Appendix 2 Early Years Sustainable Rates

Background

The 2021 tender process for funded childcare places on the new National Standard, set the expectation that Private & Voluntary (P&V) providers of funded Early Learning and Childcare (ELC) will, as a minimum, pay the real Living Wage (rLW) to their employees. The majority have started doing this in the past 18 months with the remainder committed to doing so in the near future.

A commitment was given to calculate a sustainable rate for funded childcare which would then be reviewed annually to ensure that the rate remains sustainable. This work has taken longer than anticipated therefore it is recommended that, if approved, the approved rate be backdated be effective from 1st August 2021 to 31st July 2023.

Existing rates paid for funded childcare of £5.65 for 2 year olds and £5.31 for 3-5 year olds were set prior to the requirement contained in the P&V contracts, which commenced on 1st August 2021, for the payment of the rLW. The requirement being that the rLW should be paid to employees aged 18 years old and over while the National Minimum Wage (NMW) varies for employees who are under 23 years old. When the contracts were issued, the rLW was £9.50 (NMW £6.56 - £8.91), it increased to £9.90 in November 2021 (NMW rose to £6.83 - £9.50 on 1st April 2022). The announcement of the 2022-23 rLW rate is being brought forward to September 2022 due to the current high levels of inflation.

Work has been undertaken, with the co-operation of providers of funded childcare, to look in detail at realistic staffing models required to provide direct care for funded children at standards required by Scottish Borders Council and the Care Commission, including the specific reporting requirements for funded children (which are more complex than those required for non-funded placements). A further staffing implication since the advent of Covid-19, to provide enhanced bio security protocols has also been considered.

As well as being paid for funded places, P&V providers charge parents directly for care outwith the 1140 allocation. The average rates currently being charged in this respect with their intended increases from August 2022 are:

	Private	current	Private F	roposed
	Rat	tes	Rates Au	gust 2022
	2	3&4	2	3&4
Average	6.40	6.00	6.65	6.23

Options

In seeking to achieve a sustainable rate to reflect the additional demands, a number of options as outlined below were explored

1. Percentage Increase to existing rates

a. Compare set % increases to both the 2 year old rate and the 3&4 year old rate

			Re	vised Ra	te per ho	ur		Increase	per hour		Additional Cost per in		er increas	ed rate
		Current												
	Current	rate per												
Age	Number	Hour	5%	10%	15%	20%	5%	10%	15%	20%	5%	10%	15%	20%
2	39	5.65	5.93	6.21	6.50	6.78	0.28	0.56	0.85	1.13	12,449	24,898	37,791	50,240
3&4	510	5.31	5.58	5.84	6.11	6.37	0.27	0.53	0.80	1.06	156,978	308,142	465,120	616,284
											169,427	333,040	502,911	666,524

- b. This approach gradually increases the differential in £ per hour between the 2 year old rate and the rate for 3&4 year olds reflecting the higher adult to staff ratio of 1:5 for 2 year olds compared to 1:8 for 3&4 year olds.
- c. The lowest increase of **5%** would mean an annual cost increase of **£169,427** and the highest increase of **20%** would mean an annual cost increase of **£666,524**

2. Funded hourly rate apportioned between staff and non-staff costs

- a. Looked at the number of funded children per setting at 20 January 2022, calculated the number of staff required (including the minimum of 2 per setting) and the cost p.a. for the funded hours at current rLW and 2019 NMW. The numbers of children in these calculations reflect the SEEMIS report obtained on 20 January 2022. Any reference to 3&4 year olds will include 5 year olds that have deferred their entry to Primary 1
- b. This gives a staff cost per funded hour for both 2 year olds and 3&4 year olds.
- c. Compared the staff and other costs as a % of the hourly funded payment

	Real Livi	ng Wage	National Mir	nimum Wage
Cost Type	2 3&4		2	3&4
Staff	43%	29%	35%	23%
Other Costs	57%	71%	65%	77%

d. If the staff costs for the NMW using the maximum staff to child ratios for each group originally came to 35% of the £5.65 hourly rate for 2 year olds, and 23% of the £5.31 rate for 3&4 year olds, and you know the rLW hourly cost of staffing at both the 2 year old and 3&4 year old staff ratios, you can calculate what the rate should now be.

Age	Number	Current	Revised	Increase per hour		
		rate per	rate per	£ %		Total Additional
		hour	hour			Cost
2	39	5.65	6.92	1.27	22%	56,464
3&4	510	5.31	6.50	1.19	22%	691,866
						748,330

- e. Based on the number of funded children in P&V settings at 20 January 2022 of 549 this would mean an annual cost increase of **£748,330**.
- f. This option assumes that there was a rationale behind the setting of the current rate. If there wasn't it's just perpetuating an un-scientific method of calculating a rate.

3. Calculate a blended rate using the increase from NMW to rLW and an inflationary increase on the non-staffing costs from 2019/20

a. Split the existing rates into their staffing and non-staffing elements. Use the 2020 NMW as the basis for calculating the staffing element. No account is taken of any differentials in rates within a P&V's staffing model

	Based on r	LW of			Difference	e in staff
Staff cost per hour	£9.50/hr (April		Based on 2020		cost per funded	
for funded places	2021)		NMW of £8.72/hr		hour	
	Min staff cost per		Min staff cost per			
	funded hour		funded h	our		
Ages	2	3&4	2	3&4	2	3&4
Staff Cost	2.35	1.47	2.14	1.34	0.21	0.13

- b. This method assumes that all staff are paid at rLW or minimum wage.
- c. The non-staffing element is the difference between the rate paid to P&Vs and the cost of the staffing element.
- d. The non-staffing element should be inflated using CPI increase from August 2020 to August 2021.

e. Table showing make up of new rate

Elements making up rate	2	3&4
Staff Costs	2.14	1.34
Non Staff Cost	3.51	3.97
Current Rate	5.65	<i>5.31</i>
Additional Staff Cost	0.21	0.13
Inflation on non-staff costs	0.11	0.13
Revised Rate	5.97	5.57
% increase	5.7%	4.9%

This gives an annual cost increase of £165,391

		Current	Revised		
	Current	rate per	rate per	Increase	Additional
Age	Number	Hour	hour	per Hour	Cost
2	39	5.65	5.97	0.32	14,227
3&4	510	5.31	5.57	0.26	151,164
					165,391

4. Calculate rates from staffing models using current rLW as the entry level hourly rate for P&V staff.

- a. This approach takes the expected volume of children at 2 years old and 3-5 years old in the individual settings (both funded and non-funded), calculate number of hours per week required and allocate staff appropriately taking into account staff to child ratios.
- Put the calculated number of direct staff into the staff structure models for the individual setting to allow a calculation of salaries including on costs for the model. This allows for different grades of staff in the setting and their associated rates of pay as only the lowest grades will be paid the rLW.
- c. Calculate indirect staff hours based on setting model, taking account of whether the requirement is the same for both funded and non-funded children e.g. additional paperwork requirement, non-funded children don't receive lunches, etc.
- d. Look at the effect three separate intakes August, January and April have on the above and calculate separately if necessary.
- All calculations took into account the old (13.8%) and new (15.05%) rates of National Insurance so the impact could be understood. It worked out between £0.02 and £0.03 per hour of childcare so £22.80 and £34.20 over 1140 hours.

f. Calculated rates

Elements making up rates	2	3-5	
Staff costs	4.94	4.64	
Non Staff Costs	1.62	1.58	
Revised Rate	6.55	6.21	

g. This model can be updated when the rLW rate is published to arrive at a revised rates for staff costs. CPI at an agreed date can be used to recalculate non staff costs.

Current Revised Current rate per Additional rate per Increase Age Number Hour hour per Hour Cost 40,014 2 39 5.65 6.55 0.90 3&4 510 6.21 0.90 523,260 5.31

Summary

Option	Description	Min* £000's	Max* £000's
1	Percentage increase to current rates	169.4	666.5
2	Use funded hourly rate apportioned between staff and non-staff costs	N/A	748.3
3	Blended rate using increase from NMW to rLW and non-staff cost inflation increase	N/A	165.4
4	Staffing model for staff costs rLW as min salary and non-staff costs inflation increase	N/A	563.3

563,274

* based on 549 children

The most straightforward approach and is to apply a simple % to current rates as outlined in Option 1 to give an interim single year increase which will allow P&Vs to pay the NLW in line with the requirement outlined in the recent tender process. It takes no account of the difference in inflation and the requirement for providers to move from paying NMW to paying the rLW.

Both Options 2 & 3 contain information gathered from various sources including 2021/22 tender submissions, data from Covid funding calculations 2020/21 and Companies House information from which assumptions have been made for each P&V. rLW will be paid to the newest members of staff with little or no experience and qualifications, no allowance is made for staff with more experience and qualifications who are paid at a higher rate.

This gives an annual cost increase of £563,274

Option 4 looks at staffing models and structures for individual nurseries taking account of the requirement to pay different levels of salaries to staff with more qualifications / experience as well as the additional reporting requirements for funded children. It takes account of the 3 different enrolment periods which can skew figures in some smaller rural nurseries. The splitting of the salary costs from the non-salary costs allows the salary element to take account of uplifts in rLW and the non-salary element to take account of inflation.

Recommendation

Option 4 is the best option with the information available to use to increase the hourly payment for funded places. It is based on how nurseries are actually set up rather than a theoretical calculation. Separating the staffing element of the payment made to providers from the non-staffing element will allow the requirement for providers to pay the rLW to staff providing funded care to be funded as well as allowing for an inflationary increase for non-staff costs. This option can be updated for increases in rLW and inflation for future years and can be used to calculate annual increases for the duration of the current contract.

Using this option, payments for funded 2 year olds will increase to £6.55 from £5.65 per hour and payments for funded 3&4 year olds will increase to £6.21 from £5.31 per hour. This is affordable within the Early Years funding from Scottish Government.

K E Maxwell 22 July 2022