

PE1648/F

Parenting across Scotland submission of 14 July 2017

Thank you for asking us to comment on PE1648: nursery business rates. PAS does not have a position on this but puts forward here, some issues which are pertinent to this discussion.

Affordability

Childcare costs are an issue, which are of concern to many parents. Childcare costs in Scotland are among the highest in Western Europe and a barrier to parents being able to work. For many parents, the cost of childcare is equivalent to their monthly mortgage. Any increase in fees is likely to have a significant detrimental effect for families using private nurseries.

Business rates are one part of a complicated funding equation and on-going policy implementation of the Scottish Government's Early Learning and Childcare expansion. Questions remain on how to ensure that childcare is made affordable to parents and the best ways of doing this, ensuring that it is compatible with existing policy development.

However, given that the Financial Review of Early Learning and Childcare estimates that business rates represent around 1% of private nursery operating costs, it is arguable whether relief of business rates will make a major difference, though this will vary substantially between providers and in different areas, as well as being dependent on differential profit margins.

Parents

Firstly, I would urge committee members to read parents' comments on this petition (<http://www.parliament.scot/GettingInvolved/Petitions/PE01648>) as they eloquently express the impact that rising costs of nursery places will have on parents and children.

Private nurseries are particularly important for working parents as local authority nurseries' opening hours are not compatible with working hours, and so generally working parents need to use private nurseries or child-minders in order to be able to work. Some local authorities, notably Glasgow City Council, are expanding their hours of ELC to cover working hours, but it remains the case that for many parents who need to or wish to work local authority nurseries are not a viable option.

Under Part 6 of the Children and Young People (Scotland) Act local authorities have a duty to provide 600 'free hours' of ELC for three and four year olds (and 'eligible two year olds'); the planned expansion will increase these 'free hours' to 1140 hours. However, these hours do not cover children under three and the majority of working parents will be meeting these costs in full.

The ELC expansion

The Scottish Government's planned expansion of ELC to 1140 hours commits to using a 'provider neutral' model - essentially parents should be able to

choose their childcare provider and it shouldn't make a difference whether that provider is a public or private sector provider. However, we are currently a long way from that with substantial inequalities in the system. Private sector providers face a number of business obstacles: differential hourly rates for the funded hours, a drain of qualified staff to the private sector where terms and conditions are better, and increasing business rates.

A Blueprint for 2020: The Expansion of Early Learning and Childcare in Scotland 2017-2018 (<http://www.gov.scot/Publications/2017/03/8937>) commits to a 'provider neutral' model and to funding following the child. While not all private nurseries are partner providers, the vast majority are, and so how the expansion is implemented will have a major effect upon their business viability.

The Action Plan states:

"We will establish an ELC Services Models Working Group with local authorities to: develop the details of the new Funding Follows the Child model; and produce a standard for a more open process to becoming a funded provider." (Summary of Actions, no 15)

We understand that this Working Group will look at the contracting relationship between partner providers and local authorities. One of its tasks will be to draw up guidance on commissioning frameworks for local authorities. Guidance around relief on how business rates should be treated could be usefully included in this guidance.

The Barclay Review is currently considering business rates in Scotland and will be making recommendations about the reform of business rates; it is due to report imminently. Its recommendations may well have relevance for this petition.

Conclusion

It seems perverse that transitional relief covers pubs; restaurants and various other places of entertainment but not the places where our youngest children are cared for and educated.

It is also an irony that while the Scottish Government is engaged in an expansion of childcare to improve children's outcomes and to enable parents who wish to work to do so, the revaluation of business rates will put up fees for many parents and may even threaten the viability of some nurseries.

However, while initially, granting transitional relief on business rates appears to be a simple proposition, and one which local authorities have the power to deal with through the Community Empowerment Act, it is a complicated issue in a rapidly changing policy environment.

Some questions which the Committee may wish to consider include:

- Should making childcare affordable to parents be done through subsidy on the demand or supply side ie directly to nurseries or to parents?

- Should business relief be applicable to all nurseries whatever their profit margins and operating practices or should there be guidance on which nurseries should be eligible? Small sole operator nurseries and large nursery chains have very different business models and profit margins. England has taken the decision to offer transitional business relief only to certain private nurseries.
- Given local authority budget tensions, it seems also pertinent to consider whether funding for any relief should come from local or central government funds (in England, there has been some business relief for nurseries and central government has provided local government additional funding for this.
<http://www.nurseryworld.co.uk/nursery-world/news/1156453/budget-small-nurseries-taken-out-of-business-rates>)
- By granting transitional relief to nurseries, local authorities would effectively be subsidising nursery places for 0 - 3 year olds. While this may be desirable for parents, it would nonetheless mark a departure from current Government policy of subsidising places for three and four year olds.
- Deciding how to make childcare affordable to parents is a vexed question. Transitional business relief would benefit the parents who use private nurseries. However, parents in low paid employment are often unable to access private provision and are forced to use a hotch potch of family and friends provision in order to be able to work. Ideally, affordability should be linked to cap relating to parental income, so that parents pay no more than, for example, 10% (as in Norway) of their monthly income on childcare.

There are two main issues to be considered here. One is the business sustainability issue around business rates and transitional relief. The other is about funding of early learning and childcare. While affordability is critical to allow parents to access childcare, quality is essential to ensure good outcomes for children. Quality does not come cheap but must be at the heart of childcare expansion to improve outcomes for children. Investment in Early Learning and Childcare needs to be systematic and transparent rather than piecemeal. Relief on business rates may be a part of this but needs to be considered as part of the whole funding model rather than as a separate item.

Thank you to the Committee for asking PAS to present our views; we hope that this will be of use to the Committee.