

Agenda Item	8
Report No	HC/36/22

HIGHLAND COUNCIL

Committee: Highland Council

Date: 27 October 2022

Report Title: Financial Crisis – Valuing Partners Through Collective Budget Strategies, Redesign and Co-production

Report By: The Chief Executive

1. Purpose/Executive Summary

- 1.1 This report provides Members with an update on how the Council and key public, private and third sector partners are working together to understand the shared impact of the current financial crisis and the action that can be taken to maximise our combined resources to deliver core services across Highland, through collective budget strategies, redesign and co-production.
- 1.2 It is important to note the constructive engagement of partners on an ongoing basis, and also the extra time and commitment that has been provided since the last Council meeting from individuals and representatives of organisations. There have been challenging, honest and productive sessions sharing perspectives and risks, but also identifying opportunities for greater co-production to deliver high quality services together within the context of an unprecedented fiscal challenge for all.
- 1.3 The partnership work should be underpinned by a number of key principles:
- **Partnership** – we value our partnerships and recognise how important they are for the delivery of public services in Highland;
 - **Equity** – whilst motivation, impacts and mitigation may vary between us, we will be consistent and equitable in our approach to addressing our shared budget challenges;
 - **Sharing Best Practice** – we strive to learn and grow together so that we deliver high quality services;
 - **Outcomes** – resource allocation will be informed by an understanding of need and impact;
 - **Value for Money** – decisions will be informed by benchmarking and performance measurement;
 - **Informed Decision Making** – an inclusive approach with will be taken to engagement, to enable everyone to be heard and information transparent; and
 - **Respectful Relationships** – will be promoted and expected and be an embedded element of all engagement and communication.

- 1.4 As reported to the Highland Council on 22 September 2022, the forecasted budget gap for 2023/24 is £40.9m. Based on the Quarter 1 revenue monitoring and after the funding of commitments made in September to provide cost of living financial support, non-earmarked reserves at the end of 2022/23 are predicted to be £6.4m which is just 1% of our budget, well below the agreed target level for this reserve of 3%. The financial challenges facing the Council are caused by a range of factors including unbudgeted pressures arising from pay increases, contractual and other inflation and increasing costs of borrowing - combined with an anticipated flat cash funding settlement for 2023/24.
- 1.5 At the September Council meeting, Members also agreed a number of strategic approaches for addressing both the in-year pressure and the budget challenges for 2023/24 and beyond. Since then, Directorates have been provided with indicative targets based on a 6.9% budget reduction and have been considering how to apply these budget strategies to the provision of in-house services, as well as those delivered through our partners. Proposals will come forward to Members as part of the budget setting process.
- 1.6 Council partners are experiencing the same kind of cost pressures on their budgets as services within the Council. This includes cost of living pay awards and general inflationary increases. It is recognised that these pressures are creating significant stress both for partners and also within Council Directorates. Out of these shared risk discussions it has been recognised that we need to urgently work together to redesign services within our communities to achieve best value within the context of the reduced financial envelope and financial pressures we all face. The Council and our partners therefore need to work together to redesign services to ensure delivery is not at the expense of future financial sustainability.
- 1.7 The Council's partners, linked to statutory provision and with associated financial and resource responsibilities and liabilities, are focused on within this report: Early Learning and Childcare (ELC) Partners, High Life Highland (HLH), Eden Court and NHS Highland (NHSH). This report considers in-year financial sustainability and prepares an outlook for the challenges ahead in financial year 2023/2024 for these partners and the Council. It is imperative, and has been discussed, that the decisions made in-year in no way pre-empt decisions that lie ahead as the financial outlook of the Council and national funding arrangements are so uncertain, and the scale of challenge unknown. The recommendations are very much focused on this financial year as it is challenging to obtain a complete picture of the ongoing sustainability of all of these partners at this time, and further work is required to do so. However, what this report does set out is the absolute requirement of the Council and its partners to work closer together at a pace to redesign service provision within a reduced financial envelope for financial year 2023/2024, as indeed set out by the Finance Minister in his communication (**Appendix 1**).

2. Recommendations

2.1 Members are asked to note:

- that the Council's grant funding settlement from the Scottish Government is unlikely to be known before December 2022;

- that the pay awards for 2022/2023 are not concluded and the associated financial pressure unknown;
- the ELC budget position set out in 4.6;
- that further engagement with the ELC Sector will continue, and that further recommendations relating to the ELC funding rate for the 2023/24 financial year will be considered as part of the Council's budget for next year;
- the steps HLH are taking to mitigate their in-year and ongoing budget pressures;
- the work to be taken forward in partnership with HLH in relation to redesign and contract review (this includes legal involvement); and
- the work completed by Eden Court to mitigate in year pressures in light of the financial crisis and the consequential impact on their income (**Appendix 2**)
- that Council officers will be reviewing all payments to external providers – whether grants, procured or commissioned services – with the Council's ongoing financial sustainability in mind.

2.2 Members are asked to agree:

- i. The principles for partnership working set out in para 1.3.
- ii. in the light of budget uncertainty and the potential impact on all aspects of the Council's operations, whether delivered internally, externally or arms' length, recurring funding commitments should be avoided in advance of the budget setting meeting of the Council in March 2023.
- iii. one-off support funding for ELC Partners in the current financial year based on the payment of an additional funding amount calculated as 32p per hour for 3-5 year old provision, and 53p per hour for 2 year old provision.
- iv. For the additional ELC payment to apply from **either** August 2022 **or** October 2022, at a cost of £240,000 or £365,000 respectively.
- v. To conclude the current review of ELC partner rate funding for August 2022.
- vi. Recommendations will be considered by the Council in March 2023 relating to ELC funding for 2023/24.
- vii. A review of ELC re-design to be taken forward, with further reports back to Education Committee in February 2023.
- viii. To increase the Council's earmarked balance held to support HLH by £0.4m to £1.4m. This funding to be drawn down at financial year end to ensure HLH avoid entering a negative reserves position and provide assurance that they can implement the SJC pay award for HLH own staff in the current year.
- ix. That work will be taken forward in partnership with HLH in relation to redesign and contract review (this includes legal involvement).
- x. That redesign work will move forward at a pace regarding Adult Social Care and be reported in detail at an exceptional JMC Committee in November 2022.

3. Implications

3.1 Resource:

- 3.1.1 The wider resource implications of the current financial crisis were fully described in the report presented to Council on the 22 September, with the key context being a forecast budget gap for financial year 2023/24 of £40.9m and non-earmarked reserves forecast to be sitting at £6.4m at 2022/23 year end. This wider context has not changed since then, however Quarter 2 financial monitoring for 2023/23 is now underway and will be reported to strategic committees in November.
- 3.1.2 Two of the recommendations included in this paper have clear and direct one-off financial impacts for the current financial year, namely the proposal to set aside £0.4m of additional funds to support HighLife Highland and the additional one-off support for ELC partner providers of either £240,000 or £365,000 – dependent on Members' decision at 2.2 iv) above. The cost of these interventions will need to be met from the Council's general fund revenue budget or reserves and will be incorporated into the Quarter 2 monitoring statements.

3.2 Legal:

Councillors have a legal duty to ensure the financial sustainability of the Council. The proposed spend aligns with the guiding principles and discretionary nature of local and flexible decision making without making ongoing financial commitments that may have a lasting detrimental impact on the Council's medium term financial sustainability.

3.3 Community (Equality, Poverty and Rural):

The Highland Council values the services provided by all our partners in communities across the Highlands.

3.4 Climate Change / Carbon Clever:

There are no specific climate change implications arising from this report. However, as part of the Council's approach to managing costs down, a focus on reducing and re-purposing physical assets will have a positive impact on carbon emissions and contribute towards the Council's and the Region's net zero targets.

3.5 Risk:

- 3.5.1 The Council continues to operate in an environment where financial risks are significantly heightened with wider economic factors and inflation having the potential to impact on the anticipated position for 2022/23 and 2023/24. The factors were covered in more detail in the September paper to Council with uncertainties over pay, contractual inflation and government funding being those of principal concern.
- 3.5.2 The Council continues to see long term financial sustainability as one of its most significant risks and the corporate risk register taken to Audit and Scrutiny Committee in September saw the rating of this risk increase to A2 (very high likelihood, critical impact), denoting the seriousness of the current situation.

3.6 Gaelic:

There are no specific Gaelic implications directly arising from this report. The Council is wholly committed to supporting the sustainable expansion and delivery of GME in Early Years.

4. ELC Partner Providers

- 4.1 Members will be aware of the context relating to the ELC Partner rate review, from the report to Council on 22 September relating to the Financial Crisis, and in turn the briefing given to elected Members on 6 October. Section 10 of the 22 September report ([available here](#)) referred to ELC:
- 4.2 There has been ongoing engagement with the ELC Sector relating to the funding paid to them for delivery of 1140 hours of Funded ELC. That engagement commenced in 2021 and continued through the current year. There are clear Scottish Government and ELC partner expectations in relation to the process of review, all of which are predicated on a final decision to be taken on the funding rates to apply effective August 2022. There has also been recent engagement at Ministerial Level, and with Senior Civil Servants, to set out the work being taken forward in Highland.
- 4.3 The report to the 22 September Council meeting set that ELC funding review in the context of the Financial Crisis. The report specifically acknowledged that

“...the financial crisis facing the Council has entirely changed the context within which the ELC review was being taken forward.” And that ***“...in the current financial climate any increase beyond the current rate paid would put an unaffordable recurring pressure on Council budgets.”***

These points remain as relevant to this report, if not more so, given the ongoing risks and uncertainty relating to the financial outlook. The recommendations within this report referring to ELC are therefore framed within this context, and on the basis that the Council cannot at this time make permanent and recurring additional financial commitments relating to ELC, outwith the budget setting process in March 2023. There is also a clear statement within Scottish Government guidance (‘Funding Follows the Child’ guidance May 2022) which specifically addresses the issue of impact on Council budgets. The relevant statement within that guidance is, that in setting sustainable ELC rate, a factor to consider is that

“...the rate does not have a detrimental effect on the Local Authority’s ability to continue to pay for the service in the long-term.”

- 4.4 Since the Council meeting on 22 September, there has been a further programme of engagement with ELC Private Voluntary and Independent (PVI) Sector representatives, led by the Council’s Chief Executive, which is on the back of full year engagement with a subgroup of the partners. The purpose of this has been to engage constructively with the Sector, to understand the individual context and cost base and to allow both Council and the Sector to better understand their respective views, share information and learn together, ultimately with the objective of developing and co-producing actions and solutions for the future.
- 4.5 Enclosed as **Appendix 3** is a collation of some key information that has been developed for, and from, the recent partner engagement. This includes a written response to partner questions; a copy of the Ipsos Mori survey; and some slide presentations relating to the survey.

- 4.6 A key aspect of the recent engagement has been to explain the Council’s budget and funding position relating to ELC, and address some of the misunderstanding there has been on that aspect. The two tables set out below are a direct extract from the information shared with elected Members and partners in recent weeks and clearly show the current ELC budget level and its funding, and in turn the chronology of the ELC budget over recent years. Enclosed as **Appendix 4**, is confirmation of the ring-fenced ELC grant for 2022/23, extracted from the Scottish Government letter and corresponding with the information set out below:

Current Budget 2022/23

	2022/23 Budget £m
Total Gross Budget for ELC	£31.6m
Less: Scottish Government Ring-fenced ELC grant	-£23.9m
Equals the Non-Ringfenced ELC budget	£7.7m
Less: Other Council income from Out of School Care and Grants	-£0.9m
Equals the Net Budget for ELC in Highland (as reflected in Quarter 1 monitoring reports to September Committee)	£6.8m

ELC Budget History

Year	Gross Budget £m	SG ELC Ring-fenced Grant £m	Other Income £m	Net Budget £m
2017/18	17.991	-1.074	-1.251	15.665
2018/19	19.848	-2.970	-1.565	15.313
2019/20	27.620	-13.444	-1.140	13.036
2020/21	31.383	-22.833	-0.411	8.140
2021/22	33.084	-25.573	-1.062	6.448
2022/23	31.599	-23.906	-0.889	6.804

- 4.7 The figures reflected above in both tables, represent the budget sitting within the Education and Learning Service budget, and as such represents only those budgets directly managed by Education and Learning for ELC.
- 4.8 As per the Service structures the Council has in place, the budget and responsibility for other aspects of the costs of service sit outwith the budgets shown above. Examples include property rates, maintenance, servicing, facilities management and cleaning which sit within the Property and Housing Service budget. Similarly, support services and central teams including Finance, HR, legal, ICT sit within their respective budgets. The costs in these instances will often not be readily allocated down to ELC service level, nor is there any need to do so for internal Council budget management. This point has also been explained to ELC partners who have taken time to understand the structures that sit within the Council, and the challenge in making direct comparison between the cost of Partner delivery and the budgeted cost of ELC delivery within the Council. The Council has given a clear commitment to

ongoing engagement and sharing of information to allow Partners to better understand the costs of Council delivery, and the redesign activity set out later in this report will provide one route through which that work can move forward.

- 4.9 The tables above, and in particular the current ELC budget, represent the position at present and the challenge facing the Council across all of its budgets in addressing the in-year overspend forecast of £9.6m, the forecast budget gap of £40.9m for next year, and the remaining risks and uncertainties on the budget including the staff pay award.
- 4.10 Another key aspect of engagement has been to share the national Ipsos MORI survey data output with partners, and to allow Council officers and partner representatives to jointly consider and discuss the survey output. The survey was commissioned by the Improvement Service on behalf of Local Government, and with the aim of being an information source to inform ELC rate setting. The survey itself and the relevant Scottish Government guidance make clear that the survey does not produce a recommendation on rate, and nor was it intended to.
- 4.9 The engagement with partners has been challenging yet necessary and constructive, and through this a number of key actions and recommendations have emerged. What has under-pinned the engagement has been a clear position from the Council that, due to the financial crisis, no permanent or recurring additional funding commitment can be considered at this time, and these would be matters for the Council in considering its budget setting for the 2023/24 financial year. The focus therefore has been on a number of themed areas:
- ELC redesign and collaboration to improve efficiency and effectiveness of ELC delivery (with Local Authority and Partner provision in scope), and through which actions to improve partner sustainability can be considered;
 - links to existing Council budget strategies and how they can be utilised in collaboration with ELC partners e.g. People Strategy, Asset Management, etc.;
 - information sharing, best practice sign-posting, ongoing engagement; and
 - one-off and temporary financial support in the current financial year supported by co-construction which was facilitated by a number of meetings and dialogue with the Chief Executive.
- 4.10 **ELC Redesign:** The rollout of the ELC expansion programme to deliver 1140 hours of ELC was delivered through Council and partners working together and reflected policy, needs and a financial context which is much different from that faced today. Discussions with ELC partners have reinforced that there is a case to review provision post 1140 rollout, review and redesign ELC delivery, and the financial crisis is making that more of an imperative. There is a mixed economy in Highland ELC provision with both Council and partners providing in some localities, and an opportunity to review what is delivered, where it is delivered and who is best placed to do so is welcomed. That could mean recommendations on changes to current delivery arrangements.
- 4.11 **Links to Council Budget Strategies:** The links to the Council's budget strategies will be very much embedded within the ELC redesign activity. Asset Management would be one particular theme, with examples of where both partner provision and Council provision are within the same town or village, in some instances within the grounds of

the same school. Scope to rationalise asset use, decrease energy costs, and make efficiencies in costs of delivery will be a focus.

In relation to the Council's People Strategy, there will be a focus on what further actions could be developed to support delivery and sustainability of ELC across Council and Partner provision. This would build upon existing strong links and 'in kind' benefits for PVI ELC partners including training, funding to support staff to undertake required qualifications, access to a 'teacher' EYESO, regular contact and support from area team staff and improvement support.

- 4.12 **Information Sharing:** The recent engagement sessions have highlighted there is scope to go further in terms of how within the Sector, and between Council and ELC partners, information and best practice is shared.
- 4.13 **One off and temporary financial support**
- 4.13.1 The cost of living crisis impacts on the ELC sector as it does the Council and other aspects of society. Increases in food costs, energy prices and overall costs of delivery have been highlighted as key concerns. Staff pay expectations, levels of pay and implications for staff recruitment and retention are also particular concerns.
- 4.13.2 In recognition of the vital role that ELC plays as an employer; in supporting parents and families in employment and education through the provision of childcare; and following extensive feedback and engagement from partners; it is recommended that to support the financial sustainability of our ELC partners a one-off, in-year, funding support package should be considered in line with the principles set out in 2.1 above. However further work is still required to demonstrate the implications linked to the current national ELC policy of a single partner rate payment approach. Setting an equitable partner rate for all is challenging when there are some partners with significant and increasing reserves and profits, whilst there are other with sustainability challenges. The debate about a differentiated rate is one that needs consideration at a national level and this is currently under discussion with the Director General and senior civil servants connected to the ELC portfolio.
- 4.13.3 The reserves, profit and financial sustainability discussions are worthy of noting as the Council is being expected by partners to help with their sustainability and to use our reserves when a number of partners across all service areas and contained within this report may have substantial reserves themselves. It must be noted that the Finance Minister has asked us all, as service providers in the public sector, to look to our sustainability in all aspects of our finances.
- 4.13.4 Engagement and discussion with partner providers has highlighted that 'one size does not fit all'. Partner providers provide a range of services - for example, some provide meals, some do not, the size of service provision can have an impact, provisions are set up differently as businesses, some partners have been in business for different periods of time and have a range of financial successes as well as challenges including debt levels, reserves and profits.
- 4.13.5 In setting the rate for this year there were a number of discussions and questions asked regarding rate per age group i.e. 0-2, 3-5; rate for meals; and period to apply the rate to. The responses were varied but the majority view was to provide an

additional payment based on a supplement to the core funding provided for 2 year olds and 3-5 year olds rather than uplift the meal payment as it was felt that all providers may not benefit from the latter approach. The options and costings are shown below.

4.13.6 Options for Member consideration:

	2 year old provision	3-5 year old provision
Current hourly rate	£6.13 per hour	£5.43 per hour
Proposed additional payment on a one-off and temporary basis	53p per hour	32p per hour

Option 1 Uplift Half Year Oct 22- Mar 23	Total Additional Cost 2s & 3-5s		£240k
Option 2 Uplift Aug 22- Mar 23	Total Additional Cost 2s & 3-5s		£365k

The additional payments reflected above would be separate to, and in addition to, the core hourly rate of £5.43/£6.13 per hour for ELC.

4.14 **Next Steps:** The content of this report and the recommendations set out, would address the position relating to the current 2022/23 financial year. There remain partner expectations relating to funding for 2023/24, and a rate to be set for that year, with this being a matter that the Council would be expected to consider as part of its ongoing financial planning and the formal setting of the budget for 2023/24.

4.15 The co-production involved between partners and Council staff has been welcomed in arriving at a proposal for Members to consider. The time spent together has very much enhanced a mutual understanding of the context everyone is working in financially. Most importantly there has been excellent learning of the practice and services being provided to our children and families and a joint commitment made to best value redesign and collaboration to improve outcomes.

5. High Life Highland

5.1 This report provides context to the updated financial forecast provided by HLH for the current year and the steps HLH have taken and continue to take as part of the post-pandemic recovery work. Finally, the report sets out the product of positive yet challenging discussions with HLH at Executive and Board level, as to how the Council and HLH can continue the close partnership with a particular focus on service redesign and contract review over the coming months.

5.2 In March 2022 The Council agreed to earmark a £1m one-off reserve in recognition of the forecast from HLH that despite positive progress with their post-pandemic recovery, and cost control measures, there was the risk of a deficit in 2022/23. The Quarter 1 forecast for HLH, as reflected within recent reports to the Education Committee, was for an £879k overspend i.e. the earmarked reserve was expected to be required to offset this overspend.

5.3 HLH set a balanced budget for 2022/23 which included £1.3m leisure centre opening hours saving and £1.7m HLH reserves being built into the budget (total planned mitigation 3m). As of the August 22 budget monitoring, there were a number of emergent pressures which has led to a negative year end forecast as follows:

	£
Customer return and cost of living crisis	1.250m
Gap created by CoSLA Pay award (3% built into budget by HLH)	-1.100m
HLH additional in-year mitigation (see below)	0.385m
Mitigated year end deficit (inc. mitigations and pay award)	-2.060m

5.4 Discussions have taken place as indicated and the proposal for Members' consideration is that HLH should use their reserves and continue to take actions where possible to aim to reduce the outstanding deficit as much as possible:

	£
HLH remaining reserves (forecast)	0.66m
Previously allocated Council support	1.00m

5.5 According to the current forecast, after the application of HLH's residual reserves of £0.66m and the £1m held in the Council's earmarked balances, HLH would be left with a negative reserves balance at 31 March 2023 of - £0.4m. Members are therefore asked to approve an increase in the Council's earmarked reserve by £0.4m to £1.4m for drawdown, as required. This is intended to provide a position of assurance to HLH that, if no further mitigation of their forecast deficit is possible, they would avoid a year-end position of having negative reserves. Further discussions are currently underway with HLH regarding the Council's commitment to ongoing financial support in the event that HLH are left without unallocated reserves by the year end. An update position will be provided to Members in advance of the Council meeting.

5.6 In-Year mitigation

Mitigation	(£)
Archives - Staff savings through vacancy management	32,500
Arts - Savings in travel costs by reducing the number of exhibitions	5,000
Facilities - Defer renewal of gym equipment leases in non-essential sites	120,000
Facilities - Reduce staffing at Inverness Leisure	50,000
Libraries - Reduce staffing costs through vacancy management and reduction in relief hours.	150,000
Museums - Staff savings through delay in curator appointment	5,000
Outdoor - Relief staff savings at Highland Football Academy through central booking system	10,000
Sport - Staff savings from vacancy management	3,000
Youthwork - Staff savings from vacancy management	10,000
Total Mitigation	385,500

5.7 The Quarter 1 position pre-dates the clarification nationally of the SJC pay award settlement for Council staff, and recent discussions between the Council and HLH regarding that pay award and its applicability to HLH staff. The further proposed

Council commitment of £0.4m is intended to enable HLH to implement the SJC pay award for their own staff, effective from and backdated to 1 April 2022, and covering financial year 2022/23.

- 5.8 Redesign and contract review is a key aspect of the current discussion between the two organisations. The financial crisis is such that there is a clear need to work together in partnership to deliver sustainable budgets and financial savings. There is a real opportunity to embrace a joint redesign review, and a contract review, as means by which both organisations can contribute to and develop recommendations to help address current and future financial challenges. There are already strong links with HLH in relation to Asset Management, and these can be strengthened further and, by working together, inject further pace into that activity. The other budget strategies adopted by the Council, including the capital plan and contract management, are other clear examples of relevance to the relationship with HLH. This activity will be taken forward, with reports back to Council, with the intent that budget recommendations can be considered by Council in its budget setting for 2023/24.

6. EDEN COURT

- 6.1 The Highland Council provides funding to Eden Court, monitored via a Service Level Agreement. **Appendix 2** provides an updated financial outlook and sustainability position for 2022/2023 and 2023/2024. The positive work taking place should be noted as Eden Court faces significant business and financial challenges. There is no requirement for additional financial support in-year, however work will need to be carried out in partnership as Eden Court has assumed a recurring similar level of investment from the Council for 2023/2024 and, as stated within this report, there is an expectation that all partners need to plan for possible reductions in Council support going forward.

7. NHS

- 7.1 At the Highland Council meeting on 22 September 2022, a report on Care Home provision was held in private. At the JMC meeting on 5 October, a decision was made to hold an extraordinary meeting in November to consider the potential collapse of the Care Home sector in parts of the Highlands. The general risk in relation to future care home delivery is already included in the Council's Risk Register as a significant risk.
- 7.2 Risks to ongoing service delivery have arisen as the result of a number of factors:
- inability to recruit and retain staff which in turn results in high agency use and cost;
 - no accommodation for staff;
 - ongoing short notice closures;
 - insufficient capacity to relocate residents from care home closures;
 - NHSH/THC affordability and capacity to identify and replace provision; and
 - the nature of rural demand which does not allow for economies of scale to be made, which in turn affects profitability.
- 7.3 Long-term sustainability and financial affordability is a serious risk. Significant and accelerated redesign is required as the current approach is no longer viable or affordable. Officers and client representatives are working together with the Scottish

Government to identify possible solutions for Adult Care provision within the Highlands, and support for pathway work has been discussed at meetings with senior civil servants. Staff and partners have targeted extensive time to come together to produce a strategic redesign plan for Adult Social Care. As this is such a serious matter, an update via the extraordinary JMC in November will be reported back to Council in December.

8. Contracts and Commissioned Services

- 8.1 Procurement services at Highland Council are delivered via a Commercial and Procurement Shared Service (CPSS) in collaboration with Aberdeen City Council and Aberdeenshire Council. The Lead Officer / Head of Service for the Shared Service is based in Aberdeen City Council.
- 8.2 CPSS is about to undertake a series of service engagements across the Highland Council to analyse all spend. As a matter of course this will include all revenue spend including grants and contracts. This is a regular activity which analyses spend to see where better value could be achieved if there is the opportunity to do so.
- 8.3 As part of this ongoing and recurring activity, CPSS will be seeking collaborative opportunities across the shared service Councils using their joint leverage within contracts and pricing, sharing best practice on specifications and scope to deliver cost savings where possible. CPSS are committed to exhausting all options to help Highland Council deliver their services within a challenging financial environment.
- 8.4 CPSS will work with Services to identify any opportunity for a reduction in spend by utilising all current procurement frameworks at their disposal. Where there are gaps in that provision, CPSS will work with Services, and their supply chain, to ensure best value for the Council through negotiation with suppliers where possible and working with suppliers to ensure a good outcome for both them and the Council.
- 8.5 CPSS will also continue to support Services in their ongoing requirement to review spend, including grants and contracts. Given the value of some of these transactions, CPSS will be helping Services to identify where a contract is in place and asking Services to review Service Level Agreements to ensure suppliers are delivering to the specification of works/services required. Where there are grant monies to be paid where no contract is in place, (i.e. no requirement for a specification to be prepared by the Council nor any bids to be submitted through a tendering process to gain access to the monies) there may be a need to analyse the spend in terms of the benefits this brings the Council, and to check if there are alternative methods of delivery which can be formalised in accordance with Council Standing Orders. As a public sector body, we remain committed to compliance to the public procurement rules and obligations to ensure best value in all Council spend.
- 8.6 The Highland Council also has a number of contracts with providers that deliver essential services within Health and Social Care. Partners delivering these 'commissioned' services work alongside Council officers to ensure that contracts improve outcomes for children and young people and provide best value. This is being strengthened through the ongoing development of a commissioning strategy which will assist the Council and its providers to work within the financial challenges whilst continuing to meet the needs of our children, young people and families.

- 8.7 Within the Health and Social Care Directorate there is a recognition of the need to shift the balance of care, ensuring the provision of support and intervention is provided to families earlier, thus reducing family breakdown and removing the need for children and young people to move into the care system. With the ongoing development of this commissioning strategy, working with providers and in compliance with the Contract Standing Orders and Financial Regulations, we have the opportunity to use a number of existing national frameworks (Scotland Excel and Crown Commercial Services being examples of organisations who work at a national level to set up frameworks which can be utilised by any public sector organisation), which should deliver a reduction in cost and more effective contract management. However, where no existing framework exists, or where the ability to meet the specific needs of Highland is missing, Highland Council has the ability to engage the market directly through an inhouse procurement exercise.
- 8.8 In conclusion, Council officers will be reviewing all payments to external providers – whether grants, procured or commissioned services – with the Council’s ongoing financial sustainability in mind. This means utilising the budget strategies agreed at the last Council to deliver services with 6.9% less budget overall from 2023/24.

Designation: Donna Manson, Chief Executive

Date: 17 October 2022

Authors: Carolyn Moir, Brian Porter, Allan Gunn, Ian Kyle, Nicky Grant, Kate Lackie

Background Papers:

Appendix 1

An Leas-phrìomh Mhinistear agus Ath-shlànachadh
Cobhid
Deputy First Minister and Cabinet Secretary for Covid
Recovery

John Swinney MSP
T: 0300 244 4000
E: DFMCSCR@gov.scot



Councillor Katie Hagmann
COSLA Resources Spokesperson

By email:

megan@cosla.gov.uk

Copy to:

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Local Authority Leaders

18 August 2022

Dear Councillor Hagmann,

Thank you for the meeting on 17 August with yourself, Councillor Morrison and Councillor Heddle to discuss the current pay position.

At the meeting I set out the current challenging Scottish Government budget position, with the 2022-23 Scottish Budget fully committed against a backdrop of inflationary pressures and the cost crisis. Indeed, the Scottish Fiscal Commission has highlighted the overall 2022-23 Scottish Budget is 2.6% lower than last year in cash terms primarily because of reduced Covid-19 funding and falling capital funding from the UK Government.

We are all experiencing unprecedented pressures on public finances, which have been further exacerbated with the increase in inflation and the situation in Ukraine. Nevertheless, the Scottish Government has made difficult decisions across our public service provision to offer the financial contribution of £140 million in recurring funding to local authorities in order to support a revised pay offer.

All areas of the public sector will have to make challenging savings to live within existing budgets. The UK Government has not provided further funding for these

pressures, with last year's UK Spending Review not taking account of the levels of pay uplift now proposed or the wider effects of inflation.

Turning to fiscal powers, the Scottish Government has limited borrowing powers, and is not permitted under the relevant statutory arrangements to revisit sufficiently significant revenue raising policies, such as income tax, in-year.

A number of comments have been made stating the Scottish Government should utilise the funding in its reserves. I do not recognise the numbers being discussed, as the Scottish Government has used reserves in full to deliver the 2022-23 budget. Indeed, the additional

£120 million provided to local government at stage 2 of the 2022-23 budget was delivered through the use of the Scotland reserve. Given that, and now the offer of a further £140 million to support a pay deal, any suggestion that we have not fully utilised all avenues open to us to provide additional funding to councils is wholly unfounded. I would again encourage all councils to consider the use of reserves for other short term cost pressures so as to redirect resources to the pay offer.

Throughout our discussions I have sought to work collaboratively while providing full transparency around our financial position, as part of this I have set out the reserve position in detail in Annex A. I would also note, much like borrowing, the Scottish Government has very limited reserve powers (with the ability to only hold £700 million in reserve, which is under 2% of the full Scottish Government budget), with Local Government having greater powers in this respect.

As I have previously made clear, the Scottish Government is not in a position to provide a further additional contribution and I would ask councils to again consider carefully how they too could increase available funding for pay. I would also note that it is councils which are the employers here and there is no direct role for the Scottish Government in this relationship.

It is essential that urgent action is now taken; I do not need to tell you that waste collection services in Edinburgh will strike from today and that further action in the weeks following has already been called across a number of councils. Moreover, council employees now face the prospect of meeting inflationary pressures on their cost of living this autumn without having received a pay increase from their employers.

I know difficult decisions will need to be made by Local Government to meet the pay offer. This is equally the case for the Scottish Government, and I would emphasise that if we are to have a mature partnership that we must both recognise this shared reality.

Finally, at our meeting I committed to looking at any detailed proposals that COSLA will put forward for flexibilities with regards policy delivery and the use of reserves. While this work is underway, it is critical that a meaningful, revised offer is made at pace, and that negotiations with the Unions proceed to reach a swift agreement.

I look forward to hearing from you,

John Swinney

Eden Court Highlands

Note for Highland Council, 14.10.22

Organisations across the cultural sector are facing significant challenges at this time and Eden Court is no exception. Following two years of disruption due to the Covid-19 pandemic, we have emerged into the most difficult trading conditions since the theatre's opening nearly 50 years' ago. The primary factors are:

1. Theatre audiences across the UK are around 30% lower than pre-pandemic and only 57% of cinema-goers have returned. Eden Court's audience numbers are tracking with these trends. The cost of living crisis means that those audiences who do attend are spending less.
2. Utility costs have more than doubled, which means a six-figure increase.
3. Inflation is at its highest level in 40 years impacting the cost of all goods and services. The recently announced increase in the Living Wage is projected to raise our staffing costs by 10% or more.
4. There is unlikely to be any additional support available from funding bodies to weather these significant challenges; and regular public-funding across the sector has been at standstill (or in Eden Court's case, reduced) for the last 8 years.

The Centre for Moving Image – which ran Edinburgh International Film Festival, Edinburgh Filmhouse and Belmont Filmhouse Aberdeen – cited many of the above factors as contributing to their recent closure.

Eden Court is not at threat of closure, however it is currently operating in financial deficit and making use of its financial reserves. A detailed financial modelling process has been carried out looking at every aspect of how the organisation operates and a strategy has been developed to steer Eden Court to a balanced financial position. We are in the process of implementing the changes required to achieve a breakeven 23/24 budget. Achieving this balanced position is contingent on the continuation of Eden Court's £300,000 SLA with the Highland Council.

Key changes identified include:

- a) Cost efficiencies through different and leaner ways of working.
- b) Scaling back and adjusting certain activities and operations, whilst maintaining a broad and open programme.
- c) Adapting programming choices in line with current audience appetite and behaviour.
- d) Targeted price increases.
- e) Fully utilising Eden Court's building by repurposing space and growing the event hires business.

Written Responses to ELC PVI questions as at 29/09/22

THEME: Education/ELC budget

Question: In school budgets, how much is allocated per head for ELC children?

Unlike the funding paid to partners, the funding allocated to Council ELC settings is not allocated on a per child/per hour basis.

The Council annually 'builds' the budget for individual settings based on:-

- allocating staffing budgets related to staff in the establishment (which is based on the number of children and relevant staffing ratios).
- allocations of funding for resources.
- These budgets in turn may be adjusted during the year for change in circumstance ie a change in number of children, changes to staffing etc.

This is no different to how many of the Council's budgets are created.

There are a number of budgets which are NOT allocated to individual Council ELC settings, as these budgets are either held centrally within the Education Service, are embedded within the host school's budget, or in some cases are held in other Service budgets.

Examples include:-

- Energy costs which are typically held within the schools energy budget, not separately. And separate metering/billing may not be in place.
- Property maintenance and other property costs which are typically held by the Council's Property & Housing Service, who act as 'landlord' and hold and manage these budgets.
- Income for Out of School Care – central ELC budget.
- Meals – central ELC budget.
- Central and area management and support staff related to ELC.
- Central overheads and support costs including Finance, ICT, HR, etc

Due to the number of budgets that are held outwith the ELC setting budget, as described above, the Council does not hold live information on the equivalent hourly cost per Council setting, or across Council settings.

The Council is however working to pull together analysis, within the context described above), to provide partners some means of contrasting costs in HC ELC settings, versus in the PVI sector.

Question: What percentage of ELC allocated funds are spent within PVI?

28% of the total Early Years budget funds PVI partners

Question: Fair rate – how is the rate worked out? Other LA’s such as Edinburgh City Council are paying £6.03 and agreed to an annual review.

The current Highland rate is based on the initial 1140 hourly rate of £5.31 with an uplift of 12p to £5.43. The Council paid this from August 2021 onwards. The increase to £5.43 was based on the following (extract from the report to the Council’s Education Committee in November 2021). *“The recommendation to members is an uplift of 2.2%, which would recognise that there has been an uplift in the Scottish Living Wage announced in November 2020, and which in a Council context was implemented for our own staffing in the current 2021/22 financial year. This would increase the current rate from £5.31 to £5.43, and with an equivalent percentage uplift applying to the higher rate paid for 2 year-olds.”*

The Council of course also pay supplements for meals and snacks, and also the higher rate for 2-year-old provision.

It is not for the Council to comment on what other councils have done. While some councils have increased their rate, that has been their choice and their local circumstance. There are equally a number of councils who have not uplifted their rate or have not yet reached a conclusion. A number of councils currently pay less than we pay in Highland.

The table attached as **ANNEX 1** is analysis sourced from ADES (the umbrella group across 32 Local Authorities of the Association of Directors of Education in Scotland), updated with known more recent decisions including Edinburgh and Scottish Borders. It is therefore a point in time analysis. The Scottish Government is currently surveying councils for an update on their August 2022 position, and we would expect updated national information will be available later this year.

Question: Is ELC money ringfenced?

The Highland budget for ELC consists of only one part of the budget/funding being ring-fenced Scottish Government funding, the remainder being non-ringfenced i.e. the Council’s own budgets which are sourced from council tax, general grant, income, etc.

The total budget for ELC in 2022/23 is £31.6m. The funding for which is as summarised below.

Total Gross Budget for ELC	£31.6m
Less: Scottish Government Ring-fenced ELC grant	-£23.9m
Equals the Non-Ringfenced ELC budget	£7.7m
Less: Other Council income from Out of School Care and Grants	-£0.9m
Equals the Net Budget for ELC in Highland (as reflected in reports to September Committee)	£6.8m

The Scottish Government Ring-fenced funding only part-funds ELC. The ring-fenced grant shown above is in fact a £2.2m reduction on the prior year.

Despite the inflationary and other pressures being experienced this current year, there has been no uplift in the ELC Scottish Government ring-fenced grant to reflect this. In fact, as above, the ELC grant in fact reduced in 2022/23.

We also face the risk of further reduction as Scottish Government are reviewing the basis of ELC funding distribution going forward which may impact in 2023/24 and beyond.

The Council has discretion on how it spends any of its non-ring-fenced budgets, i.e those budgets which are funded from general grant funding, council tax etc.

That is part of the normal democratic process, and annual budget setting process, with the Council deciding its priorities and budget decisions, whether that be ELC, schools, roads, waste collection etc.

In any given year, the Council will make a number of adjustments to its budgets to reflect changes in circumstance, local priorities etc. In recent years the Council has invested significantly within roads maintenance for example, in response to community views. This has not been as a result of additional Scottish Government or other external funding, instead the Council re-prioritising its own service delivery, and making savings in some budgets to allow re-investment in others. This is not to imply that ELC funding has been re-directed into Roads, this is merely an illustration of the type of prioritisation that occurs in a range of budget changes in any given year.

Question: Why is the Council budget for ELC currently £31/32m, when we understood it had been £42/44m?

This question has been raised before by some partners and responded to. We have also responded to MSPs earlier this year, who had raised these same points on behalf of constituents.

As described above it is a statement of fact that the current budget for ELC is £31.6m in 2022/23 and only part of which represents ring-fenced Scottish Government funding.

The £40+m figure stated by some partners, is no more than a notional figure derived from historic estimates and sources, which date back to 2017/18. As the table below shows, the budget in each year for ELC has not stood at or close to the claimed £42m-£44m. As explained in other responses within this document, it is also fact that Scottish Government ring-fenced funding for ELC to Highland has never been £42m-44m.

Any adjustment to the ELC budget over time, relate to the non-ringfenced element and are decisions and actions the Council is entitled to take on what are its own funds.

The chronology of the ELC budget is set out below. Clearly showing that the budget, while it has varied, has not stood at a sum of £40+m.

All figures £'000

Year	Gross Budget	SG ELC Ring-fenced Grant	Other Income	Net Budget
2017/18	17,991	-1,074	-1,251	15,665
2018/19	19,848	-2,970	-1,565	15,313
2019/20	27,620	-13,444	-1,140	13,036
2020/21	31,383	-22,833	-411	8,140
2021/22	33,084	-25,573	-1,062	6,448
2022/23	31,599	-23,906	-889	6,804

It is correct that the Council did, some years ago, and importantly, pre-dating the rollout of 1140 hours and the allocation of Scottish Government funding for that, estimate that the all-in costs of all aspects of ELC delivery could be £42m.

These were only estimates, and part of our process to support the case to SG for ELC funding. As shown above, the budget for ELC has not been at that level.

As to why the annual budgets shown above have moved over the period shown, there are a variety of factors:-

- Increases or decreases in grant income (e.g. SG ring-fenced grant)
- Increases or decreases in earned income (e.g. parental fee income)
- Increases or decreases in staffing budgets (e.g. headcount changes and pay awards)
- Increases or decreases in other budgets (e.g. inflation and other adjustments)
- Efficiencies, savings and reductions as part of the annual budget process.

The Council has not sought to mask that the ELC budget has altered year by year. As described already in this Q&A, the Council has discretion to make such changes to its ELC budget as it sees fit, and over the course of 5-6 years has made adjustments to budgets as part of its annual budget process. This is not unusual and is part of the normal process.

The Council is also rigorously audited on an annual basis, and we also provide reports to Scottish Government regarding ELC delivery. This area of spend is therefore audited and scrutinised regularly.

Question: Various questions related to the ELC budget underspend, questions set out below.

Questions below relate to page 54, Education Committee papers 29 Sept 2022

- In 2021-22 year end budget monitoring statement for Education – ELC line is showing a predicted increase in underspend from last quarter reported underspend of £317k to £908k underspend at 31/3/22 - the narrative says this is a one off saving, but why is this not being used for increase rates for partners?
- The 2022-23 budget monitoring statement shows that the overall ELC starting budget has increased by £356k to £6,804k – and it has a year end predicted underspend of £448k.
- Can we have an explanation of 1) what has contributed to the increase in the budget - is it from SG to provide the inflationary uplift and 2) why this was not passed onto partners? The narrative admits that the underspend may be impacted due to uplift in partner rates (see below) so it is already recognised that that underspend is there for that .

In relation to the prior year 2021/22 out-turn, there are a variety of reasons for that underspend. The factors include that some Council settings only moved to 1140 provision part year, and so the Council only incurred part year staffing and other costs. This was a factor in the underspend, and also an explanation as to why the Council considers that aspect of the underspend to be non-recurring. In the current year 2022/23 the Council is of course meeting now the full year staffing and other costs in these settings.

Simply stated, a one-off and non-recurring underspend cannot be used to sustain a permanent and recurring budget uplift in any case, that would not be possible.

It has never been the case, either as a Council commitment or a requirement of Scottish Government, that any underspend on ELC need be used to uplift partner funding rates.

The reason for the increase in ELC budget in 2022/23, are not to do with Scottish Government ELC funding. The SG ring-fenced funding for ELC in fact reduced by £2.2m in year.

The change in budget reflects the various annual changes our finance team make to all service budgets, e.g. to adjust budgets for inflation, to allocate funding for staff pay award estimates, and to remove any budget linked to agreed saving targets.

The uplift in budget is not therefore linked to ELC partner rate funding.

As explained in the report to Council on 22 September, and in the meeting with Partners on 29 September, ultimately it is the current financial context for the Council which is the key consideration in relation to the Partner rate review. The ELC budget is but one part of the overall Council budget and cannot be viewed in isolation. The ELC budget figures need seen

in the context of the Council's overall finances. An overspend for the Council of £9.6m in the current year is forecast, potentially higher subject to finalised pay awards and other factors, and in turn an estimated £40.9m gap in the budget next year.

Question: Why was the interim rate of £5.43 for 21/22 not increased in line with the Budget forecast underspend for ELC?

As described above, this underspend needs to be seen in the context of an overspend across all Council activities of £9.6m. A budget gap of £40.9m is forecast for 2023/24.

It has never been the case, either as a Council commitment or a requirement of Scottish Government, that any underspend on ELC need be used to uplift partner funding rates.

Question: Why did the lunch payment go down from £3 to £2.30 in 2019/20? And why has this never been increased, when HC currently subcontract to others at £3.60?

In 2019 costs were gathered from partners which demonstrated that they were delivering meals for less than £3 per head, the funding paid was then adjusted and the decision made at that time, to reflect the meal rate to match the price paid by parents for a meal in school.

The hourly rate paid for ELC has also changed over that same time period, increasing from £4.20 in 2019 to £5.43 today.

The Council does not consider that its own internal cost of school meal provision should be viewed as a basis for the funding paid to partners. This reflection of internal Council cost may not be reflective of the cost, and options, for Partners.

The meal rate is of course only one aspect of the funding provided to ELC partners, and the Council considers that funding needs considered holistically, with the all-in package of funding to partners consisting of an hourly rate, plus a meal rate, plus a snack rate.

For context, the Scottish Government ELC overview report of August 2021, summarised the funding arrangements across Scotland at that time. That report stated that for those councils who paid a specific meal rate (not all do) it ranged from £1.77 to £3.11 per meal. Other councils included a supplement to their hourly rate for meals. There is no standard approach across Scotland.

THEME : ELC supply and demand/usage
--

Questions: a variety of questions as set out below relating to ELC facts and figures.

Data source for response: August 2022 taken from Improvement Service data return
1071 PVI
2569 LA
200 blended
Total 3840

Question: What percentage of FUNDED children attend solely LA settings?

67%

Question: What percentage of FUNDED children attend solely PVI settings (inc childminders)?

28%

Question: What percentage of FUNDED children attend a split over both?

5%

Question: How many LA settings offer full day care (0800-1800)?

30 (this fluctuates dependant on local demand and having sustainable numbers to offer extended hours)

Question: How many LA setting provide full year provision?

1

Question: Is there any LA provision for birth to 3 care for families?

Yes - LA do not operate for under 2s but 25 settings offer to 2s (dependant on capacity, environment suitability and demand)

THEME: ELC & Central LA Staffing

Question: How many EYESO roles are there currently within highland and how is the impact of roles such as these monitored? Are inspection reports used, QA visits, HT feedback?

Currently 5.2FTE EYESO posts working across Highland supporting PVI and LA settings. The impact of these roles is monitored by Area Managers feeding into Heads of Service and the Education Service Senior Leadership Team.

THEME: Partnership Working

Question: How are members of a working party selected for groups where private and partner settings are involved?

Previously volunteers were sought to be part of the working groups and these were set up based on those who volunteered their time and expertise and to be representative of the sector.

It has been challenging to get representation from childminders, in terms of their capacity and availability.

In the interests of transparency, and engagement with all in the sector, minutes of the working group meetings had been shared with all partners. A communication also went to all partners which included a biography and contact details of those partners involved in the working group, and in turn making clear the opportunity for other volunteers to come forward.

THEME: Real Living Wage

Question: Highland Council's position with respect to paying the Living Wage for ELC practitioners. Specifically, if Living Wage is not paid will the Council consider that a breach of the terms of contract. What would the Council's actions be if Living Wage not paid?

It is correct, that as per the terms of the Service Level Agreement we have with you, that payment of Real Living Wage is an expected outcome. The SLA wording states that "Settings must demonstrate they are paying the Scottish living wage to all childcare workers delivering the funded element." That in turn flows from Scottish Government guidance and expectations related to the Real Living Wage.

We know that many of our partners are already paying staff the Real Living Wage. We also are aware that some are not as yet, or may be but the impact of further uplifts to the RLW are a challenge.

The Council will engage with our partners on an ongoing basis, and through dialogue discuss with partners how RLW and other aspects of the SLA are being monitored and delivered.

The Council would not ordinarily expect to invoke formalised proceedings relating to breaches of any aspect of the SLA, with this only being a last resort and an exceptional scenario. Each situation is considered and actions agreed as part of discussion.

Through the current engagement process, the Council is engaging with partners on their financial position and what ways the Council can consider and support sustainability.

THEME: IPSOS MORI Survey

Question: When can we expect to receive the final report, not just the raw data?

Partner representatives on the working group received the Ipsos Mori data before the summer. Following the meeting with ELC partners on 29 September, the Council issued the Ipsos Mori report to all.

Question: The outcome of the survey is that the rate for 3&4 year olds to enable PVI providers in Highland region to pay their staff Scottish Living Wage is £6.72 from August 2021 and £7.25 from August 2022 as opposed to the rate of £5.43 being offered by THC.

The Council has stated that the further engagement meeting to take place on 5th October will focus on the Ipsos Mori survey, and providing the opportunity for the sector to set out its own position and views on the survey.

For that reason, a full response to the question posed is not included here. The Council would however make the following pertinent points on this subject.

The figures quoted in the question are no more than a **particular interpretation** of the Ipsos Mori survey by a partner.

There is no recommended rate in the Ipsos Mori report, nor was there intended to be. The specific rates in the question do not therefore feature in the Ipsos Mori report.

Question: It is irrelevant to quote the “national average” rate when considering the Highland rate being paid.

The national average (£5.44 per hour) came from the Scottish Government August 2021 ‘Overview’ report on ELC. The Council was simply providing context through quoting from that report.

Other Councils' Position

ELC Partner Rate		
Source: Joint ADES RN/Early Years network August 2022, supplemented by further HC research.		
	3-5 yo rate	
	2021/22	2022/23
Aberdeen City	5.45	tbc
Aberdeenshire	5.59	5.83
Angus	5.21	5.71
Argyll and Bute	5.47	5.78
City of Edinburgh	5.42	6.03
Clackmannanshire	5.42	tbc
Dumfries and Galloway	5.26	5.53
Dundee City	5.31	tbc
East Ayrshire	5.50	tbc
East Dunbartonshire	6.40	6.40
East Lothian	5.31	tbc
East Renfrewshire	5.31	tbc
Falkirk	5.55	5.92
Fife	5.31	tbc
Glasgow City	5.40	tbc
Highland	5.43	tbc
Inverclyde	5.31	tbc
Midlothian	5.31	tbc
Moray	6.30	tbc
Na h-Eileanan Siar	5.31	tbc
North Ayrshire	5.31	tbc
North Lanarkshire	5.55	tbc
Orkney Islands	No Partners	No Partners
Perth and Kinross	5.31	tbc
Renfrewshire	5.31	tbc
Scottish Borders	5.31	6.21
Shetland Islands	5.16	5.62
South Ayrshire	5.31	tbc
South Lanarkshire	5.31	tbc
Stirling	5.05	5.7
West Dunbartonshire	5.31	tbc
West Lothian	6.40	tbc
Analysis (if tbc then 21/22 rate used):		
Less than £5.43		15
£5.43 Highland		1
More than £5.43		15
No partners		1
		32

ELC Partner Rate

Ipsos Mori Survey

ELC Budget/Funding

Total Gross Budget for ELC	£31.6m
Less: Scottish Government Ring-fenced ELC grant	-£23.9m
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ELC Budget/Funding


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2021/22	33,084	-25,573	-1,062	6,448
2022/23	31,599	-23,906	-889	6,804

Ipsos-Mori Introduction

- Purpose: To provide an overview of the Ipsos Mori Survey from a Council perspective.
- The Ipsos Mori survey output (Excel data tables) and Technical Note were circulated to partners on 30th September.




Background

- The survey was commissioned by the Improvement Service on behalf of LAs.
 - Ipsos Mori did a national survey of ELC partners during Q1 of 2022.
 - The survey output was provided to Local Authorities in May 2022.
 - The survey output was shared with our Partner representatives on the Working Group.
- 




Background

- The aim of the survey was *“to produce up to date estimates of the actual costs to providers of providing an hour of ELC”*.
 - Highland had a positive response rate of 60% plus.
 - The survey results exclude childminders who were surveyed separately.
- 




Background

- Ipsos Mori survey output **makes no recommendation** on the rate to partners. Nor was it intended to.
 - The survey “is to **inform** planning, modelling and discussions about rate-setting.” (*I-M Tech Note*)
 - “**nor do we include a recommendation** on what level of rate to be used.” (*I-M Tech Note*)
 - “the outputs of the national cost collection exercise **are only a part** of the rate setting process.” (*SG FFtC guidance May 2022*)
- 



Survey Content

- Range of data tables, on costs per hour, components of cost per hour, and supplementary info on pay, fees, income, etc.
 - Presented anonymously to protect confidentiality.
 - Most data presented at Highland level.
 - RIC (regional) level data included, either in addition to or instead of Highland data.
- 

Limitations

- Ipsos Mori technical note states “key limitations and issues for interpretation” with survey data.
 - Response rate and impact on data (albeit Highland response rate was good)
 - Missing, outlier and incorrect estimates, and Ipsos Mori ‘data cleaning’.
 - Seasonality – no adjustment made for this.
 - Up to date estimates of cost – the source data partners used varied, and may not be current.
 - Inflation etc – survey reflects current not future costs.

The Data Tables – Cost per Hour

Total costs per hour of ELC provided to 0-5s - quartiles by area

		Percentile 20	Median	Percentile 80	Sample size
LA	Highland	£ 2.99	£ 4.42	£ 5.88	30

- Above table typical of the format presented.
- This table is the overall cost per hour table.

The Data Tables – Cost per Hour

Total costs per hour of ELC provided to 0-5s - quartiles by area					
		Percentile		Percentile	Sample
		20	Median	80	size
LA	Highland	£ 2.99	£ 4.42	£ 5.88	30



Mid-Point

The Data Tables – Cost per Hour

Total costs per hour of ELC provided to 0-5s - quartiles by area					
		Percentile		Percentile	Sample
		20	Median	80	size
LA	Highland	£ 2.99	£ 4.42	£ 5.88	30



Mid-Point



The Data Tables – Cost per Hour

Total costs per hour of ELC provided to 0-5s - quartiles by area					
		Percentile		Percentile	Sample size
		20	Median	80	
LA	Highland	£ 2.99	£ 4.42	£ 5.88	30

↑
Mid-Point

So..... 15 responses higher than £4.42
...and 15 responses lower than £4.42

The Data Tables – Cost per Hour

Total costs per hour of ELC provided to 0-5s - quartiles by area					
		Percentile		Percentile	Sample size
		20	Median	80	size
LA	Highland	£ 2.99	£ 4.42	£ 5.88	30



Some are delivering at a lower cost per hour

The Data Tables – Cost per Hour

Total costs per hour of ELC provided to 0-5s - quartiles by area					
		Percentile		Percentile	Sample size
		20	Median	80	
LA	Highland	£ 2.99	£ 4.42	£ 5.88	30



Some are delivering at a higher cost per hour

The Data Tables – Cost per Hour

Total costs per hour of ELC provided to 0-5s - quartiles by area					
		Percentile		Percentile	Sample size
		20	Median	80	
LA	Highland	£ 2.99	£ 4.42	£ 5.88	30



The sample size means there are a range of costs (and possible interpretations).



Partner Perspective

- Questions
- Hand over to Partners for their views on Ipsos – Mori survey




Council Response

- Further slides to respond to Partner view on Ipsos Mori survey
- HC analysis and critique of the Partner position






Partner Submission

- Council perspective on partner correspondence relating to a claim for £7.39 per hour for August 2022.
- 



Critiquing the Rate Proposed by Partner

- Highland understands the method used.
 - Some aspects flow from the Ipsos Mori survey data, but some do not and are assumptions.
 - The Council takes a different view on the baseline starting point, the assumptions made, and the various additions to uplift the figure.
 - The Ipsos Mori data can be interpreted different ways.
- 

The Data Tables – Cost per Hour

Total costs per hour of ELC provided to 0-5s - quartiles by area					
		Percentile		Percentile	Sample size
		20	Median	80	
LA	Highland	£ 2.99	£ 4.42	£ 5.88	30

£5.65



The derived '72.5 percentile' cost per hour that a partner has promoted as the baseline cost to use.

The Data Tables – Cost per Hour

Total costs per hour of ELC provided to 0-5s - quartiles by area					
		Percentile		Percentile	Sample size
		20	Median	80	
LA	Highland	£ 2.99	£ 4.42	£ 5.88	30

£5.65



Partner case for this rate as a starting point, linked to estimated cost of paying the RLW.

Building the Rate – Partner View

Baseline cost per hour (partner estimate)	£5.65
Add: Seasonality adjustment (partner estimate)	£0.57
Add: Real Living Wage September 2022 uplift (partner estimate)	£0.62
Add: Margin/re-investment 8% (partner estimate)	£0.55
Rate Proposed by Partner for August 2022	£7.39

Critiquing the Rate Proposed by Partner

- £7.39 per hour is **36%** increase on the £5.43 rate.
- Compared to the partner cost data in the Ipsos Mori survey:-
 - **247%** increase on the cost of £2.99 per hour
 - **167%** increase on the median cost of £4.42 per hour.
 - Median is mid-point of a survey sample size of 30 i.e. **half of partners** would see an increase against their surveyed costs of **167%-247%**.
 - Bears no correlation to cost of delivery and current pay and inflationary cost pressures.

Critiquing the Rate Proposed by Partner

Baseline cost per hour (partner estimate)	£5.65
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- Is evidently at the upper end of costs in the I-M survey.
- Is near twice the hourly cost of some partners.
- The figure is derived from an assumed cost over 40 hours per week, for 52 weeks. Some partners operate less.
- The baseline is the cost for 0-5 year olds, but is proposed as a baseline rate for 3-5 year olds. Thereby over-stating the rate.

Critiquing the Rate Proposed by Partner

Baseline cost per hour (partner estimate)	£5.65
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- The figure supposes this is the minimum baseline for partners to allow them to pay the Real Living Wage.
- But the survey tells as circa 50% partners are paying the RLW at present, based on current funding.
- Even for those who don't pay RLW, the majority are within circa 10% of that figure i.e. not far below.

Critiquing the Rate Proposed by Partner

Add: Seasonality adjustment (partner estimate)	£0.57
--	-------

- No data in survey making the case, nor implying a cost of seasonality.
- This figure is an estimate and has no origin in the Ipsos Mori data output.
- Partner position acknowledges seasonality not a universal issue.
- Non-term time (holiday) provision - choice to operate and the sustainability of that is a partner matter.

Critiquing the Rate Proposed by Partner

Add: Real Living Wage September 2022 uplift (partner estimate)	£0.62
--	-------

- This is the recent increase to £10.90 per hour.
- RLW foundation requires accredited employers to pay no later than May 2023.
- For HC this would apply to staff pay effective 1 April 2023
- This is not a factor for an August 2022 rate.
- This uplift has been applied to 100% of partner costs, when only circa 75% relates to their wage bill.

Critiquing the Rate Proposed by Partner

Add: Margin/re-investment 8% (partner estimate)	£0.55
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- This figure is an estimate and has no origin in the Ipsos Mori data output.
- It is intended to reflect scope for partners to 're-invest in their setting'.
- Analysis of partner annual accounts shows a generally healthy level of profit/surplus and reserves held, which may question the need for such an additional uplift.

Points to Consider



- Is a universal rate appropriate for Highland?
- Many partners already pay RLW.
- Childminders to consider also (separate survey).
- A package of funding – hourly rate only one part.
- Partner financial accounts and what they show.
- Sustainability – HC funding is only one part.
- A 'sustainable' versus a 'fair' rate.
- Council affordability and financial outlook.



Partner Financial Position




Partner Financial Position

- SLA requires ELC partners to submit financial accounts.
 - The requirement not unique to ELC partners.
 - Council has an obligation to demonstrate Best Value and governance of public funds.
 - Not all financial accounts in the public domain.
 - Only highly summarised information set out.
- 
- 




Partner Financial Position

- 17 sets of Partner Financial Accounts.
 - Being c60+% of partner providers (excl CMs).
 - Covers most recent accounts - '20, '21 or 2022.
 - Across all 17, a surplus or profit in the year.
 - On average, the surplus/profit was 18%.
 - Combined surplus/profit across 17 was £1.8m.
- 



Partner Financial Position

- Average level of reserves* held £243,000.
 - Combined reserves* across the 17 was £3.6m.
 - The average ratio of reserves* held 43%.
 - No set of accounts included any adverse Auditor comment regarding the Going Concern status of the organisation.
- 

*(*unrestricted reserves, where stated)*



Sustainable Rate Setting

- Does need be affordable and sustainable to the Council.
- SG guidance specifically states a point to consider is that "*...the rate does not have a detrimental effect on the Local Authority's ability to continue to pay for the service in the long-term.*"





Other Councils

- Point in time analysis August 2022, updated for known recent decisions in other Councils.
- SG is surveying Councils, updated position due later this year.

Less than £5.43	15
£5.43 Highland	1
More than £5.43	15
No partners	1
Total	32

Current rate used where 'tbc' or 'not available' from other Local Authorities







Other Councils



Next Steps

- Ongoing engagement with the Sector
 - Report to October Council
 - ELC Redesign
 - Sustainability considerations and options.
- 
- 

End



Index & Commentary

Author: Chris Martin
Date: 10th May
Version: V3D1_Highland

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Cost 23 Average salary costs of FT early years practitioner - deciles by RIC/LA etc.

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Expectations 3 Expectations of utility cost inflation

Expectations 4 Expectations of premises cost inflation

Expectations 5 Expectations of other cost inflation

Expectations 6 Expectations of level of fee increases

Context 1 – Sample Sizes

RIC by sector

	Not-for-profit/ Vol/Soc Econ	Private provider	Total
Northern Alliance	58	50	108

RIC by number of registered places banded

	Up to 30	31 to 50	51+	Total
Northern Alliance	45	38	25	108

LA by sector

	Not-for-profit/ Vol/Soc Econ	Private provider	Total
Highland	15	15	30

**LA by number of
registered places
banded.**

	Up to 30	31 to 50	51+	Total
Highland	17	8	5	30

Context 2 – Places for Elig 2YOs

QB3 - Do you currently provide any government or council funded early learning and childcare places for eligible 2 year-olds?

		Yes	No	Don't know	Sample size
RIC	Northern Alliance	51%	48%	1%	108
LA	Highland	63%	33%	3%	30

Context 3 – places for elig 3-5s

QB3 - Do you currently provide any government or council funded early learning and childcare places for eligible 3-5year-olds?

		Yes	No	Sample size
RIC	Northern Alliance	95%	5%	108
LA	Highland	100%	0%	30

Context 4 – Pct of hours on 0-1s**Proportion of total childcare hours provided to 0-1 year-olds**

		Mean	Median	Standard Deviation	Sample size
RIC	Northern Alliance	9%	0%	16%	108
LA	Highland	12%	0%	25%	30

Context 5 – Pct of hours on 2s**Proportion of total childcare hours provided to 2 year-olds**

		Mean	Median	Standard Deviation	Sample size
RIC	Northern Alliance	16%	15%	18%	108
LA	Highland	15%	7%	16%	30

Context 6 – Pct of hours on 3-5s**Proportion of total childcare hours provided to 3-5 year-olds**

		Mean	Median	Standard Deviation	Sample size
RIC	Northern Alliance	75%	80%	26%	108
LA	Highland	74%	72%	29%	30

Costs 1 – Total costs ph

Average total costs per hour of ELC provided to 0-5s

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£4.57	£5.19	£2.76	108
LA	Highland	£4.42	£5.10	£2.95	30

Costs 2 – Total cost q'tiles

Total costs per hour of ELC provided to 0-5s - quartiles by area

		Percentile 10	Percentile 20	Percentile 30	Percentile 40	Median	Percentile 60	Percentile 70	Percentile 80	Percentile 90	Sample size	
	RIC	Northern Alliance	£2.72	£3.36	£3.83	£4.23	£4.57	£4.97	£5.50	£6.11	£8.08	108
	LA	Highland	*	£2.99	*	*	£4.42	*	*	£5.88	*	30
Northern Alliance	Registered places banded	Up to 30	£3.07	£3.76	£4.15	£4.48	£4.87	£5.05	£5.51	£6.09	£7.60	45
		31 to 50	*	£3.09	*	*	£4.08	*	*	£5.84	*	38
		51+	*	£3.50	*	*	£4.94	*	*	£7.03	*	25
	Sector	Not-for-profit/Voluntary/Social Economy	£3.50	£3.78	£4.07	£4.29	£4.76	£4.99	£5.50	£6.11	£7.26	58
		Private provider	£2.58	£2.85	£3.26	£4.14	£4.42	£4.96	£5.41	£6.12	£9.83	50

Costs 3 – Staff costs ph

Average staff cost per hour of ELC provided.

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£3.59	£3.92	£1.95	108
LA	Highland	£3.29	£3.70	£1.69	30

Costs 4 – Staff q’tiles

Staff costs per childcare hour quartiles

		Percentile 10	Percentile 20	Percentile 30	Percentile 40	Median	Percentile 60	Percentile 70	Percentile 80	Percentile 90	Sample size		
Northern Alliance	RIC	Northern Alliance	£2.00	£2.48	£3.04	£3.29	£3.59	£3.83	£4.22	£5.03	£6.12	108	
	LA	Highland	*	£2.31	*	*	£3.29	*	*	£4.78	*	30	
	Registered places banded	Up to 30		£2.44	£2.79	£3.19	£3.50	£3.74	£3.98	£4.28	£5.07	£5.88	45
		31 to 50		*	£2.28	*	*	£3.19	*	*	£4.90	*	38
		51+		*	£3.11	*	*	£3.69	*	*	£5.59	*	25
	Sector	Not-for-profit/ Voluntary/ Social Economy		£2.48	£2.98	£3.19	£3.51	£3.81	£4.02	£4.59	£5.15	£5.92	58
		Private provider		£1.77	£2.13	£2.44	£3.17	£3.33	£3.60	£3.78	£4.72	£6.34	50

Costs 5 – Rent mortgage ph

Average Rental/mortgage costs per hour of ELC provided

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.19	£0.29	£0.36	108
LA	Highland	£0.17	£0.33	£0.51	30

Costs 6 – Rent mortgage q'tiles

Rent/mortgage costs per childcare hour

		Percentile 10	Percentile 20	Percentile 30	Percentile 40	Median	Percentile 60	Percentile 70	Percentile 80	Percentile 90	Sample size		
Northern Alliance	RIC	Northern Alliance	£0.00	£0.00	£0.02	£0.11	£0.19	£0.24	£0.36	£0.50	£0.71	108	
	LA	Highland	*	£0.00	*	*	£0.17	*	*	£0.46	*	30	
	Registered places banded	Up to 30		£0.00	£0.00	£0.02	£0.14	£0.22	£0.24	£0.43	£0.57	£0.71	45
		31 to 50		*	£0.00	*	*	£0.16	*	*	£0.38	*	38
		51+		*	£0.00	*	*	£0.13	*	*	£0.67	*	25
	Sector	Not-for-profit/Voluntary/Social Economy		£0.00	£0.00	£0.00	£0.10	£0.20	£0.24	£0.37	£0.50	£0.71	58
Private provider			£0.00	£0.00	£0.08	£0.11	£0.19	£0.23	£0.34	£0.51	£0.72	50	

Costs 7 – Utilities ph

Average Utilities costs per hour of ELC provided

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.07	£0.10	£0.11	108
LA	Highland	£0.07	£0.10	£0.11	30

Costs 8 – Utilities q'tiles

Utilities costs per childcare hour

		Percentile 10	Percentile 20	Percentile 30	Percentile 40	Median	Percentile 60	Percentile 70	Percentile 80	Percentile 90	Sample size
RIC	Northern Alliance	£0.01	£0.02	£0.03	£0.06	£0.07	£0.09	£0.11	£0.14	£0.24	108
LA	Highland	*	£0.02	*	*	£0.07	*	*	£0.17	*	30

Costs 9 – consumables ph

Average Consumables costs per hour of ELC provided

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.11	£0.16	£0.21	108
LA	Highland	£0.14	£0.19	£0.26	30

Costs 10 – Consumables q'tiles

Consumables costs per childcare hour

		Percentile 10	Percentile 20	Percentile 30	Percentile 40	Median	Percentile 60	Percentile 70	Percentile 80	Percentile 90	Sample size
RIC	Northern Alliance	£0.03	£0.05	£0.07	£0.09	£0.11	£0.13	£0.17	£0.20	£0.28	108
LA	Highland	*	£0.05	*	*	£0.14	*	*	£0.22	*	30

Costs 11 – Ext Catering

Spend on external catering costs per hour of childcare given

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.00	£0.02	£0.08	108
LA	Highland	£0.00	£0.01	£0.04	30

Costs 12 – P&L equip ph

Average Play and learning equipment costs per hour of ELC provided

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.08	£0.14	£0.24	108
LA	Highland	£0.07	£0.11	£0.12	30

Costs 13 – P&L Services ph

Average Play and learning activities costs per hour of ELC provided

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.00	£0.02	£0.03	108
LA	Highland	£0.01	£0.02	£0.03	30

Costs 14 – Training ph

Average staff training costs per hour of ELC provided

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.02	£0.04	£0.06	108
LA	Highland	£0.02	£0.04	£0.06	30

Costs 15 – ICT Equipment ph

Average ICT and offices supplies costs per hour of ELC provided

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.04	£0.05	£0.05	108
LA	Highland	£0.03	£0.06	£0.07	30

Costs 16 – Transport ph

Average Transport costs per hour of ELC provided

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.00	£0.02	£0.05	108
LA	Highland	£0.01	£0.03	£0.05	30

Costs 17 – Maintenance ph

Average building maintenance costs per hour of ELC provided

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.04	£0.16	£0.45	108
LA	Highland	£0.05	£0.13	£0.17	30

Costs 18 – Build Serv ph

Average building services costs per hour of ELC provided

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.01	£0.05	£0.22	108
LA	Highland	£0.00	£0.02	£0.04	30

Costs 19 – Business Rates

Average business rates costs per hour of ELC provided

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.00	£0.02	£0.10	108
LA	Highland	£0.00	£0.00	£0.00	30

Costs 20 – Other taxes

Average other tax costs per hour of ELC provided

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.00	£0.07	£0.19	108
LA	Highland	£0.00	£0.12	£0.28	30

Costs 21 – Other Costs

		Median	Mean	Standard Deviation	Sample size
RIC	Northern Alliance	£0.07	£0.14	£0.22	108
LA	Highland	£0.13	£0.24	£0.33	30

Costs 22 – Average salary

Average salary costs of different types of employee

		Full-time manager			Part-time manager			Full-time EY supervisor			Part-time EY supervisor			
		Median	Mean	Valid N	Median	Mean	Valid N	Median	Mean	Valid N	Median	Mean	Valid N	
Northern Alliance	RIC	Northern Alliance	£29,000	£36,103	59	£21,632	£22,766	43	£20,930	£22,015	54	£18,329	£18,946	22
	LA	Highland	£28,031	£28,243	16	£22,527	£22,880	12	£18,496	£19,702	19	*	*	5
	Registered places banded	Up to 30	£25,831	£26,991	16	£21,500	£21,328	25	£18,496	£19,765	12	£17,222	£15,728	10
		31 to 50	£25,662	£26,897	23	£23,120	£24,581	15	£22,211	£22,625	20	£22,400	£21,685	11
		51+	£32,869	£53,979	20	*	*	3	£21,000	£22,688	22	*	*	1
	Sector	Not-for-profit/ Voluntary/Social Economy	£27,540	£30,621	21	£21,934	£21,611	34	£20,606	£21,694	20	£17,913	£18,467	16
Private provider		£29,060	£39,132	38	*	*	9	£20,965	£22,204	34	*	*	6	

		Full-time EY practitioner			Part-time EY practitioner			Trainee			
		Median	Mean	Valid N	Median	Mean	Valid N	Median	Mean	Valid N	
Northern Alliance	RIC	Northern Alliance	£18,746	£19,237	70	£14,592	£14,153	34	£13,416	£13,254	29
	LA	Highland	£16,613	£17,336	24	*	*	6	*	*	6
Northern Alliance	Registered places banded	Up to 30	£16,288	£18,496	19	£12,850	£12,966	23	*	*	5
		31 to 50	£18,810	£19,276	26	£15,798	£16,635	11	*	*	8
		51+	£19,437	£19,761	25	.	.	0	£13,650	£13,784	16
	Sector	Not-for-profit/ Voluntary/Social Economy	£18,878	£18,740	26	£14,592	£13,746	28	*	*	9
		Private provider	£18,746	£19,531	44	*	*	6	£13,455	£13,331	20

Costs 23 – EY practitioner Sal

Average salary costs of Full-time Early Years Practitioners, deciles

		Percentile 10	Percentile 20	Percentile 30	Percentile 40	Median	Percentile 60	Percentile 70	Percentile 80	Percentile 90	Sample size		
Northern Alliance	RIC	Northern Alliance	£15,654	£16,288	£17,225	£18,441	£18,746	£19,760	£20,453	£21,034	£22,650	70	
	LA	Highland	*	£15,881	*	*	£16,613	*	*	£18,746	*	24	
	Registered places banded	Up to 30	*	*	*	*	£16,288	*	*	*	*	*	19
		31 to 50	*	£17,000	*	*	£18,810	*	*	£20,592	*	*	26
		51+	*	£18,009	*	*	£19,437	*	*	£21,552	*	*	25
	Sector	Not-for-profit/ Voluntary/Social Economy	*	£16,288	*	*	£18,878	*	*	£20,592	*	*	26
Private provider		£15,600	£16,325	£18,000	£18,500	£18,746	£19,570	£20,423	£21,265	£22,800	44		

Fees 1 – Fees 4YO

Average fee per hour 4 year-olds

		Mean	Median	Standard Deviation	Sample size
RIC	Northern Alliance	£4.62	£4.85	£1.81	108
LA	Highland	£4.68	£5.05	£1.50	30

Fees 2 – Fees 3 YRs

Average fee per hour 3 year-olds

		Mean	Median	Standard Deviation	Sample size
RIC	Northern Alliance	£4.63	£4.87	£1.81	108
LA	Highland	£4.68	£5.05	£1.50	30

Fees 3 – Fees 2YRs

Average fee per hour 2 year-olds

		Mean	Median	Standard Deviation	Sample size
RIC	Northern Alliance	£4.65	£4.87	£1.83	108
LA	Highland	£4.79	£5.16	£1.55	30

I1 – annual income from parents

QE4a - Total ANNUAL income from fees and additional charges paid by parents

		Mean	Median	Standard Deviation	Sample size
RIC	Northern Alliance	£109,029	£19,320	£203,254	87
LA	Highland	£39,709	£10,424	£52,491	21

I2 – annual income from Govt

QE4a - Total ANNUAL income from fees and additional charges paid by parents

		Mean	Median	Standard Deviation	Sample size
RIC	Northern Alliance	£109,029	£19,320	£203,254	87
LA	Highland	£39,709	£10,424	£52,491	21

I3 - pct at Living wage

QG1 Proportion of staff paid under the Living Wage

	Northern Alliance
None, less than 1% of Staff	53
Up to 10% of staff	3
10 to 20%	8
20 to 30%	3
30 to 40%	8
40 to 50%	3
50 to 60%	4
60 to 70%	5
70 to 80%	8
80 to 90%	9
90% or above	2
Sample size	106

I1 – Avg wage of below LW staff

QG2 Average staff salary of staff paid under the Living Wage

Mean and Median

		Mean	Median	Standard Deviation	Valid N
	Northern Alliance	£8.96	£9.30	£0.86	53

Banded	Northern Alliance
Up to £6	1
£6-£7	3
£7-£8	3
£8-£9	14
£9 to £9.89	32
Total	53

Expectations 1 – change in size

QH1 Expectations of what will happen in next year.

		Expand (cater for more children or provide more hours of childcare in total)	Stay the same size	Get smaller (cater for fewer children or fewer hours of childcare in total)	Close down altogether	Don't know	Sample size
RIC	Northern Alliance	19%	62%	11%	0%	8%	108
LA	Highland	23%	67%	7%	0%	3%	30

Expect 2 – staff cost inflation

QH2a - "In the next year, how much do you expect Staff costs to rise? (Inflation is currently around 5%)"

		A lot less than inflation	A little less than inflation	Around inflation	A little more than inflation	A lot more than inflation	Don't know	Sample size
RIC	Northern Alliance	4%	14%	26%	28%	25%	4%	108
LA	Highland	7%	37%	7%	20%	30%	0%	30

Expect 3 – Utility Inflation

QH2a - "In the next year, how much do you expect Staff costs to rise? (Inflation is currently around 5%)"

		A lot less than inflation	A little less than inflation	Around inflation	A little more than inflation	A lot more than inflation	Don't know	Sample size
RIC	Northern Alliance	4%	14%	26%	28%	25%	4%	108
LA	Highland	7%	37%	7%	20%	30%	0%	30

Expect 4 – Premises Inflation

QH2c "In the next year, how much do you expect Costs of premises to rise? (Inflation is currently around 5%)"

		A lot less than inflation	A little less than inflation	Around inflation	A little more than inflation	A lot more than inflation	Don't know	Sample size
RIC	Northern Alliance	2%	2%	42%	18%	19%	18%	108
LA	Highland	0%	3%	40%	27%	17%	13%	30

Expect 5 – Other cost inflation

QH2d - "In the next year, how much do you expect Other costs to rise? (Inflation is currently around 5%)"

		A lot less than inflation	A little less than inflation	Around inflation	A little more than inflation	A lot more than inflation	Don't know	Sample size
RIC	Northern Alliance	1%	0%	31%	19%	45%	4%	108
LA	Highland	0%	0%	37%	20%	43%	0%	30

Expect 6 – Fee inflation

QH3 "Finally, the next year, how much do you expect the fees your charge to parents to increase? (Inflation is currently around 5%)"

		No increase	An increase of less than inflation	An increase in line with inflation	An increase of little more than inflation	An increase of much more than inflation	Don't know	Sample size
RIC	Northern Alliance	11%	19%	41%	5%	14%	11%	37
LA	Highland	*	*	*	*	*	*	9

E: alison.cumming@gov.scot

26 May 2022

Dear Colleague,

EARLY LEARNING AND CHILDCARE – SPECIFIC REVENUE GRANT ALLOCATIONS FOR 2022-23

1. Delivering high quality early learning and childcare (ELC) and education for our children remains an absolute priority for the Scottish Government and we are very grateful for the work undertaken by local authorities and the wider ELC sector to make such a success of the 1140 expansion programme to date. I know that the sector continues to work extremely hard to embed the new offer and strengthen partnership working. We are very grateful to staff for their dedication, particularly in dealing with the challenges of the pandemic.
2. Following the publication of the draft Scottish Budget on Thursday 9 December 2021, and the subsequent passage of the 2022-23 Scottish Budget Bill, I am writing to confirm the Early Learning and Childcare (ELC) Specific Revenue Grant allocations for 2022-23. This letter follows on from the 'Multi-Year Revenue and Capital Allocations' letter dated 1 May 2018 and the 'Flexibility in Local Authority Use of Education and Early Learning and Childcare Funding to Support Pandemic Response' letter dated 15 May 2020. This letter sets out the joint priorities that we have agreed with CoSLA and defines how we will monitor impact for this coming year.
3. We are transitioning into a new stage in the delivery of the 1140 expansion programme, moving beyond the multi-year funding agreement and into a steadier state of embedding and improving services. As previously agreed, 2022-23 represents an interim year for ELC funding. The ELC Specific Revenue Grant will remain ring-fenced in the next financial year while we work together to agree the annual quantum for 2023-24 onwards, taking into account changing costs and population figures.
4. As part of that process we want to work collaboratively on the development of a shared outcomes and measurement framework for funded ELC for future years. This would principally aim to: create a shared understanding of the outcomes being achieved for funded ELC; articulate these within the context of the wider National Outcomes set out

within the Scottish Government's National Performance Framework; and, provide evidence to support service delivery both nationally and locally, ensuring best use of public funds and supporting local and national accountability.

5. The ELC Finance Working Group has been crucial in work so far to consider future funding models for ELC and will continue be a central part of discussions.

Revenue allocations

6. In 2022-23 the Scottish Government will provide £530.96 million of funding to Local Authorities through the ELC Specific Revenue Grant, this includes an allocation of £8.9 million for the 10 Local Authorities participating in the 2022-23 Deferral Pilot Programme. This ring-fenced funding is in addition to the £475 million core ELC funding provided through the General Revenue Grant (GRG), bringing total Scottish Government investment in ELC services to £1.006 billion.
7. The number of eligible children is one of the primary determinants of the level of ELC funding and work through the Finance Working Group to review the 2021-22 funding settlement and number of eligible children prompted the Scottish Government's decision to re-base the 2022-23 settlement. Calculations based on recent population estimates show that there are fewer children eligible for funded ELC now than was originally anticipated when the multi-year funding agreement was reached in 2018. The data shows there are 7.5% or 8,500 fewer 3 and 4 year olds eligible for the universal offer than was projected in 2018. We will continue to work together to understand how the modelled changes in eligible population at national and local authority level feed through and are reflected in changes 'on the ground', through evidence provided by local authorities.
8. The settlement took account of the changing eligible population, as well as including uplifts to meet inflationary pressures and the direct costs of responding to COVID. The revised data and modelling by Scottish Government estimated that there was capacity of at least £30 million within the ELC budget after taking account of inflation and COVID costs, although the final settlement retains £15 million of this to support progression of the priority areas outlined below.
9. The 2022-23 allocation also begins to implement the new needs-based distribution methodology agreed by Scottish Ministers and CoSLA Leaders. This is designed to ensure the allocation of resources to local authorities more accurately reflects changes and local variation in the ELC population and measures of deprivation and rurality. The first phase of this methodology is applied from April 2022 and, as with any other change, we will continue to engage with CoSLA and Local Authority partners to ensure the subsequent phases can be implemented in a sustainable manner.
10. The Scottish Government is clear that the total ELC settlement provides sufficient funding to local authorities to continue to deliver high quality 1140 provision in line with the interim National Standard guidance and capacity to implement the priorities for the programme in 2022-23 that are set out in **Annex A**, recognising that local circumstances vary across the country and that COVID has impacted Scotland's regions in different ways. Authority-level allocations for 2022-23 and funding allocated for the deferral pilots are detailed at **Annex B**.

Reporting

11. Local authorities should continue to deliver high quality funded ELC in line with their statutory duties and which supports good outcomes for children and families. On the three policy priorities set out at Annex A, Scottish Government will seek the following from Local Government with regards to reporting the activities that contribute to these priority aims and activities funded through the flexibility set out in that Annex:
- Confirmation from each local authority that any funding used in this regard meets the guidelines set out; and,
 - Collaboration on the development of an appropriate outcomes measurement framework that incorporates relevant data and intelligence.

Delivery support

12. We are aware that, as with every funding decision, the impacts of the funding settlement will vary across local authorities and the way in which each council meets the priorities outlined here will vary depending on their specific needs and circumstances.
13. The Scottish Government's Early Learning and Childcare Team are available to answer questions about the content of this letter and provide support around specific queries related to ELC delivery. The SG team can be contacted directly via the central mailbox ELCDeliverySupport@gov.scot



ALISON CUMMING
Director, Early Learning & Childcare

ANNEX A - PRIORITIES AND OUTCOMES FOR 2022-23

1. The primary objective of the Specific Grant funding remains to provide high quality early learning and childcare experiences to children eligible for 1140 hours, in accordance with Funding Follows the Child and the associated National Standard. The Scottish Government will shortly publish guidance for 2022-23 on implementation of the National Standard.
2. [Funding Follows the Child](#) is the long-term policy framework that supports the delivery of funded ELC, and has been agreed by both the Scottish Government and CoSLA. Reflecting the impact of the pandemic, providers are currently subject to [Interim Guidance](#), which was published in March 2021. The guidance provides for a number of flexibilities where the impact of the pandemic may have prevented services or authorities from being able to demonstrate delivery against aspects of the National Standard.
3. Interim Guidance will remain in place for 2022/23 with minor changes and we will work towards full implementation of Funding Follows the Child and the National Standard in August 2023, with a further review point in late 2022. The Scottish Government and CoSLA will review progress with local authorities and the sector again in late 2022 and publish updated guidance in spring 2023 confirming requirements from August 2023.
4. The Scottish Government and CoSLA have agreed that in addition to providing funded ELC in line with their statutory duties and Funding Follows the Child, Councils may use the Specific Grant flexibly to ensure that the policy goals of the expansion are achieved, as set below.
5. In identifying joint priorities for 2022-23 we have agreed that these objectives should:
 - **Be deliverable**; the measures should be achievable and represent actions that Local Authorities and ELC settings across the country are able to carry out
 - **Be measurable**; we will be able to define metrics and light-touch reporting mechanisms to monitor and assess impact
 - **Recognise local variation**; the measures will take into account varying local circumstances across the country to ensure that measures taken align with evidenced local need.
6. The following three specific policy priorities for 2022-23 have been jointly identified to meet these objectives.

A. Increasing uptake of targeted ELC

7. Uptake of universal funded ELC is high, with the 2021 ELC Census showing 84,574 children aged 3-5 accessing funded ELC. Data collected from local authorities by the Improvement Service and published in February 2022 shows that 88% of children are accessing their full 1140 entitlement. Local Authorities' efforts to increase uptake of universal ELC and to develop local 1140 offers that meet local needs are recognised and appreciated.
8. While some local authorities have met or exceeded their projected uptake for the eligible 2 year old cohort, nationally, this has not been as high as projected at the time of the previous multi-year agreement. As published in the 2021 ELC Census in December 2021¹, there were 6,474 registrations for funded ELC for 2 year olds, representing an

¹ [Chapter 5: Early Learning and Childcare - Summary Statistics For Schools In Scotland 2021 - gov.scot \(www.gov.scot\)](#)

increase to 13% of the total population of two-year olds from 9% in 2020. Delivery progress reports indicate the percentage of 2 year olds accessing funded ELC who were taking up the full funded entitlement of 1140 hours has also increased and was 5.5% higher in February 2022² than in August 2021.³

9. We therefore:

- i. Ask that Local Authorities do further work with eligible families, parents and carers to maximise uptake through a range of local and nationally agreed actions, including consideration of the use of discretionary powers to provide access to families in need of particular support.
- ii. Recognise that provision of hours of funded ELC may not be the most appropriate support for all children and families, particularly for families who experience the most disadvantage and have been disproportionately impacted during the pandemic. Where there are other approaches that support children and families to realise the high level benefits of the expansion (improved child development, increased family wellbeing, more opportunities for parents to work or study), funding may be used flexibly to deliver these.
- iii. Commit to measuring progress against this priority through monitoring levels of uptake in the Scottish Government Early Learning and Childcare Census, with the aim of raising uptake across all eligible groups.

B. Mitigating the impact of COVID

10. We know that COVID has had significant impacts, particularly for some young children and their families. Early indicators suggest that there have been impacts on young children's development in a number of areas: speech and language, communication, problem solving and social skills, and on family resilience, parental mental health, parent child relationships, and families' social support. Over the course of the pandemic, significant development concerns have arisen around speech and language in particular.

11. Children's early language, speech and communication skills make an important contribution to their learning, wellbeing and lifelong learning, and this issue will therefore be a priority for collective action. In addition, survey evidence shows that a significant proportion of children and families have experienced bereavement of a close relative or family friend.⁴ Early childhood interventions, including high quality ELC, can and will help to mitigate these impacts and support recovery for children and families.

12. We therefore agree that:

- A. Local Authorities may use funding flexibly to develop and implement interventions to mitigate the impact of COVID on children receiving funded ELC, particularly for those most adversely affected;
- B. Scottish and Local Government officials will work together to identify where Quality Improvement can be used to support ELC practitioners working in both Local Authority and funded providers, and share practice on interventions that seek to address COVID impacts.
- C. The impacts of COVID identified, for which funding may be used flexibly to support children eligible for funded ELC could include (but are not be limited to):
 - Supporting speech, language and communication interventions

² [Early Learning and Childcare Expansion Delivery Progress Report, February 2022](#)

³ [Early Learning and Childcare Expansion Delivery Progress Report, September 2021](#)

⁴ [COVID-19 Early Years Resilience and Impact Survey \(CEYRIS\) report - 25 January 2022](#)

- Supporting practitioners to identify and understand the impacts the pandemic has had on the mental and physical health of the children using ELC services.
- Supporting parents to identify, understand and respond to these impacts.
- Supporting children and families on addressing bereavement
- Supporting children's personal, social and emotional development.
- Supporting family learning and play
- Supporting infant/parental mental health and linking to support on other issues.
- Supporting efforts to address child poverty through collaboration with or signposting of employability and financial support services.

C. Ensuring sustainable rates

13. The average rate paid by local authorities to providers in the private and third sector to deliver an hour of funded ELC to 3-5 year olds has increased from £3.68 per hour in 2017-18 to £5.44 per hour in 2021-22, an increase of 48 per cent. In August 2021 the Scottish Government published the 2021-22 Sustainable Rates data collection report. The report showed that more than half of local authorities (19 out of the 30 who had confirmed rates for 2021-22 at the time of the report) did not increase their hourly rate for services delivering funded ELC in 2021-22. In some areas, this is due to a multi-year rate setting approach developed in partnership with providers before the pandemic. In others, local authorities have struggled to collect the robust data required to inform the setting of sustainable rates in their area.
14. Whilst the 2021-22 Sustainable Rates report highlights that many councils have worked closely with providers to agree rates in line with the principles of the Sustainable Rates Guidance (published in April 2019), it also highlights that in some areas, rates have not matched expectations of sustainability and inflationary pressures. This is reflected in the findings from the Financial Sustainability Health Check and ongoing representation from the sector. Alongside this, both the Scottish Government and Local Government recognise that inflationary pressures have been increasing significantly and that due to COVID, there has been a significant impact on the cost of ELC provision for both local authority and partner providers.

We therefore agree that:

- A. The Scottish Government provided one-off financial support in 2021-22 to enable local authorities to commission a cost data collection exercise. This will provide each local authority with a dataset about funded ELC costs from which they can work with local partners to set local sustainable rates for 2022-23.
- B. The Scottish Government will fund the Improvement Service to deliver a programme of peer support through its ELC Expansion Grant in 2022-23 focussed on strengthening rate-setting processes and maximising the impact of the cost collection exercise. Councils will engage with this process to share learning and work together to strengthen rate-setting processes across Scotland in this financial year.
- C. Scottish Government will revise the Sustainable Rates guidance published in 2018 to support the strengthening of rate-setting processes, building on the experience and feedback of providers and of councils.
- D. Councils will work with partners, on the basis of the available evidence and within the funding envelope available for ELC, to uplift rates for 2022-23 to ensure that they reflect the costs of delivery (including inflationary increases), provide scope for reinvestment (reflecting a measure of profit in a private sector setting or surplus in a third sector organisation) and enable delivery of the Real Living Wage commitment. The level of change in rates in 2022-23 will reflect evidence about local needs and

circumstances, and will be determined through robust and transparent processes that are supported by local engagement. Rates must be affordable for local authorities within their overall ELC budget.

15. The Scottish Government's financial support for the cost collection exercise was a one-off commitment in the 2021-22 financial year. The cost data collection exercise is owned and run by local authorities, with the purpose of supporting local rate setting in partnership with providers. The exercise is not intended to produce a national rate. Local authorities are, of course, free to fund a similar exercise in future years should they choose to.

**ANNEX B – LOCAL AUTHORITY ALLOCATIONS FOR EARLY LEARNING AND
CHILDCARE 2022 - 2023**

Local Authority	Specific Revenue Grant £m	ELC Deferral Pilots £m
Aberdeen City	20.54	1.2
Aberdeenshire	27.89	
Angus	10.52	0.7
Argyll & Bute	7.96	0.3
Clackmannanshire	5.13	0.3
Dumfries & Galloway	13.21	
Dundee City	14.67	
East Ayrshire	13.12	
East Dunbartonshire	9.87	
East Lothian	10.95	
East Renfrewshire	8.00	
Edinburgh, City of	41.31	
Eilean Siar	2.80	
Falkirk	16.05	0.8
Fife	35.45	1.6
Glasgow City	59.69	2.8
Highland	23.91	
Inverclyde	7.60	
Midlothian	11.41	
Moray	9.36	
North Ayrshire	13.09	
North Lanarkshire	34.84	
Orkney	2.21	
Perth & Kinross	13.59	
Renfrewshire	18.72	
Scottish Borders	11.50	0.5
Shetland	2.76	0.2
South Ayrshire	9.79	
South Lanarkshire	30.43	
Stirling	9.42	0.5
West Dunbartonshire	9.07	
West Lothian	17.22	
TOTAL	522.06	8.9