NDNA Scotland

Progress and Impact of 1140 hours ELC on private, voluntary and independent (PVI) sector nurseries

About NDNA

National Day Nurseries Association (NDNA) is the national charity representing private, voluntary and independent (PVI) children's nurseries across the UK. We are the voice of the 21,000-strong nursery sector, an integral part of the lives of more than a million young children and their families. NDNA Scotland is the national representative body for PVI nurseries in Scotland with eight networks covering 17 local authority areas.

NDNA provides information, training and advice that support nurseries and their 250,000 employees to deliver world-class early learning and childcare. Working closely with local and national government, we advise and campaign on the cost, choice and quality of childcare to benefit children, nurseries, families and the economy. NDNA Scotland support 348 PVI nurseries from our Edinburgh Office.

We know from the Care Inspectorate's annual statistical report[1] that there are 760 PVI nurseries in Scotland. Out of 111,574 children accessing funded ELC there are 97,887 children (88 per cent) accessing the full 1,140 hours of funded ELC. With 31% of 1,140 hours being accessed in PVI settings and 68% in local authority with the rest being delivered by childminders. The PVI sector workforce, according to SSSC registration statistics[2] sits at 11,565 of which 1017 are lead practitioners, 9047 are practitioners and 1501 are support workers.

Our briefing paper covers three specific areas – provider sustainability, fair work and related financial implications and the staffing crisis facing the sector currently. Most crucially the PVI ELC sector is currently facing a workforce crisis and many believe they could struggle to remain open as a result. If PVI nurseries are not available or adequately supported, the impact on the children and families of Scotland is that parental choice will be diminished, quality may be impacted upon and the mental health and wellbeing of staff and owners is being severely affected.

Provider Sustainability

1. A snapshot survey[3] (carried out with NDNA Scotland members) showed that the majority of providers cannot cover their costs on the sustainable rates paid

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1 Care Inspectorate Early Learning and Childcare Statistics 2020

2 SSSC, ELC Workforce Data from March 2019 – March 2022

3 NDNA (2021) Stop Unsustainable Rates – Start Building Futures (Scotland) – supplied to the committee

by local authorities, with 76% of respondents telling us that the rates they were receiving did not meet the costs of providing ELC places.

When asked about the difference between funding rates and costs, providers gave an hourly estimate of £1.40 per hour. Data received in response to a Freedom of Information[4] request by NDNA Scotland showed there was a range of hourly rates offered across Scotland from £5.26 to £6.80. The range of rates offered by local authorities could explain why some providers are able to say their costs are met, while others cannot.

2. The prolonged period of the pandemic means that the financial issues settings are experiencing may still continue for a while yet. The pandemic and global supply issues has also led to an increase in other costs, such as higher energy costs and higher prices for food and other consumables used in nurseries. On top of this, ELC providers as employers are affected by Scottish and UK Government decisions such as paying the real living wage, statutory wage increase and national insurance contributions, all of which impact upon the running costs of the business.

   Our survey also found that 76% believed they will operate at a loss or just break even. Of these, 21 % believe they will operate at a loss and 55% say they will only break even. This shows that nurseries are still in a position where they can't demonstrate financial sustainability where they perhaps could have prior to the pandemic beginning. The proportion of settings operating at a loss suggests that more could face closure in the coming months. Operating at break-even levels means that there is no surplus to reinvest in resources, premises or staff development.

   One respondent told us about the challenges of staying sustainable *"Salaries are highest cost by a long way as would be expected. The challenge is not with the Real Living Wage but being able to pay enough to retain staff when Local Authorities are paying so much more than PVI can dream of paying*".

3. Given the £15 million reduction in the funding to ELC as published in the most recent Scottish Budget, we have serious concerns as to how this will impact upon the PVI sector. It seems reasonable to assume that if Local Authorities have their budget cut for delivery of 1140 hours that this will inevitably be passed onto PVI partnership nurseries in the form of limited or no increases in hourly funding rates. This would amount to a real-terms cut as other costs are rising.

Fair work and related financial impacts

4. The challenges around setting a sustainable rate must be resolved as there is still a wide and varied picture across Scotland, as our survey showed that from August 2021 97.6% of respondents would be delivering the full 1140 hours. In providing a breakdown between funded ELC hours and those that were paid by

[4] NDNA (2018), Many Scottish Nurseries suffering real terms cut in ELC funding rates despite increased costs.

parents, providers told us that an average of 55.2% of hours were funded by the Scottish Government, meaning that 44.8% were still paid for by parents directly. With the expansion of funded hours it is clear that the Scottish Government, via local authorities, is the largest purchaser of ELC from providers. Any underfunding of these places will have a greater impact on the sustainability of nurseries and the viability of children's places.

5. In our sustainability survey we asked what the expected increase in staffing budgets would be between this year and next once statutory minimum wages increases, the Real Living Wage and other staffing considerations had been put in place. The average reported increase was 10%.

   One respondent said to us "*The funding rate has not increased this year however all of our costs have including the rate of the national living wage. Local authorities are now paying wages that higher than that some private sector managers for senior practitioners, how is this an even playing field? All services should receive the same amount of hourly funding for children regardless of LA or private"*.

   Also, 55% of providers cited that the funding rates they received was a challenge to meeting the Real Living Wage (RLW) Requirement with 10% reporting that maintaining pay differentials for more experienced staff was a problem. This need to reward staff at levels above the RLW may add to the 10.4% increase reported in staffing budgets. The impacts of Covid-19 and low occupancy were also raised.

   Paying the Real Living Wage will present problems for settings, particularly as the rate increases and if the sustainable rate remains static (as our Freedom of Information request shows 9 local authorities at present planned to make no adjustment between 2019/2020 and 2020/2021 to the sustainable rate they paid). Given the increased costs nurseries have experienced of late and will do going forward this amounts to a real-terms cut in funding rates.

   Some of the comments received from respondents:

   "The hourly funding rate needs to automatically increase (to include NI and pensions contributions, as a minimum, plus inflation increase in meal/snack element)"

6. Our survey also showed that 61.3% of nurseries had experienced a negative impact of new or expanded builds in their local authority area. Respondents reported a reduction in the number of children taking up places, children's places being split between settings and increased competition for staffing – where private and voluntary providers are unable to compete with local authority salaries on the sustainable rates they receive.

   Comments we received from respondents include:

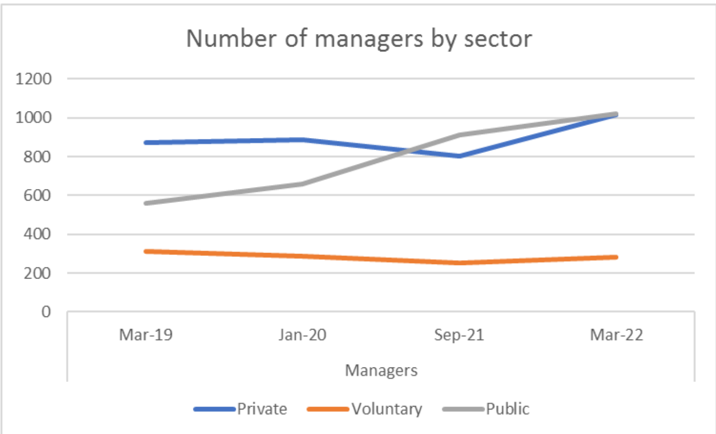
   "More children accessing split placements or taking their funded hours at local authority nurseries"

"The fact that we are not privy to the local authority sustainable rate is really unfair. We have to work with £5.31 per hour to pay competitive wages, high quality training, purchase new and replacement toys and resources."

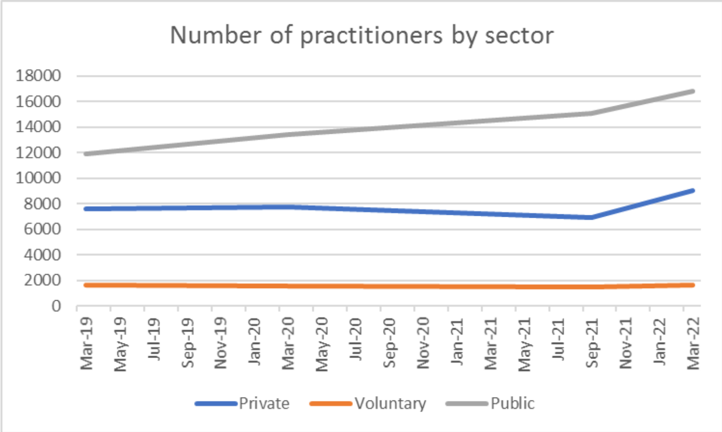
Staffing Crisis

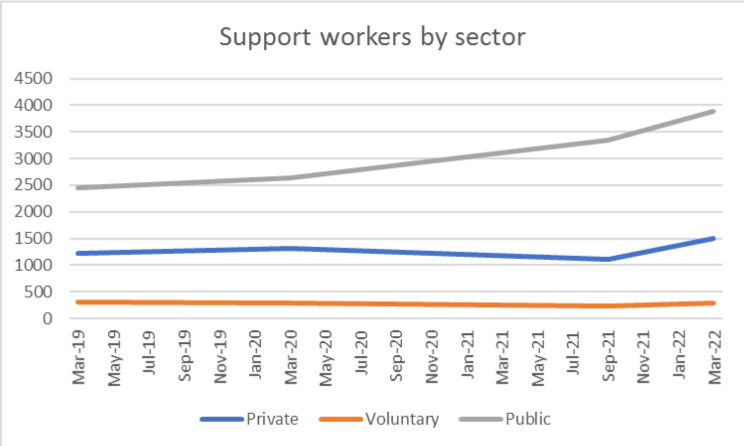
7. Our sustainability survey showed that the Scottish Government is the largest purchaser of childcare hours. When we asked providers to provide a breakdown between funded ELC hours and those that were paid by parents, providers told us that an average of 55.2% of hours were funded by the Scottish Government, meaning that 44.8% were still paid by parents directly. Any underfunding of these places will have a greater impact on the sustainability of nurseries and the viability of children's places.

8. There is also still currently a crisis in the ELC workforce. The Covid-19 pandemic and the expansion of funded ELC to 1140 hours has put enormous pressure on the workforce. Data gathered by the Scottish Social Services Council[5] indicates an exponential growth in staffing at all levels for the local authorities from 2019 to 2022, whereas the PVI sector workforce has taken a dip at both points where the implementation of the 1140 hours policy was due to happen (2020 and 2021). While figures at 28 March 2022 show a more stable picture with regards staffing, the journey to this point for the PVI sector has been more difficult because of the local authority recruitment drives.



[5] SSSC, ELC Workforce Data from March 2019 – March 2022





In recent research alongside the Education Policy Institute[6], NDNA looked at workforce challenges facing the sector. Analysis of responses from settings in Scotland shows that 76.1% of settings had tried to recruit staff in the period from March to May 2021. The majority had tried to recruit staff with SVQ3 and SVQ4 level qualifications but 71.4% reported it difficult or very difficult to recruit at SYQ3 level and 91.7% said the same for SVQ4. Respondents cited increased competition for staffing where local private and voluntary providers are unable to compete with local authority salaries on the sustainable rates they receive for funded children.

Data collected by the SSSC (as mentioned above) also shows a contrast between the levels of fully registered staff within the local authority sector and PVI sector (36% and 51% in March 22 respectively), with many more in the PVI sector having been registered with conditions, suggesting that there are more fully qualified staff in local authority settings than in PVI, which correlates with the anecdotal evidence we receive from members suggesting that they are losing qualified staff to the local authority nurseries:

"*We have lost staff. We cannot compete with LA wage levels which are clearly subsidised*"

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[6] NDNA and EPI (2021) The Covid-19 Pandemic and the Early Years Workforce.

9. Finally, there is deep concern over rising costs such as inflation, energy costs, increases to the real living wage and national insurance. In our survey, we asked what the expected increase in staffing budgets would be this year once the statutory minimum wage increase, the real living wage and other staffing considerations put into place. The average reported increase was 10.4%. Our survey also showed that 55% or providers cited the funding rates they receive as a challenge to meeting the real living wage requirement of the National Standard.

NDNA Scotland

Scotland Underfunding report

Key Findings:

- 76.2% of respondents believed that the rates they were receiving did not meet the costs of providing ELC places
- The average shortfall is £1.40 per hour or £1,596 a year funding shortfall on a 1140 hours place
- 76% of providers expect to operate at a loss or only break-even this year
- 61% reported a negative impact on their setting of local authority or schools nurseries being built or expanding in their local area
- When it came to paying the Real Living Wage 55% cited insufficient sustainable rates as a challenge to meeting the requirement
- 60% of respondents said they had to increase fees to parents by more than 2%
- 26% had taken out Government-backed Covid-19 loans

Introduction:

The childcare sector supports the national economy and is a key part of our educational infrastructure. In Scotland there are over 250,000 registered in early learning and childcare (ELC) services and 118,000 are accessing funded ELC. Funded providers in the private and voluntary sectors and childminders provide 31% of all funded hours. The early learning and childcare (ELC) sector gives children high-quality early education opportunities and enables parents to return to work or access training.

Research repeatedly confirms that good quality ELC improves children's educational outcomes later in life. It is also essential in narrowing the poverty related attainment gap between disadvantaged children and their peers.

Our snap-poll, taking views from 76 nurseries, shows that underfunding is an ongoing issue for many in the sector as they continue to face uncertainty around reduced income and ever-increasing operating costs. This is pushing more ELC providers into the unsustainable position of operating at a loss.

The Scottish Government has delivered a policy which has doubled the amount of funded ELC available for children and families. There are plans to expand this further to families with one and two-year-olds in this Parliament. The funded providers who are currently delivering these places need to be assured that sustainable rates will be truly sustainable for them before the policy is expanded further.

It is time to stop underfunding and start building futures.

Underfunding

The funding that providers receive from local authorities under the Scottish Government's funded ELC policy covers two different types of places:

- 1140 hours of funded early learning and childcare (ELC) for all three and four-year-olds
- Funded ELC places for eligible 2-year-olds

Under the guidance on Funding Follows the Child and the National Standards, local authorities are responsible for setting 'Sustainable Rates' locally for funded providers in the private and third sectors. "*This rate should be sustainable and reflect national policy priorities, including funding to enable payment of the real Living Wage*".

The findings from this survey show that the majority of providers cannot cover their costs on the sustainable rates paid by local authorities. Over three quarters (76.2%) of respondents believed that the rates they were receiving did not meet the costs of providing ELC places.

When asked about the difference between funding rates and costs providers gave an average hourly estimate of £1.40 p/h. This amounts to £1,596 a year funding shortfall on an 1140 hours place.

Data received in response to a Freedom of Information request by NDNA Scotland showed that there was a range of hourly rates offered across Scotland from £5.26 to £6.80 per hour. The range of rates offered by local authorities could explain why some providers are able to say their costs are met, while others cannot.

The FOI data also revealed that nine local authority areas planned to make no adjustment between 2019/20 and 2020/21 to the sustainable rate they paid. Given the increased costs to keep nurseries Covid-safe and significant rises in minimum wages alongside inflation, this amounts to a real-terms cut in funding rates.

"*The funding rate has not increased this year however all of our costs have, including the rate of the national living wage*." Nursery Owner

The financial impact on early learning and childcare providers

The Scottish Government's *Financial Sustainability Health Check of the Childcare Sector in Scotland* revealed that providers have faced increased costs as a result of the pandemic and the requirement to pay the real living wage. It also shows that providers are less confident about their sustainability than they were before the pandemic struck.

This survey asked providers about their financial performance this year and found that 76% believe they will operate at a loss or just break-even. Of these, 21% believe they will operate at a loss and 55% say they will only break-even. When we surveyed nurseries in Scotland in 2018 we found that 62% of providers believed they would be in the position of operating at a loss or just breaking-even.

The *Financial Sustainability Health Check* showed that 19% of private and 17% of voluntary settings had significant concerns about their sustainability this year, compared with 3% and 4% respectively in March 2020.

The proportions of settings operating at a loss suggests that more could face closure in the coming months. Operating at break-even levels means that there is no surplus to re-invest in resources, premises or staff development.

"*We want to pay our staff well, we want to provide excellent early learning and childcare and we want to stay a partner provider, but without the correct funds we will be unable to deliver this*" Nursery Owner

Our survey looked at take up of the Scottish Government's Transitional Support Fund and Temporary Restrictions Fund. The Transitional Support Fund was launched in September 2020 to help pay for increased cleaning, new or additional equipment, better outdoor spaces or adaptations to buildings as childcare settings fully re-opened after the first national lock-down. The Temporary Restrictions Fund offered grants to providers who remained open during the second national lockdown, with some smaller grants made available for those who had also had to close due to low demand for places. 82.9% of respondents had accessed some form of support under one or both of these schemes.

The Scottish Government is the largest purchaser of childcare hours

The survey was conducted before the full rollout of the 1140 hours policy in August 2021. However, most providers were already delivering the full policy as some local authorities made the 1140 hours offer available to parents in advance of the full statutory implementation date.

When asked about the delivery of 1140 hours, 83.3% of respondents said they were already delivering the full hours in partnership with their local authority. Just under one in 10 (9.5%) were involved in partial rollout of the policy, while 7.1% of respondents said they had not been involved at all. They either were not in partnership with their local authority or had not been able to offer additional hours over the 600 statutory hours of funded ELC.

The survey also asked about plans following the full statutory rollout of 1140 hours from August 2021. The vast majority of providers (97.6%) said that they would be delivering these from that date.

In providing a breakdown between funded ELC hours and those that were paid by parents, providers told us that an average of 55.2% of hours were funded by the Scottish Government, meaning 44.8% were still paid by parents directly.

With the expansion of funded hours it is clear that the Scottish Government, via local authorities, is the largest purchaser of early learning and childcare from providers. Any underfunding of these places will have a greater impact on the sustainability of nurseries and the viability of children's places.

Competition with local authority settings

While the ambition of the National Standard and Funding Follows the Child approach is to be provider neutral and offer parental choice, providers responding to this survey, and previous research, have highlighted challenges as a result of the relationship between funded providers and local authorities in the delivery of funded places.

When asked whether the local authority had built or expanded a nursery setting within five miles of their setting in the past year, 17.7% said a new setting had been built and 22.2% said existing settings had been expanded. When it came to ongoing expansion 9.7% were aware of planned new nurseries and 2.8% said a nearby local authority setting was still going through a planned expansion.

Around four in 10 (38.7%) respondents said they had not seen a negative impact as a result, but some referenced that the new setting had only just opened for the August 2021 intake so they were concerned about potential future impacts.

The majority of respondents (61.3%) reported a negative impact on their setting. Respondents reported a reduction in the number of children taking up places, children's places being split between settings and increased competition for staffing - where private and voluntary providers are unable to compete with local authority salaries on the sustainable rates they receive for funded children.

"*Displacement of staff is not good for any of us, especially the children. It is incumbent on all of us involved in ELC to ensure impacts on children are minimised and that their futures are not adversely affected*" Nursery Owner

In recent research alongside the Education Policy Institute, NDNA looked at the workforce challenges facing the sector over 12 months of the Covid-19 pandemic. Analysis of responses from settings in Scotland shows that 76.1% of settings had tried to recruit staff in the period from March-May 2021. The majority had tried to recruit staff with SVQ3 and SVQ4 level qualifications but 71.4% reported it being difficult or very difficult to recruit at SVQ3 and 91.7% said the same for SVQ4. Even for apprenticeships 33.3% said it had been difficult or very difficult.

Paying the Real Living Wage – a concern on current rates

Under the National Standard, which all funded providers must meet to be able to deliver ELC places, there is a requirement to commit to Fair Work practices, including payment of the Real Living Wage (RLW). While this technically only applies to staff delivering the funding entitlement, providers have fed back on the practical challenges of differentiating between staff in settings.

In this survey we asked what the expected increase in staffing budgets would be between this year and next once statutory minimum wages increases, the Real Living Wage and other staffing considerations had been put in place. The average reported increase was 10.4%.

We asked a follow up question about challenges with regard to paying the RLW.

- 17.5% of respondents highlighted that they were already paying the rate or that they had no issues
- 55% of providers cited the funding rates they receive as a challenge to meeting the Real Living Wage requirement
- 22.5% reported that passing RLW increases onto parents via fee increases was a challenge

- 10% reported that maintaining pay differentials for more experienced staff was a problem.

This need to reward staff at levels above the RLW may add to the 10.4% increase reported in staffing budgets. The impacts of Covid-19 and low occupancy were also raised by providers.

The impact on parents – underfunding affects everyone

Our survey asked providers about the kind of financial measures they had needed to take in the previous 12 months, ranging from actions on prices and fees to other forms of financial support. The most commonly taken approaches were:

- 59.5% said they had to raise fees for non-Government funded hours by over 2%.
- 26.2% had taken out Government-backed Covid-19 loans
- 7.1% said they had needed to access grants to remain sustainable.
- Other measures included not being able to support children with additional support needs, offering additional chargeable services and taking out commercial loans.

While parents have clearly benefitted from being able to access more hours of funded ELC, this survey suggests parents are facing higher costs for non-funded hours as providers try to remain sustainable.

The Scottish Government's Financial Health Check found that private childcare services were most likely to report taking out a Bounce Back Loan (51%). Given the high proportion of settings not generating a surplus, the uptake of Government backed loans is a cause for concern as loan repayments start 12 months after they were taken out.

Recommendations

NDNA Scotland welcomes the recognition of key challenges in the Financial Sustainability Health Check of the Childcare Sector. These plans must lead to real change on the ground for providers to ensure they are able to deliver the high-quality ELC that will help children across Scotland achieve their full potential.

The Scottish Government must work with local authorities to identify and stop underfunding and start building futures by taking the following steps:

- Children's futures must be a priority for educational recovery plans and the Scottish Government Budget should include uplifts in the funding for delivering ELC places
- Current and proposed hourly rates for partner providers must be reviewed annually in line with increasing costs to ensure providers are able to cover the cost of delivering the new offer as well as retaining and investing in their current staff
- The new Workforce Strategy should ensure that local authorities ensure a mixed approach to taking on new staff including; qualified staff, developing trainees and apprentices and recruiting from outside the existing ELC workforce

- The new Workforce Strategy should include recruitment programmes with the aim of getting people, especially men, over 50s and members of the BAME community, who had not previously considered ELC as a career, trained and into the ELC workforce
- As part of the review of administrative burdens on providers the Scottish Government should work with NDNA Scotland, the sector and UK government to create a family-centred account for all ELC support