

# Housing, Homelessness and Fair Work Committee

10.00am, Tuesday, 27 February 2024

## Affordable Childcare for Working Parents

Executive/routine  
Wards

Executive  
All

### 1. Recommendations

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- 1.1 It is recommended that Housing, Homelessness and Fair Work Committee:
  - 1.1.1 Agree a revised approach to the Affordable Childcare for Working Parents service, including:
    - 1.1.1.1 The procurement of contracts in each locality to support the delivery of subsidised childcare in areas of highest deprivation for children aged 0-12 years; and
    - 1.1.1.2 The direct award of four grants to the currently contracted childcare providers to minimise the risk of business failure and a consequential loss of childcare provision in these four areas; and
  - 1.1.2 Note the planned extension of the current four contracts up to the end of July 2024 to allow for the procurement/grant process to be completed and for the new contracts to fall in line with the academic year.

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## Affordable Childcare for Working Parents

### 2. Executive Summary

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- 2.1 This report provides an update on the review of the Affordable Childcare for Working Parents service and outlines a recommendation for the future delivery of the service.

### 3. Background

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- 3.1 The Council currently issues funding to four established registered childcare providers to offer subsidised childcare for working parents on low incomes in Edinburgh, supporting approximately 250 families per annum.
- 3.2 The service was designed to support parents in some of the areas of the city which suffer from the highest levels of unemployment, poverty, and inequality of access, as demonstrated by the Scottish Index of Multiple Deprivation (SIMD). The childcare subsidy was introduced to reduce the cost of childcare for eligible (low income) working parents and the business subsidy was intended to support the organisations due to demand for early years childcare often being lower in these areas and usual business models, which rely on full occupancy, would not be sustainable.
- 3.3 The breadth of financial support towards childcare at a national level has expanded in recent years but the cost of childcare continues to be a significant barrier for parents wishing to start or sustain work. This was outlined in a [report](#) on 1 December 2022 to Committee, which included a report on the findings of independent research undertaken by consultant Ekosgen.
- 3.4 On 8 August 2023, Committee [agreed](#) that officers should progress the procurement process of a future service to better support low income families with the cost of childcare in key areas of deprivation in Edinburgh.

- 3.5 It was also agreed that the future service should continue to target the same four areas of deprivation, providing subsidised childcare to eligible parents to allow them to enter, sustain and progress in work. Targeting areas of deprivation was agreed due to the scale of the budget that does not allow for a city-wide service.
- 3.6 The report highlighted that there might still be a requirement to continue to provide a business subsidy to childcare providers in these areas but that it was anticipated that this would be reduced by around 50%.

## 4. Main report

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### **Proposal for new Affordable Childcare for Working Parents Service**

- 4.1 Following the independent review by Ekosgen, the ongoing consultation with the current four childcare providers (North Edinburgh Childcare, SmileChildcare, Childcare Connections and Kidzcare), and the continued discussions with officers in Children, Education and Justice Services, the proposal for a future service has been revised.
- 4.2 It is still recommended that the Council continue to commission targeted services in the highest areas of deprivation in the city, defined as SIMD1 and/or 2. This will ensure that there is childcare provision available to support low income working families to access subsidised childcare provision in each of the four localities in Edinburgh. The subsidy will be administered by the Council, as opposed to the childcare providers themselves, reducing administrative burdens on childcare providers and ensuring that the subsidy rate is standardised, as well as offering an opportunity to provide wraparound support to access employability and income maximisation services.
- 4.3 In the future service, the commissioned childcare partners would be contracted to:
- 4.3.1 Be a partner provider for the Affordable Childcare for Working Parents service. This means being a first referral point for childcare for parents being supported by the Council's employability services and who require childcare to start work. If a place is available and it suits the family, they can access this;
  - 4.3.2 Offer childcare at their designated full cost rate and an agreed subsidised rate for eligible families. The subsidised rate will be set by the Council. The provider will be responsible for invoicing the agreed eligible parents at the subsidised rate and invoicing the Council for the remainder of the fees;
  - 4.3.3 Work with the Council to refer any parents who are/may be struggling financially to pay for childcare to the Council's employability team. This team will link them directly to the Council's Advice Shop, who will provide a financial assessment to ensure that these families are accessing all available financial interventions, such as Universal Credit and 1140 hours; and

4.3.3.1 If the cost of childcare would push the family into [poverty](#) (threshold defined by the Scottish Government as 60% of the median household income), the Council will assess if they are eligible for a subsidised place where a vacancy exists.

4.3.4 Provide monitoring information towards agreed key performance indicators using robust contract management processes. This will be managed by Capital City Partnership (CCP) under the current Service Level Agreement.

4.4 Each locality would have contracts available under three sublots, defined as:

4.4.1 Childcare provider offering childcare for 0-3 year olds;

4.4.2 Childcare provider offering childcare for 3-5 year olds; and

4.4.3 Childcare provider offering childcare for school aged children (5-12 year olds).

4.5 Each subplot would have an individual rate of subsidy.

4.6 It is recognised that this service would incur an additional administrative obligation for the childcare provider, as they would require to issue two invoices, and so funding would be provided to support this. This administration fee is projected to be up to 15% of each Provider's management costs, up to a maximum of £20,000 per subplot, but will be negotiated with providers depending on expected volume.

4.7 A Prior Information Notice for these contract opportunities was issued on Public Contract Scotland to gauge market interest of this opportunity. Five providers returned the questionnaire to express interest and so steps are now being planned to complete the procurement process.

#### **Proposal for Direct Grants to current providers**

4.8 As previously reported to Committee, it is recognised that the current four providers have received funding through contracts (and previously through grants) for over 10 years. This funding has been partly to subsidise childcare costs but also to sustain the providers' business models in areas that, historically, did not attract commercial childcare providers. It is accepted that this business subsidy has become integral to the viability of their current business models and to remove this in full and immediately may result in the closure of one or more of these four providers and significantly reduce the availability of childcare in these areas.

4.9 It is therefore proposed that Committee approves direct grants be awarded to the existing four providers to allow time for them to revise their business models acknowledging that:

4.9.1 The level of grant funding would be negotiated with individual providers, but it would be no more than the current business subsidy level and would have to be considered in the context of other funding available;

4.9.2 These grants would be reduced over the space of three years and the four providers would have responsibility to manage the adaptation of their business models within the period of grant funding. Council officers would

support the providers to adapt their business models to become self-sufficient in their operations; and

4.9.3 Direct grants in this capacity would also need to be approved under the UK Subsidy Control scheme.

## **5. Next Steps**

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- 5.1 If Committee approves the recommendations, officers will undertake the agreed procurement process to commission the outlined contracted services.
- 5.2 Officers will follow the UK Subsidy Control requirements to seek approval for these direct grants. Officers will also develop a grants model to ensure the carefully managed process of business adaptation, working closely with the providers and additional business support. It will be essential to ensure that ongoing support is available for parents who may be affected by this, in particular where fees have to be increased by providers to enable a market-viable business model.
- 5.3 Due to the timescales involved, the Executive Director of Place has agreed to extend the current contracts up to the end of July 2024, as per 9.6.4 of the Contract Standing Orders. This will enable the new programme to align with the academic year.
- 5.4 An update on the outcome of the procurement process will be provided to a future Housing Homelessness and Fair Work Committee as part of the Business Bulletin.

## **6. Financial impact**

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- 6.1 Currently, there is £913,372 per annum of funding supporting the delivery of this service. The contracted services element would be committed to future delivery for three years, with the option to extend this for three periods of 12 months.
- 6.2 The maximum budget available for the contracted element is £240,000.
- 6.3 Current business subsidy accounts for £497,405 per annum across the four providers (full details can be found in Appendix 1). The value allocated to the proposed direct grant awards will be negotiated with the four providers and an annual reduction will be agreed. It is anticipated that there will be an immediate reduction in the initial grant funding total because the providers will be required to adapt their business model in advance of their current contract ending.
- 6.4 It is therefore anticipated that the total sum of the contacted provision and grants will be no higher than the current business subsidy element of the budget in the first year, and then successively reducing over the next two years.
- 6.5 The remainder of the budget will be allocated as childcare subsidy for eligible parents.

- 6.6 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 2023](#) and [9 May 2023](#).

## **7. Equality and Poverty Impact**

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- 7.1 The focus of the current service and the planned future service is on equality of opportunity, aiming to alleviate the disadvantage faced by parents in low incomes who cannot afford the increasing cost of childcare to allow them to enter and sustain employment. It is envisaged that the new service will further enhance the current practices by ensuring every parent has direct access to welfare rights support and parental employability support. This will create a whole life approach to the service and maximise the opportunities to lift families out of poverty.
- 7.2 The limited budget available means that there is not capacity to offer this subsidy support at a city-wide level and so it was agreed to target those in areas of deprivation where, historically, childcare options were more limited.
- 7.3 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.
- 7.4 The impact on families that can access a future Affordable Childcare Service is positive, enabling parents to gain and sustain employment. Supporting eligible parents to access Universal Credit 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.

## **8. Climate and Nature Emergency Implications**

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- 8.1 The greatest benefit of local childcare settings in areas of deprivation is that it reduces the requirements to travel for childcare and, thus, lowering the carbon footprint for those families.

## **9. Risk, policy, compliance, governance and community impact**

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- 9.1 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. Ongoing engagement continues to take place with the current providers.

- 9.2 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, EVOC and DWP. The Steering Group has been in operation for this review since April 2022 but many of the members were also involved in the Steering Group during previous reviews of this service.
- 9.3 The implications of not providing the business subsidy to the current providers through a negotiated direct grant award could mean business failure and a reduction in childcare available. It would also mean the loss of jobs of the staff who are currently employed within these settings.

## **10. Background reading/external references**

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- 10.1 [Scottish Government - Best Start, Bright Futures: tackling child poverty delivery plan 2022 to 2026.](#)
- 10.2 [Affordable Childcare for Working Parents December 2022](#)
- 10.3 [Affordable Childcare for Working Parents August 2023](#)

## **11. Appendices**

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Appendix 1: Subsidy Rates for Current Providers (2023/24).

## Appendix 1: Subsidy Rates for Current Providers (2023/24)

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%
<b>TOTAL</b>	<b>£913,372.00</b>	<b>£415,966.58</b>	<b>£497,405</b>	<b>53% (average)</b>