.654			
2022/23	13.093	-0.920	12.033	0.379	0.000	-0.541
2023/24	12.579	-0.514	11.561	-0.684	0.212	-0.986
Total Funding Movement to 2023-24		-1.434		-0.305	0.212	-1.527

2.11 Engagement with the neighbouring South West Education Improvement Collaborative (SWEIC) local authorities indicates they are facing similar financial challenges.

2.12 In December 2023, Scottish Government and COSLA undertook a review of sustainable rates. This review recommended updating the Sustainable Rates Guidance for 2024-25, with a view to:

- i. Enhance guidance on the approach to rate-setting, 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; and
- v. Ensure the guidance adequately supports local authorities when setting sustainable rates for, and engaging with, childminders.

2.13 North Ayrshire Council's evidence-based approach has included:

- The current strategic context;
- Prior cost analysis of ELC funded rates undertaken in 2022;
- Benchmarking funded provider sustainable rates paid by neighbouring local authorities;
- Ongoing engagement with local providers;
- The greater staff to pupil ratios required for 2-year-old pupils; and
- Current local authority budget pressures.

2.14 As a result it is proposed North Ayrshire Council's funded provider sustainable rates are increased to £6.05 per hour for 3–5-year-olds and a larger increase to £6.33 for eligible 2-year-old children from 1st of April 2024, taking into account feedback from partner providers in relation to greater costs for this age group.

3. Proposals

3.1 It is recommended Cabinet:

- a) Agrees an increase in the current hourly rate paid by the Council to funded providers from 1st of April 2024; and
- b) Agrees to receive a further report in advance of the next annual review of the sustainable rate for funded providers.

4. Implications/Socio-economic Duty

Financial

4.1 The additional cost of the increased payment will be approximately £215,000 based on existing numbers of children. This has been included in budget planning for the 2024-25 financial year.

Human Resources

4.2 None.

Legal

4.3 In April 2019, Scotland Excel provided guidance for local authorities which set out key principles for setting sustainable rates for the delivery of funded early learning and childcare (ELC). These are detailed at 2.3 above. Scottish Government Guidance requires that rates are reviewed on an annual basis and processes will be put in place to ensure this takes place.

Equality/Socio-economic

4.4 In supporting a sustainable ELC provision within the private, not for profit and childminding sectors, we aim to reduce any inequalities of provision and quality of ELC services. We aim to ensure all children experience the best start in life, and families are supported into work, thus reducing poverty.

Climate Change and Carbon

4.5 Ensuring sustainable access to ELC provision within the private, voluntary and independent sector ensures that parents / carers are able to access a range of ELC services within their local community. Consequently, this encourages the use of active travel to access provision and will encourage reduction in greenhouse gas emissions in North Ayrshire.

Key Priorities

4.6 Proposals outlined in this report support the Council Plan 2023-28 strategic aim to “transition to a wellbeing economy, delivering prosperity, wellbeing and resilience for local people” and more specifically “improving educational attainment and achievement and closing the attainment gap” activities.

Community Wealth Building

4.7 The proposals support the following pillars of community wealth building:

- Advancing community enterprises
- Supporting local business activities and increasing the variety of ownership models.

5. Consultation

5.1 At the previous review of sustainable rates paid to funding providers, three funded provider nurseries took part in a confidential costs analysis exercise that was undertaken by NAC's Finance Business Partner team. This was used to inform the initial rate increase in the 2023-24 financial year and informed the proposed uplift in 2024-25 financial year. North Ayrshire Council's ELC leadership team meet regularly with funded providers, including private and partner nurseries as well as childminders, and have considered views expressed in relation to the need for enhanced rates for 2-year-olds due to the requirement for lower staff to learner ratios.

Audrey Sutton
Executive Director (Communities & Education)

For further information please contact **Andrew McClelland, Head of Service (Education)**, on **(01294) 324413**.

Background Papers

0