

Housing, Homelessness and Fair Work Committee

10.00am, Tuesday, 8 August 2023

Affordable Childcare for Working Parents

Executive/routine
Wards

Executive
All

1. Recommendations

- 1.1 It is recommended that Housing, Homelessness and Fair Work Committee note the background to the current service and agree to:
 - 1.1.1 Commission four childcare providers to deliver Affordable Childcare for Working Parents in areas of deprivation in the city. The services should be for Early Years as well as school aged children; and
 - 1.1.2 Use existing Council services to offer an income review service for parents wishing to access the Affordable Childcare for Working Parents to assess their eligibility for various Government funded support and, if appropriate, refer them for Council-funded subsidy and Employability support.

Paul Lawrence

Executive Director of Place

Contact: Philip Ritchie, Contracts and Programme Manager

E-mail: philip.ritchie@edinburgh.gov.uk Tel: 07771 344587



Report

Affordable Childcare for Working Parents

2. Executive Summary

- 2.1 This report provides information on the delivery of the current model, sources of childcare support and outlines a proposal for a future delivery model which includes supporting eligible parents to access Universal Credit and supporting childcare providers to operate sustainable business models to ensure the availability of childcare for working parents in areas of deprivation.

3. Background

- 3.1 The Affordable Childcare for Working Parents service, funded from the Council's Employability budget, aims to support low-income parents to access and sustain employment by subsidising childcare in four areas of deprivation in Edinburgh.
- 3.2 On [1 December 2022](#), Housing, Homelessness and Fair Work Committee considered a report on the findings of independent research undertaken by consultant Ekosgen. Committee authorised the current service contracts to be extended for their second and final extension period of 12 months, up to 31 March 2024 and approved the principles on which a future model of provision would be coproduced.

Outline of the Current Service:

- 3.3 The overall contract value for the current service is £913,372 in 2023/24. This includes funding for subsidised childcare provision and business subsidies and is distributed between the current four providers as set out in the table below:

Provider	Total funding per annum	Childcare funding	Business subsidy per annum	% of allocation for business subsidy
Childcare Connections	£132,240	£68,430	£63,810	48%
Kidzcare	£126,950	£78,101.40	£48,848.60	38%
North Edinburgh Childcare	£395,369	£236,005.5	£159,363.50	40%
Smile Childcare	£258,813	£33,429.68	£225,383.32	87%
TOTAL	£913,372.00	£415,966.58	£497,405	53%

- 3.4 Each of the providers operate with different subsidy rates and volumes, depending on their specific setting. In addition, each provider utilises the subsidy funding differently, with some of the providers subsidising all places and others operating a tiered approach based on income (see Appendix 1).
- 3.5 At present, 85% of the childcare places are allocated to Out of School Care (OSC) but this only equates to 45% of the budget. 15% of the places are allocated to 0–5-year-olds in early learning and childcare (ELC) but, due to the higher rate of fees, this equates to 55% of the budget. It should be noted that children may be accessing more than one place within the OSC range (After School Care (ASC), Holiday and breakfast club) so the number of places does not directly equate to the number of children supported.

	ELC places	ASC places	Holiday places	Breakfast places	Total
TOTAL PLACES	98 (15%)	354 (54%)	188 (28%)	18 (3%)	658 places
Budget	£230,083.90 (55%)	£127,621.48 (31%)	£56,551.20 (14%)	£1,710 (0%)	£415,966.58
Average Council subsidy per place per annum	£2,347.79	£360.51	£300.80	£95	

Other Sources of Childcare Support and Funding

- 3.6 [1140hours](#): All three to five year old children, as well as eligible two year olds (“Terrific Twos”), receive 1140 hours of funded early learning and childcare per year. One of the primary aims of this Scottish Government (SG) initiative is to support parents into work. The childcare can be within a Council setting or a partner provider, and depending on the setting, the 1140 hours will either be term-time, half-day sessions or full-day (10 hour) sessions. For those using a private nursery, this equates to about two days per week of childcare. The SG plans to extend this to all one and two year olds within this parliamentary term.
- 3.7 [School Age Childcare](#): As part of the ‘Best Start - strategic early learning and school age childcare plan 2022 to 2026’, the SG plans to implement a system of school age childcare which would be free for low-income families.
- 3.8 [Universal Credit \(UC\)](#): provides up to 85% of childcare costs subject to a maximum amount of £646 for one child per month or £1,108 for two or more children per month.
- 3.9 In the UK Government [Spring Budget 2023](#), it was announced that, from June 2023, the Department of Work and Pensions (DWP) would begin paying UC childcare support up-front when people move into work or increase their hours, rather than in arrears. They also increased the cap to £951 for one child per month and £1,630 for two children per month.

- 3.10 Modelling on how much childcare support parents can receive under UC can be found in Appendix 2.
- 3.11 [Tax-Free Childcare](#): For those parents who are not eligible for the above, the Government's Tax Free Childcare scheme offers up to £2,000 a year per child towards childcare costs, including nursery, childminder and wraparound care.

4. Main report

- 4.1 The childcare funding landscape is very different to when the Affordable Childcare for Working Parents contracts were last commissioned in 2019. There are now many additional sources of support funding in place, as set out above. This is principally in recognition that the cost of childcare is rising and is one of the main barriers for parents wishing to work.
- 4.2 DWP's childcare element of UC contribution is impactful in reducing costs for parents in receipt of 1140 hours or for those requiring ASC or Holiday care but, due to the funding limits, full time ELC care still incurs significant costs to parents. The expansion of 1140hours will ensure all children aged one to five receive this offer but until this is fully implemented, there is still a gap for children aged one to three (except "Terrific Twos", as per 3.6). From June 2023, the new UC rates will have positive impacts on the financial burden of childcare for those eligible to receive it.
- 4.3 In addition, the gap in access to, and affordability of, school age childcare, e.g. breakfast clubs and after school clubs, has also been identified as a national issue and the SG are expected to shortly propose further intervention for school age childcare.
- 4.4 Both the SG and DWP funding come with significant structures, resources and processes to assess eligibility, distribute funding and a city-wide reach, something which is not possible to achieve within the current budget for the 'Affordable Childcare for Working Parents' service.
- 4.5 However, while eligibility for 1140 hours is clear for most parents, UC eligibility is complex and difficult to comprehend, particularly when it is not a sole source of income (as illustrated by the calculations in Appendix 2). Many people require expert help to understand how moving into work or progressing in work impacts their entitlement.
- 4.6 When the current four contracts were procured, the intention was to target the gaps in funding, not duplicate or overlap other sources of funding already available for affordable childcare. It also recognised that there was a shortfall in availability and affordability of childcare in areas of deprivation, due to the historical lack of market interest in delivering in these areas.
- 4.7 All current providers receive a business subsidy as part of their contract, and it is acknowledged that this allows them to charge fees significantly below the

market average. This is justified due to the lack of childcare funding and interventions in areas of deprivation.

- 4.8 By charging full rates, two of the four providers would be substantially better off than they currently are with their current Affordable Childcare contract (see Appendix 3) but it is recognised that this may be detrimental to those parents using the service but who are not eligible for financial support.

Proposed Future Funding Model

- 4.9 As agreed by Committee on 1 December 2022, it is proposed that the current funding (£913,372 per annum) be realigned going forward.
- 4.10 The funding would be retained to support childcare providers to operate sustainable business models in the same four areas of deprivation. Appendix 5 displays the 2020 Scottish Index of Multiple Deprivation (SIMD) map for Edinburgh and a child poverty map for Edinburgh which demonstrates that these areas remain high priority. It is recognised that a business subsidy may still be required to ensure the availability of childcare in these areas. The level of subsidy would be agreed as part of a procurement process but it is envisaged that it would be around 50% of the current subsidy levels.
- 4.11 This service will continue to support both the availability of ELC and school aged childcare but will seek to avoid duplication with other existing interventions (such as the provision of 1140 hours). Any commissioned services would therefore need to complement future interventions and support from Scottish or UK Government. It is essential that these services align with the Scottish Government's Best Start, Bright Futures Delivery Plan 2022-2026 to ensure that the Council can continue to target the gaps in national funding and meet local needs.
- 4.12 Parents wishing to access these services will receive support via the Council's existing advice service teams to obtain UC funding towards childcare costs, which should mean they receive increased financial support compared to the current subsidy model. It would also ensure they are maximising all financial support that could be available to them. (Appendices 2 and 4).
- 4.13 It is recognised that some parents will not be eligible for UC or their entitlement could be tapered down, due to their income levels, and the cost of childcare could be the factor that pushes the family into [poverty](#) (threshold defined by the SG as 60% of the median household income).
- 4.14 It is therefore proposed that the individual subsidy element of the current contract is retained, but with a focus on providing financial support only in these specific circumstances. Instead of being paid out to the childcare provider to administer, it is proposed this is administered directly by the Council, which will reduce any administrative burden for childcare providers and ensure that the childcare subsidy rate is standardised across the four contracted providers so that it is equitable for parents.

- 4.15 Officers are working with the Council's Advice Shop team on a model where parents can receive individual advice based on their circumstances and access to financial support in the cases as outlined above. This will be by working in partnership with the Parental Employability Support Team, whose role will include supporting parents on their employability journey into, or progressing in, sustainable employment.
- 4.16 Integrating these childcare services with employability providers and, where relevant, welfare rights and income maximisation support is crucial to ensuring that parents are supported to move into and sustain employment and move/keep their families out of poverty.
- 4.17 The value of the budget restricts the service being available as a city-wide intervention for all working families. For this reason, the subsidised childcare would only be available through the four contracted providers, with a focus on those who are ineligible for other funding (such as 1140 hours or UC). Should there be less demand than anticipated, there may be scope to extend eligibility to parents who have been involved with employability programmes funded by the Council as a way to further support them into, or progressing in, work.
- 4.18 It is proposed that new Affordable Childcare for Working Parents contracts are commissioned for a start on 1 April 2024 for an initial period of three years with the option to extend for a further three 12-month periods if required.

5. Next Steps

- 5.1 If Committee approves the recommendations of this report, officers will begin the procurement process. This will include finalising the funding model for this future service and market testing to see if there are any other interested childcare providers who would be interested in this funding opportunity.
- 5.2 A report on the outcome of the procurement process, with recommendations, will be reported to Finance and Resources Committee for approval. An update will also be provided to a future Housing Homelessness and Fair Work Committee as part of the Business Bulletin.
- 5.3 Officers and the Contract Manager at Capital City Partnership will work with the four current providers to develop more sustainable business models, and support eligible parents who are not currently accessing UC to apply for this.

6. Financial impact

- 6.1 Currently, there is £913,372 of funding supporting the delivery of this service from the Council's Business Growth and Inclusion budget.
- 6.2 If this proposal is agreed, officers will carry out a procurement process and come back to Committee with a recommendation for replacement childcare services within the above budget.

- 6.3 Additional employability activity for parents which will sit alongside this funding will utilise the Scottish Government's Tackling Child Poverty funding allocation (formerly Parental Employability Support funding). This was outlined at the Housing, Homelessness and Fair Work Committee on [19 April](#) and [9 May](#).

7. Stakeholder/Community Impact

- 7.1 Stakeholders and local communities have been involved throughout the process of the review and co-production of these service to ensure that the views of the clients and target groups of these services have been represented. This includes the consultation and research carried out as part of Ekosgen's report which was presented at the Housing, Homelessness and Fair Work committee on [1 December 2022](#) and the additional work carried out by Council officers.
- 7.2 An [Integrated Impact Assessment](#) has been carried out throughout the process. This continues to be developed and remains a live document while the strategy is in development. As with all strategic decisions, the aim is to ensure no-one is adversely affected by any proposals and programmes and that all services are fully inclusive.
- 7.3 The impact on families that can access a future Affordable Childcare Service is positive as it enables parents to gain and sustain employment. Supporting eligible parents to access UC and other sources of financial help will also be a priority, as well as ensuring there are strong links and partnership working with employability, welfare and advice services, including income maximisation. All of this will benefit these families in real financial terms.
- 7.4 Partnership working is at the heart of the development of this proposal, both within the Council and with other partners. The steering group for the review of this service includes key stakeholders who have supported and helped shape the process from the beginning. This includes (but not limited to) Children, Education and Justice colleagues and DWP.

8. Background reading/external references

- 8.1 [Scottish Government - Best Start, Bright Futures: tackling child poverty delivery plan 2022 to 2026.](#)
- 8.2 [City of Edinburgh Local Child Poverty Action Report.](#)
- 8.3 [Council Commitments – Delivering an Economy for All.](#)

9. Appendices

- 9.1 Appendix 1 - Overview of current subsidised and unsubsidised rates.
- 9.2 Appendix 2 – Universal Credit childcare funding scenarios.

- 9.3 Appendix 3 – Impact for Current Providers in moving to business models charging market rate fees.
- 9.4 Appendix 4 - Overview of the impact of other sources of funding.
- 9.5 Appendix 5 - Scottish Index of Multiple Deprivation 2020 map of Edinburgh and Child Poverty map of Edinburgh.

Appendix 1: Overview of current subsidised and unsubsidised rates

Daily rates		Childcare Connections	North Edinburgh Childcare	Smile Childcare	Kidzcare	Edinburgh Market Average
0-2yrs	Unsubsidised	-	£56.53	£45.00	£60.57	£63
	Subsidised	-	£50.63 (tier 2) £42.73 (tier 1)	£39.74 (tier 2) £34.56 (tier 1)	£44.45	
2-3yrs	Unsubsidised	-	£48.63	£45.00	£60.57	£63
	Subsidised	-	£45.91 (tier 2) £37.93 (tier 1)	£39.74 ((tier 2) £34.56 (tier 1)	£44.45	
3-5yrs	Unsubsidised	-	£50.54	£45.00	£60.57	£63
	Subsidised	-	£48.30 (tier 2) £40.33 (tier 1)	£39.74 (tier 2) £34.56 (tier 1)	£44.45	
OSC Mon-Thurs	Unsubsidised	£12.60	£13.69	£11.07	-	£13.60
	Subsidised	£10.00	£12.54 (tier 2) £11.14 (tier 1)	£9.08	-	
OSC Friday	Unsubsidised	£15.60	£18.25	£15.12	-	£19.04
	Subsidised	£12.50	£17.41 (tier 2) £16.71 (tier 1)	£12.38	-	
OSC Holiday	Unsubsidised	£25.20	£29.65	£25	-	£29
	Subsidised	£20.00	£27.84 (tier 2) £22.27 (tier 1)	£20.50	-	

Appendix 2: UC Childcare support calculations

The following examples were modelled on the results from the Turn2Us Benefits Calculator: <https://benefits-calculator.turn2us.org.uk/>. It should be noted that these examples are based on the UC rates **prior to** the increase this summer.

UNIVERSAL STATEMENT: UC entitlement is worked out on your earnings after tax, national insurance, and pension contributions. The first £87.46 per week you earn does not affect your UC. Beyond this, for every £1 you earn after tax, national insurance and pension contributions, £0.55 is taken off your UC entitlement.

UC will award a childcare element for 85% of your childcare costs, up to a maximum of £149.16 per week. An amount will be deducted from your UC for earnings, and your Childcare element is not protected from deductions.

Childcare Costs Element of UC

You can receive a childcare costs element if you pay for registered childcare when you go to work. There is no set number of hours you need to work. If you are part of a couple, then both of you must be in work (or treated as being in work while on statutory sick leave or statutory maternity, paternity or shared parental leave) unless the non-working partner:

- Has limited capability for work or limited capability for work-related activity, or
- Gets Carer's Allowance or the Carer's Element of UC, or
- Is temporarily absent from your household (for example, they are in prison, hospital, or residential care).

You will get 85% of your childcare costs met, up to a maximum of £646.35 per month for one child and £1,108.04 per month for two or more children (rising as set out in paragraph 3.9 of the main report from Summer 2023).

Example 1

Single parent (aged 30) with 1 child (aged 2), working 16 hours per week with wages of £10.42 per hour

3 days private childcare due to shifts (£189 per week)

Private rent: £800 per month

Maximum UC before deductions:	£481.08 per week
Standard Allowance:	£85.09
Housing:	£184.62
Children:	£62.21
Childcare:	£149.16 (31% of UC entitlement)
Total deductions:	£-43.59 per week
Total UC:	£437.49 per week
Total Childcare element:	£135.62 per week
Parent Required to pay:	£53.38 per week (£17.79 per day)

Example 2

Single parent (aged 30) with 1 child (aged 2), working 36 hours per week with wages of £14 per hour.

5 days of private childcare (£315 per week)

Private rent £800

Maximum UC before deductions:	£481.08 per week
Standard Allowance:	£85.09
Housing:	£184.62
Children:	£62.21
Childcare:	£149.16 (31% of UC entitlement)
Total deductions:	£-184.42 per week
Total UC:	£296.66 per week
Total Childcare element:	£91.96 per week
Parent Required to pay:	£223.04 per week (£44 per day)

Example 3

Single parent (aged 30) with 2 child (aged 2 and 7), working 36 hours per week with wages of £14 per hour.

5 days of private childcare (£315 per week) plus after school club (£73.44)

Private rent £800

Maximum UC before deductions:	£660.31 per week
Standard Allowance:	£85.09
Housing:	£184.62
Children:	£134.90
Childcare:	£255.70 (39% of UC entitlement)
Total deductions:	£-184.42 per week
Total UC:	£475.89 per week
Total Childcare element:	£185.60 per week
Parent Required to pay:	£202.84 per week (£40.57 per day)

Example 4

Two parent household with 1 child (aged 2). One parent (aged 30) working 36 hours per week with wages of £14 per hour. Second parent working 16 hours per week with wages of £10.42 per hour

3 days private childcare due to shifts (£189 per week)

Private rent £800

Maximum UC before deductions:	£529.56 per week
Standard Allowance:	£133.57
Housing:	£184.62
Children:	£62.21
Childcare:	£149.16 (28% of UC entitlement)
Total deductions:	£-276.12 per week
Total UC:	£253.44 per week
Total Childcare element:	£70.96 per week
Parent Required to pay:	£118.04 per week (£39.35 per day)

Example 5

Two parent household with 1 child (aged 2). One parent (aged 30) working 36 hours per week with wages of £14 per hour. Second parent working 16 hours per week with wages of £10.42 per hour

3 days of private childcare (£189 per week) plus after school club (£40.80)

Private rent £800

Maximum UC before deductions:	£648.42 per week
Standard Allowance:	£133.57
Housing:	£184.62
Children:	£134.90
Childcare:	£195.33 (30% of UC entitlement)
Total deductions:	£-276.12 per week
Total UC:	£372.30 per week
Total Childcare element:	£111.69 per week
Parent Required to pay:	£118.11 per week (£39.37 per day)

Appendix 3: Impact on Current Providers in moving to business models charging market rate fees

Provider	Current calculated income from fees (from CEC and parents)	Potential income if charging average fees for Edinburgh	Potential increase in income	Current business subsidy	Difference between potential income and business subsidy
North Edinburgh Childcare	£1,745,843.25	£1,940,602.80	£194,759.55	£159,363.50	£35,396.05
Smile Childcare	£755,466	£1,040,811.60	£285,345.60	£225,383.32	£59,962.28
Kidzcare	£293,461.65	£305,235.00	£11,773.35	£48,848.60	-£37,075.25
Childcare Connections	£542,400	£608,915.20	£66,515.20	£88,980	-£22,464.8

Appendix 4: Overview of the impact of other sources of funding

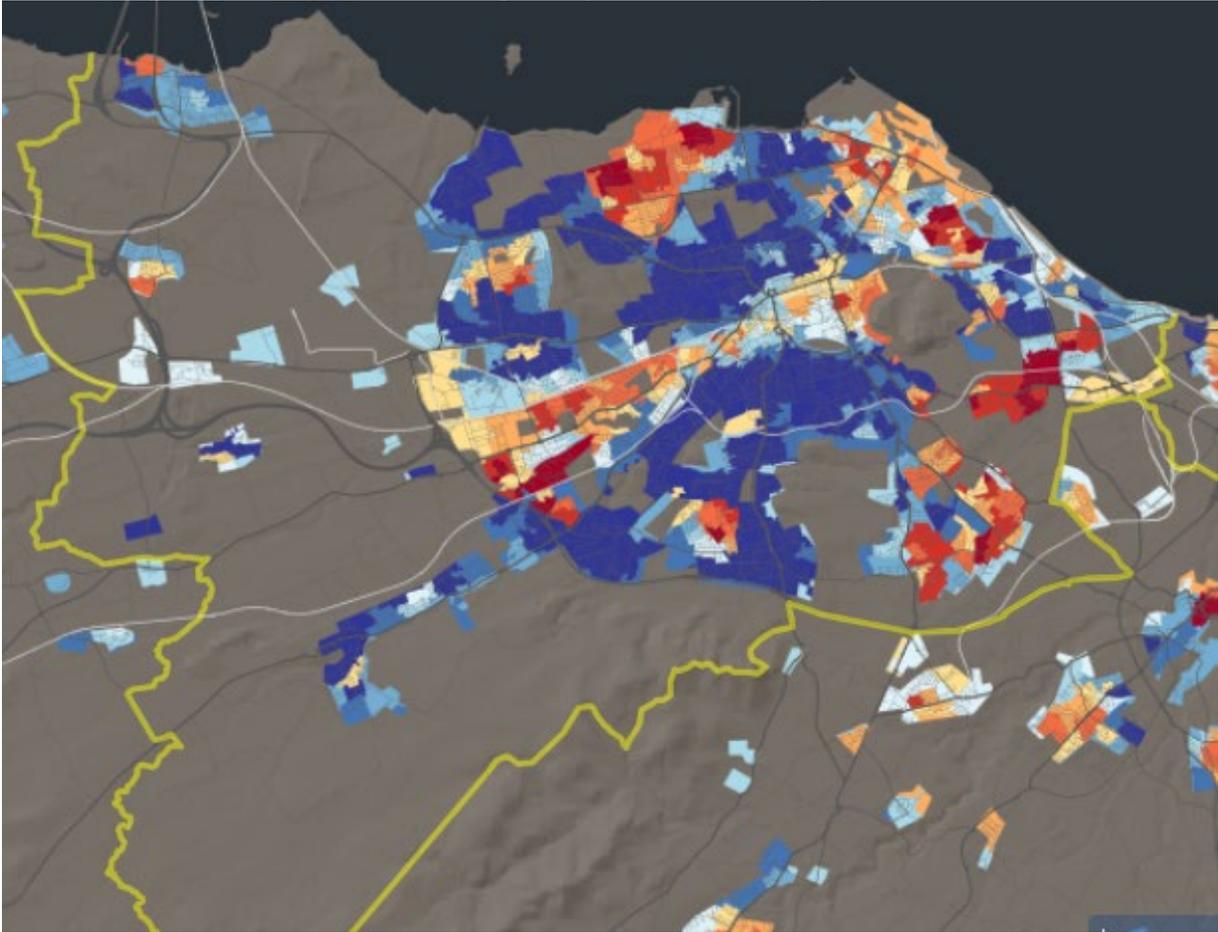
Funding Situation – figures based on maximum Universal Credit input – eligibility is calculated on an individual basis.	Cost to parent (per day)
FOR PARENTS WITH CHILDREN REQUIRING EARLY LEARNING AND CHILDCARE (ELC) *	
Parent ONLY receiving 1140hours but needing full time place. Based on assumption that 1140hours in private provider equals 2.2 day per week funding over full year	£ 35.28
DWP pay 85% up to £7,752 per annum. (2022 cap is £646/month for 1 child) So, for an average full time ELC place, DWP pay up to £7,752 of a £16,380 bill.	£33.18
DWP pay 85% up to £11,412 per annum. (Summer 2023 cap will be £941/month for 1 child) So, for an average full time ELC place, DWP pay £11,412 of a £16,380 bill.	£19.11
Tax free childcare pay 20% up to a maximum of £2k per annum So, for an average full time ELC place, DWP pay £2k of a £16,380 bill.	£55.31
Parent receiving 1140hours and DWP pay 85% up to £7,752 per annum. (2022 cap is £646/month for 1 child) So, for an average full time ELC place, DWP pay up to £7,752 of a £9,820 bill.	£7.95
Parent receiving 1140hours and DWP pay 85% up to £11,412 per annum. (Summer 2023 cap will be £941/month for 1 child) So, for an average full time ELC place, DWP pay up to 85% of a £9,820 bill.	£5.67
Parent receiving 1140hours and Tax free childcare pay 20% up to a maximum of £2k per annum So, for an average full time ELC place, DWP pay 20% of a £9,820 bill.	£30.21
FOR PARENTS REQUIRING ASC **	
DWP pay 85% up to £7,752 per annum. (2022 cap is £646/month for 1 child) So, for an average full time ASC place, DWP pay 85% of a £2,790.72 bill.	£2.20
DWP pay 85% up to £11,412 per annum. (Summer 2023 cap will be £941/month for 1 child) So, for an average full time ASC place, DWP pay 85% of a £2,790.72 bill.	£2.20
Tax free childcare pay 20% up to a maximum of £2k per annum So, for an average full time ASC place, DWP pay 20% of a £2,790.72 bill.	£11.74
FOR PARENTS REQUIRING HOLIDAY CARE ***	
DWP pay 85% up to £7,752 per annum. (2022 cap is £646/month for 1 child) So, for an average full time Holiday place, DWP 85% of a £1,595 bill.	£4.35
DWP pay 85% up to £11,412 per annum. (New 2023 cap will be £941/month for 1 child) So, for an average full time Holiday place, DWP pay 85% of a £1,595 bill.	£4.35
Tax free childcare pay 20% up to a maximum of £2k per annum So, for an average full time Holiday place, DWP pay 20% of a £1,595 bill.	£23.20

*All ELC fees are based on an average of full cost fees in Edinburgh which is approx. £63.

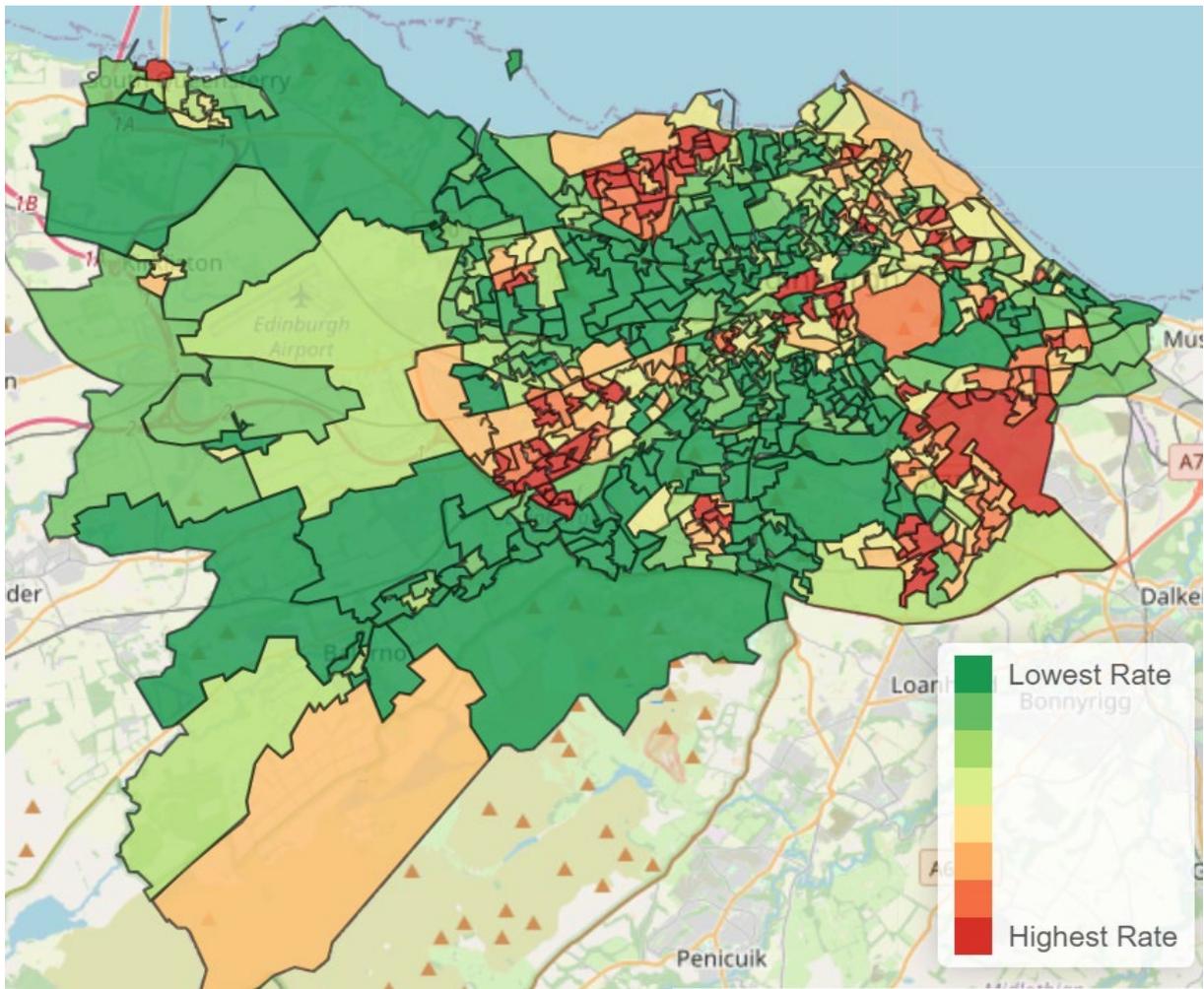
**ASC based on 38 weeks of school with costings calculated on full time basis and divided equally by 5 (ie taking into account increased Friday fee and distributed across the week)

***Holiday fees are based on 11 weeks of holiday club on a full time basis)

Appendix 5 – Scottish Index of Multiple Deprivation 2020 map of Edinburgh and Child Poverty map of Edinburgh



[SIMD map of Edinburgh](#)



[Percentage of Children in Poverty 2021/2022](#)