

ANGUS COUNCIL

CHILDREN AND LEARNING COMMITTEE – 1 JUNE 2023

**OPEN FRAMEWORK (AUGUST 2020 – JULY 2025) FOR FUNDED EARLY LEARNING AND
CHILDCARE - SUSTAINABLE HOURLY RATES**

REPORT BY KELLY MCINTOSH, DIRECTOR OF EDUCATION AND LIFELONG LEARNING

ABSTRACT

Report [144/22](#) outlined factors influencing the sustainability of the hourly rates Angus Council pays contracted providers on the Open Framework for Funded Early Learning and Childcare (ELC). This report considers the challenges the council is facing in terms of the affordability of the rates. The report seeks approval for amendments to the methodology for setting sustainable rates and delegated authority for the Director of Education and Lifelong Learning to make future revisions to the methodology and rates.

1. RECOMMENDATIONS

It is recommended that the Committee:

- (i) Notes the expiry of the Open Framework on 31 July 2023 and the council's plan to extend it by 12 months initially, to 31 July 2024.
- (ii) Notes the hourly rates from April 2023 at Section 4, approved by the Director of Education and Lifelong Learning in consultation with the Convenor of Children and Learning and the Director of Finance.
- (iii) Notes the duty placed on local authorities in Funding Follows the Child to ensure that the hourly rates we pay are sustainable for the provider and affordable for the authority; and considers the affordability issues outlined at Section 5.
- (iv) Approves the revisions to the methodology for sustainable rate setting from August 2023 detailed at Section 6 - the removal of 'staff training' from provider costs; the removal of 10p per hour for snack; the reduction in the percentage paid for profit/surplus, from 8% to 6%; and the use of local cost analysis data instead of Ipsos-Mori survey data.
- (v) Delegates authority to the Director of Education and Lifelong Learning to review and amend the sustainable rate setting methodology and to approve all future hourly rate changes (increase or decrease) up to a value of 10%. Such delegation will only be exercised in consultation with the Convenor of Children and Learning and the Director of Finance.

2. ALIGNMENT TO LOCAL OUTCOMES IMPROVEMENT PLAN AND COUNCIL PLAN

The report contributes to the following outcomes:

The Angus Community Plan 2022-30:

- The best start in life for children
- Make our local services accessible

The Council Plan 2023-2028:

- Maximise the uptake of universal supports available for families in Angus
- Support children, young people and adults to access appropriate opportunities which allow them to progress in their learning

3. BACKGROUND

- 3.1 Reference is made to Committee Report [354/19](#), approved by the Children and Learning Committee on 5 November 2019. The report and [Appendix 1](#) outlined the procurement strategy for the Open Framework for funded ELC in Angus, including: the option to extend the Framework by up to two years; and the sustainable hourly rates we planned to pay contracted providers from August 2020.
- 3.2 Reference is made to Committee Report [144/22](#) approved by the Children and Learning Committee on 14 June 2022, which described the external factors influencing the sustainability of the hourly rates we pay for funded ELC from the provider perspective; and sought approval to backdate the annual rate increase (due August 2022) to April 2022 and bring forward subsequent annual rate increases to each April thereafter.
- 3.3 Reference is made to [Funding Follows the Child and the National Standard for EC Providers: Interim Guidance – update May 2022](#) and the duty it places on local authorities to ensure the hourly rates paid per child are sustainable for the provider and achieve best value for the authority.
- 3.4 Reference is made to the Ipsos-Mori Cost Collection Survey conducted in 2022 and the Scottish Government's overview of [local authority funding and support](#) which was published in December 2022. The survey considered the costs arising for private and voluntary childcare providers. A total of 17 Angus settings took part in the survey, of which nine were not-for-profit and 15 had a Care Inspectorate registered capacity of less than 51+ places.

4. CURRENT POSITION

- 4.1 The Open Framework for funded ELC in Angus expires on 31 July 2023. In line with the procurement strategy approved by Committee on 5 November 2019, the Director of Education and Lifelong Learning will extend the Framework by 12 months initially, to 31 July 2024 and will consider further extension to 31 July 2025 in due course.
- 4.2 With delegated authority granted by Committee on 14 June 2022, the Director of Education and Lifelong Learning has approved the following hourly rates for April 2023:

P&V Settings in own premises	August 2020	August 2021	April 2022	April 2023
Eligible 2s	£6.60	£6.78	£7.28	£7.95
3-5s	£5.17	£5.31	£5.71	£6.22
P&V settings in schools	August 2020	August 2021	April 2022	April 2023
Eligible 2s	£6.50	£6.68	£7.06	£7.22
3-5s	£5.07	£5.21	£5.49	£5.49
Childminders	August 2020	August 2021	April 2022	April 2023
Eligible 2s	£5.51	£5.65	£6.13	£6.05
3-5s	£5.01	£5.15	£5.63	£6.05

- 4.3 In consultation with the Director of Finance, from April 2023 'premises costs' have been removed from the hourly rate for Private and Voluntary (P&V) settings operating in our schools, reducing their hourly rate by 73p; and the eligible two-year-old supplement of 50p per hour has been removed from the childminder rate. Note that eligible two-year-olds taking up a place in a childminder setting prior to 10 April 2023 will continue to attract the supplement.
- 4.4 Approximately 5% of funded ELC delivered by contracted providers is delivered by childminders, with approximately 30% by voluntary sector providers based in education settings. Both attract a lower rate than P&V providers in their own or rented premises. The average cost per hour is therefore lower than the publicised P&V rates. The table below illustrates.

Average rates - all setting types	August 2020	August 2021	April 2022	April 2023
Eligible 2s	£6.52	£6.69	£7.16	£7.64
3-5s	£5.13	£5.27	£5.64	£5.99

4.5 As at August 2022, the Angus average cost per hour for eligible two-year-olds ranked sixth highest in Scotland; and our three-to-five year-old average rate ranked 25th. This is expected given the formula we use to adjust our 'all ages' rate based on the staff ratio requirement of the age group.

4.6 The Ipsos-Mori Cost Collection Survey indicates that the average cost of providing an hour of ELC in a small (and/or rural and/or volunteer led) Angus setting is 25% higher than in PKC, and 20% higher than in DCC. Local work is being carried out to better understand the reasons for the disparity, with a view to challenging areas of significantly higher spend and working with partners to understand where efficiencies may be achievable without impacting on the quality of the service or their staff.

5. AFFORDABILITY FOR THE COUNCIL

5.1 The ring-fenced revenue grant funding to Angus Council for the ELC expansion in 23/24 has increased by £3,000. While this does represent a slight increase in funding this should be considered in the context of the removal of deferral pilot funding of £700,000 which was available in 2022/23. There is also increasing demand due to higher uptake among the eligible two-year-old population, the widening parameters for uptake of an extra year of funded ELC prior to entry to Primary School, and the payment of cross-boundary (Tayside) funded ELC hours from August 2022.

5.2 A key aim of the expansion is to increase flexibility and choice for parents. Under a reciprocal arrangement in place since 2020, children resident in one Tayside authority have been able to access their funded ELC in another, paid for by the host authority. However, with rising numbers of Angus children using private nurseries in Dundee, from August 2022, Dundee City Council (DCC) has taken the decision to recharge the council for the surplus of hours.

5.3 A snapshot on 31 March 2023 saw 108 Angus children, compared to just 11 Dundee City Council children, accessing their funded ELC in a contracted provider setting in the other local authority. The recharge to the council in financial year 2022-23 (part year) was £348k. The estimated recharge in financial year 2023-24 is £500-£550k. The recharges represent a net value, with the hours due to Angus Council from Dundee City Council deducted before the issuing of invoices. Reciprocal arrangements are in place with Perth & Kinross due to the balance of hours being exchanged.

5.4 Taking these recharges into account, total spend on external provision of funded ELC will have risen by 17.4% in 2022-23 and is estimated to rise by 11.3% in 2023-24.

6. REVISING THE METHODOLOGY TO ENSURE BEST VALUE

6.1 The expiry of the Open Framework on 31 July 2023 gives the council opportunity to review the terms of the agreement as part of the process for extending it. It is proposed that the following changes are made to our sustainable rate setting process from August 2023:

- To reflect the comprehensive package of free training offered by the council, we will remove 'staff training' costs from the sustainable hourly rate. This will reduce the rate by 2.4p per hour. The potential saving to the council is £21,888 per year.
- In view of the Scottish Milk and Healthy Snack Scheme rate increase in April 2022, from 40p to 58.2p per combined portion served, we will remove the 10p per hour snack supplement from the sustainable hourly rate. The potential saving is £91,200 per year.
- To achieve a better balance between sustainability for the contracted provider and affordability for the council, we will reduce the percentage profit/surplus added to P&V hourly rates, from 8% to 6%. Based on the latest hourly rates for April 2023, the average saving is 12p per hour and potentially £109,440 per year.

- Following completion of the work referred to in paragraph 4.6, the calculation of sustainable rates from August 2023 will be based on local cost analysis data as opposed to data from the Ipsos-Mori Survey. The potential saving arising from this is not yet known.

6.2 The change proposed above will help to ensure provision remains affordable and provides best value.

7. PROPOSALS

- (i) To note the expiry of the Open Framework on 31 July 2023 and the council's plan to extend it by 12 months initially, to 31 July 2024.
- (ii) To note the hourly rates from April 2023 at Section 4, approved by the Director of Education and Lifelong Learning in consultation with the Convenor of Children and Learning and the Director of Finance.
- (iii) To note the duty placed on local authorities in Funding Follows the Child to ensure that the hourly rates we pay are sustainable for the provider and affordable for the authority; and to consider the affordability issues outlined at Section 6.
- (iv) To approve the revisions to the methodology for sustainable rate setting from August 2023 at Section 6 - the removal of 'staff training' from provider costs; the removal of 10p per hour for snack; the reduction in the percentage paid for profit/surplus, from 8% to 6%; and the use of local cost analysis data.
- (v) To delegate authority to the Director of Education and Lifelong Learning to review and amend the sustainable rate setting methodology and to approve all future hourly rate changes (increase or decrease) up to a value of 10%. Such delegation will only be exercised in consultation with the Convenor of Children and Learning and the Director of Finance.

9. FINANCIAL IMPLICATIONS

- 9.1 The total estimated value of the Open Framework is based on contracted providers delivering 912,000 funded hours per year (1,140 x 800 children); and on a sustainable hourly rate that increases annually by 2.7% for real Living Wage and price inflation.
- 9.2 Although the actual number of funded hours delivered by contracted providers is rising, in years one and two of the Framework it fell short of the estimated 912,000 hours by some way. While this created a cushion for the much higher than estimated wage and price inflation in years two and three, that cushion has now been eroded by the introduction of cross boundary recharging from August 2022.
- 9.3 If we remain on the current trajectory, it is estimated that, in year four (01 August 2023 – 31 July 2024) of the Open Framework, the council will spend 95.4% of the total estimated annual value of the Framework in return for just 94% of the total estimated funded hours. This does not meet best value requirements and is not sustainable for the council.

10. EQUALITY IMPACT ASSESSMENT

An Equality Impact Assessment has been completed and accompanies this report.

11. CONSULTATION

The Director of Finance and the Director of Legal and Democratic Services have been consulted in the preparation of this report.

NOTE: The following background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report:

- Report 144/22

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