

## Background

The nursery at VQ has been available since the building was opened for staff use in 1995. The contract to manage and run the nursery is through competitive tendering exercise and is normally awarded on a 3 year+1+1 basis. This model allows flexibility to end the contract at the end of year 3 or if the contract is running satisfactorily to extend for 2 further periods of 12 months. It also ties costs during the 1<sup>st</sup> 3 years to those set out in the contract award letter with the option to increase costs only in year 4 and 5.

Scottish Ministers grant the successful Company the right to use the premises. No fees are payable by the Company in respect of the use of the premises. Further, the SG are responsible for and bear the costs of heating and lighting the premises, any rates or other local authority or other taxes which may be payable in respect of the premises and the costs of insurance of the premises including public liability insurance. They also maintain the premises and arrange and meet the costs of cleaning etc.

Interest from nursery providers, in this contract, over the years has slowly declined. The last procurement exercise in 2019 only had interest from 2 bidders and only NEC submitted a bid. NEC were the incumbent organisation having secured the contract for the first time in 2010. Historically we saw interest from around 4-8 nursery providers when the contract was put out to tender, in previous years. We are aware from the media and the management at NEC, who are closely linked with the Care Inspectorate that many private nursery providers may have to close their businesses over the next few years. We therefore have no guarantee that the next procurement exercise would attract any proper prospect of a successful bid. Indeed NEC have indicated that they would not retender for the contract should the financial viability not change.

There has been varying success with this arrangement and the level of service provided over the years with one nursery provider's contract having to be brought to an end due to concerns over the level of care being provided. Thankfully there have been no such concerns with the current provider – North Edinburgh Childcare.

NEC have operated the workplace nursery at Victoria Quay on behalf of the Scottish Government since April 2010. Since that time, they have been successful at retaining the contract through the retender process. The current contract was awarded on 2020 and can (if we chose to extend through the 3+1+1 option and NEC accept that offer) run until June 2025. We have already extended by 1 year to June 2024.

Their service at Victoria Quay comes under our trading company North Edinburgh Childcare Enterprise Limited and is treated as a social enterprise. The sole purpose of the trading company is to make a profit any profit made is gifted to the charity to benefit the low - income families.

In addition to running the nursery at VQ, NEC also offer childcare and run a nursery from their childcare centre based in Pilton, an area in Edinburgh considered to be

one of the highest areas of deprivation and poverty according to the Scottish Index of Deprivation and Poverty.

NEC first opened its doors to children in Edinburgh the spring of 1997. The charitable purpose is to support parents to lift themselves out of poverty by offering high quality childcare at an affordable rate, that means being in work pays and makes the family better off lessening their dependency on state benefits. They generate income by charging fees for the childcare they offer those families.

### **NEC Costs of running VQ nursery**

There are many benefits to the approach to Hybrid working since Covid. However, from feedback from NEC nursery management team, one of the unintentional consequences of hybrid working has resulted in parents only placing children in VQ nursery on the days they are in attendance at VQ and therefore this has had a direct impact on NEC income generation, in terms of a reduction in child attendance.

The contract that the nursery provision was contracted under required the successful bidder to set fees for the 1<sup>st</sup> 3 years of the contract. Thereafter the provider could increase fees in years 4 & 5 but only at the rate of RPI. NEC affected such a rise in 2023 but this is not sufficient to cover the increased salaries, including the recent 10% increase in the Scottish Living Wage, outgoings and costs of running VQ nursery.

NEC consider that added to this there has been a general decline in attendance in private nurseries since the introduction of the 1140 hours Early Learning Childcare Funding free childcare and the increase in that provision for younger children and the extension of that provision to cover older children. There has also been an aspect of parental choice which has been implemented into the ELC strategic model. Parents/guardians can now set out their first 3 choices of childcare provider and the LA must strive to meet the childcare needs at one of those choices. There is a general view that due to this many parents are choosing to place their child in their local/feeder school to ensure consistency and familiarity through nursery to primary school.

There will be a further consequence on the nursery attendance levels when a change to the 1140 hours childcare funding comes into place next year. This will allow LA not to permit parents/guardian to transfer costs across LAs. NEC have advised that Edinburgh intends to adopt this. This will mean that parents/guardians living out with Edinburgh will not be able to use their 1140 hours with an Edinburgh nursery. NEC are aware of at least 3 families in VQ who will be impacted by this so will result in a further drop in attendance at VQ.

Simultaneous to awarding the staff backdated cost of living increases they faced the additional burden of the everyday general of cost-of-living increases. In addition, there will be a further 10% Scottish Living Wage increase which will impact the wages at the nursery for the majority of the staff and then there will be a knock-on effect for the slightly Senior staff who will be expecting a wage rise since their salaries will not be far off their colleagues due to the 10% increase. Therefore, the risk of NEC not being able to run the service efficiently and unprofitably will increase.

A change to the manner in which the Scottish Government undertake security clearance will now see NEC having to apply for and pay an additional cost (£25) for a basic disclosure certificate for all permanent and temporary staff. In the past we have been able to accept the higher PVG clearance documentation for security clearance which removed the requirement and linked expense for Basic Disclosure Certificate. This will be no longer permitted due to those viewing PVG having sight of unspent criminal charges which is not relevant for us as an organisation.

NEC are at the lowest level of childcare workers required to run the facility legally, so couldn't reduce those levels any lower to reduce costs.

The of this has affected NEC's ability to generate a profit whilst being restricted to the terms of the contract, i.e. under the model they cannot increase childcare fee rates (which directly impacts on their income generation). This has resulted in the NEC charitable aspect of the nursery in essence subsidising the operation on VQ nursery provision. Figures in the table below show the deficit over the last 4 years that has had to be met from the social enterprise wing of the NEC.

	To 31/3/19	To 31/3/20	To 31/3/21	31/3/22	31/3/23
Income *	████████	████████	████████	████████	████████
Service Costs *	████████	████████	████████	████████	████████
Contract & Admin *	████████	████████	████████	████████	████████
<b>Balance *</b>	████████	████████	████████	████████	████████

\*figures rounded up/down for ease of analysis

NEC have analysed all information from 2019 and additional information requested in regard to childcare fees and salary/running costs and have concluded that in order for the nursery at Victoria Quay to be financially viable it would require a financial subsidy from SG of £████████ per month.

They have confirmed that without that subsidy or other options to increase income in order that the social enterprise aspect of the company is not subsidising VQ they will not be able to continue the nursery provision and on the current level of profitability would not rebid for the contract so it be decided that we will continue with that provision. Potential redundancy costs for NEC should we decide to bring the provision to an end would be in the region of £████████. We could of course agree to support NEC with some or all of these costs at the end of the contract or if we decide to bring the contract to an end in June.

### Comparable Childcare Costs and Availability

The Housing Homelessness and Fair Work Committee Report from City Of Edinburgh Council regarding affordable childcare for working parent published on 08/08/23 stated that the Edinburgh Average cost of Childcare is £63.00 on average per day.

Looking at childcare costs across a range of Edinburgh nursery's full day care costs range from £44.50 - £71.50

Whilst NEC have a waiting list for babies they have confirmed that there are no concerns over childcare provision in the Edinburgh area.

SG staff using VQ nursery pay fees for full day which average from £48.44 - £52.28. Which is comparably less that is being paid across the region and far less than the HHFWC reported average of £63.00 per day. Which brings into question if SG staff using the VQ nursery are receiving an unfair non pay benefit that others cannot access. There is also the issue of equity of provisions across our estate, VQ being the only nursery provision available in any of our buildings.

### **Parents and Children with Nursery Places and waiting list**

43 individual children  
40 families

NEC currently has waiting list for babies but due to the limits on re-configuring the space in the nursery they are not able to offer anyone on the waiting list a place. Priority on the waiting list is given to second children to ensure that parents are not required to attend 2 different establishments. The need to comply with the regulations around space and assessing the needs of children to move through the stages of nursery care, further restricts any flexibility on this. NEC have confirmed that where possible they ensure that any space that is available is offered to parents when possible.

### **SG Costs Associated with the Nursery Provision**

Utility costs for the VQ nursery is based on the floor space as a percentage of the total building. The Nursery isn't sub metered, so figures are an estimate -

Total cost for 2022-23 is £3,780.  
Total cost for 2023-24 is £5,480.

Cleaning is provided by Mitie and currently costs around £[REDACTED] per year.

Total costs in region of £[REDACTED], likely to increase going forward.

### **Procurement Restrictions**

Under the contract that the nursery provision was procured. Procurement and legal colleagues have confirmed that the following would be permitted under the terms of the current licence -

[REDACTED]

[REDACTED]



## Options

1. Apply the +1-year addition in June 2024. Let the nursery run until the contract ends is due to end June 2025, subsidising NEC to ensure that they are financially able to continue to run the contract until then. Provide parents with notice in June 2024 that the intention is to bring the service provision to and end and close the nursery waiting list with immediate effect.

## Challenges

- This would cost about £[redacted] over the 2 years at current occupancy. There is no budget allocated for the nursery so we would need to identify budget to do so.
- Occupancy will decrease as we run the provision down, as parents chose to move children elsewhere before they are forced to do so. Requiring a higher level of subsidy to make the provision cost neutral.
- There is a high risk here is that NEC experience experienced staff leaving and may risk the continuity of the service but likely this will coincide with reduction in children attending as they move to other provisions.

## Benefits

- This would free up the space occupied by the nursery and options for its reuse could be considered well in advance and available for consideration in the refurbishment of the ground floor.
- Save approx. £[redacted] per year in cleaning and heating costs.
- Would remove the inequity and unfairness of a nursery provision in one location only.

- Remove any reputational or other risk of particular SG employees being viewed as receiving “subsidised” or “cheaper” childcare.
  - Allows NEC to manage the exit of staff through natural and normal options rather than redundancy.
  - Provides parents with a significant period of time to secure alternative childcare.
2. Look at options to extend the groups that could use the VQ Nursery, to wider public service and/or other parents in the Leith area. It has a separate entrance and security and secure outside space so parents could easily use the nursery. Procurement is confident that we could apply for a licence change to extend the current contract.

### **Challenges**

- This would of course mean non-SG parents arriving with cars would also need to access the VQ car park and with this being done more remotely/electronically would require them to be provided with passes.
- It may also require some level of policing from SG security/facilities staff to ensure that parents removed cars after dropping off.
- Would need to continue to manage and defend the inequity and unfairness of a nursery provision in one location only.
- There will be a continued reputational or other risk of particular SG employees being viewed as receiving “subsidised” or “cheaper” childcare.
- There is a huge unknown to whether this would increase attendance levels to enable the nursery to be viable going forward and we may still have to bring the contract to an end in June 2025.
- Would still need to consider introducing a subsidy as at option 1 until income from attendance levels balance the costs.
- We need to be aware that last procurement exercise only had 2 interested businesses and NEC were the only ones to submit a bid. The added risk here is that we end up with children in a nursery and no service provision to take care of them.

### **Benefits**

- Potential to have a well-attended nursery that provides a benefit to a wider group of staff and the local community.
3. Look to close the nursery in shorter time. Giving parents notice immediately of that intended closure to ensure that they can look to secure relevant alternatives. Should we decide to close the nursery before invoking the +1-year extension we ideally want to give NEC and parents at least 3 months’ notice so would need to be agreed and communicated by 31 March 2024.

### **Challenges**

- Would still require consideration off providing NEC with a subsidy of £[REDACTED] a month until that point.
- Would definitely see NEC staff being in a redundancy situation and SG will want to consider meeting the costs of redundancy of approx. £[REDACTED]
- Significant risk that those parents who have children at the nursery not being able to secure alternative childcare in that short time frame.
- Whilst legislation and our special leave policy provide protection and options for parents to take leave when childcare arrangement break down. Will require us to consider support options i.e. paid/unpaid leave for those parents who cannot get care for their children which will carry huge risks around inequality and fairness for other parents in similar situations.

### **Benefits**

- Would free up the space occupied by the nursery much earlier and allow workplace to include that option in current plans for re-working the ground floor.
- Immediate saving of the SG running costs for the VQ nursery space for an additional year of £[REDACTED]
- Would remove the inequity and unfairness of a nursery provision in one location only.
- Remove any reputational or other risk of particular SG employees being viewed as receiving “subsidised” or “cheaper” childcare.

### **Recommendations**

All options will have the potential to impact negatively on our staff, their children and of course NEC as an organisation and its staff. It is clear that the ongoing provision of a non-subsidised nursery provision is not viable and options to attempt to make it viable do not have clear and guaranteed outcomes or rates of income for any provider. It is therefore recommended that we should look to bring this service provision to an end.

Options 1 & 3 seek to bring the provision to and an end in different timescales. The option with the lower risks around this is option 1. This options also supports us gaining a better level of benefits; financial, moral, equitable & reputational. It also allows us to manage this closure in a measured and fair manner, reducing where we can the negative impact identifies on all, in particular parents, guardians and children.

Given timescales and actions that will be required to be in place option 3, whilst achieving the same outcome as 1 over a shorter timescale, is not recommended as we are not confident that parents and guardians will be able to secure alternative safe and appropriate childcare in those timescales.

Option 2 is not recommended as we consider from past experience that there is a huge risk that we would not get any bids from professional and experienced childcare providers. In addition, at this point we do not consider that external interest

in a nursery provision in VQ setting would be sufficient to make the nursery financially viable for a good quality provider.

**Should you agree to go with Option 1 next steps would be;**

1. Briefing note to Directors for agreement in principle and confirm next steps i.e. ET for sign off.
2. If agreed ET agreement and sign off?
3. Consultation/engage with CSGU on proposals.
4. Consider other options we can advise parents about, including what policies we have in place to support them.
5. Draft timetable of actions and roles.
6. Advise NEC management of our agreement to close provision with timetables etc. Option to meet with People Advice and Workplace to discuss.
7. Engage with Staff Networks (concurrently with action 8).
8. Communications to parents and those on waiting list about proposals and option to meet People Advice and Workplace to discuss.
9. Advise Mitie of contract ending and adjust cleaning requirement/contract.
10. Saltire communication on action and reasons (comments on/off?)
11. Arrange set up of subsidy payments.
12. Ongoing communication with parents.

  
23 March 2024

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There has been varying success with this arrangement and the level of service provided over the years with one nursery provider's contract having to be brought to an end due to concerns over the level of care being provided. Thankfully there have been no such concerns with the current provider – North Edinburgh Childcare.

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In addition to running the nursery at VQ, NEC also offer childcare and run a nursery from their childcare centre based in Pilton, an area in Edinburgh considered to be one of the highest areas of deprivation and poverty according to the Scottish Index of Deprivation and Poverty.

### NEC Costs of running VQ nursery

There are many benefits to the approach to Hybrid working since Covid. However, it would appear that one of the unintentional consequences of hybrid working has resulted in parents only placing children in VQ nursery on the days they are in attendance at VQ and therefore this has had a direct impact on NEC income generation, in terms of a reduction in child attendance.

NEC consider that added to this there has been a general decline in attendance in private nurseries since the introduction of free childcare and the increase in that provision for younger children and the extension of that provision to cover older children. There is a general view that many parents are choosing to place their child in their local school/state provision to ensure consistency and familiarity through nursery to primary school.

The consequences of the pandemic lockdowns and the working from home of staff affected NEC's ability to generate a profit whilst being restricted to the terms of the contract, i.e. under the model they cannot increase childcare fee rates (which directly impacts on their income generation). This has resulted in the NEC nursery in essence subsidising the operation on VQ nursery provision. Figures in the table below show the deficit over the last 4 years that has had to be met from the social enterprise wing of the NEC.

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<b>Balance *</b>					

\*figures rounded up/down for ease of analysis

Simultaneous to awarding the staff backdated cost of living increases they faced the additional burden of the everyday general of cost-of-living increases. In addition, there will be a further 10% Scottish Living Wage increase which will impact the wages at the nursery for the majority of the staff and then there will be a knock-on effect for the slightly Senior staff who will be expecting a wage rise since their salaries will not be far off their colleagues due to the 10% increase. Therefore, the impact on NEC ability to make a profit will increase.

NEC have analysed all information from 2019 and additional information requested in regard to childcare fees and salary/running costs and have concluded that in order for the nursery at Victoria Quay to be financially viable it would require a financial subsidy from SG of £2500 per month.

They have confirmed that without that subsidy or other options to increase income in order that the social enterprise aspect of the company is not subsidising VQ they will not be able to continue the nursery provision and would not rebid for the contract so it be decided that we will continue with that provision. Potential redundancy costs for NEC should we decide to bring the provision to an end would be in the region of £ [REDACTED]

### **Comparable Childcare Costs and Availability**

The Housing Homelessness and Fair Work Committee Report from City Of Edinburgh Council regarding affordable childcare for working parent published on 08/08/23 stated that the Edinburgh Average cost of Childcare is £63.00

Looking at childcare costs across a range of Edinburgh nursery's full day care costs range from £44.50 - £71.50

However, there does appear to be a drastic shortage of early years provision in Edinburgh due to the number of nurseries that have had to close since covid and therefore there is a longer wait for children getting a nursery place. We need to bear this in mind for our staff who use the nursery should we decide not to continue with the provision.

SG staff using VQ nursery pay fees for full day which average from £48.44 - £52.28. Which is comparably less that is being paid across the region and far less than the HHFWC reported average of £63.00 per day. Which brings into question if SG staff using the nursery are receiving an unfair non pay benefit that others cannot access. There is also the issue of equity of provisions across our estate, VQ being the only nursery provision available in any of our buildings?

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Cleaning is provided by Mitie and currently costs around £ [REDACTED] per year.

Total costs in region of £ [REDACTED].

### **Procurement Restrictions**

Under the contract that the nursery provision was procured. Procurement and legal colleagues have confirmed that the following would be permitted under the terms of the current licence -

[REDACTED]



## Options

1. Let the nursery run until the contract ends on June 2025, subsidising NEC to ensure that they continue to run the contract until then. This would cost about £[REDACTED] over the 2 years at current occupancy. There is no budget allocated for the nursery so we would need to identify budget to do so. However, occupancy will decrease as we run the provision down, as parents chose to move children elsewhere before they are forced to do so. NEC are at the lowest level of childcare workers required to run the facility legally, so couldn't reduce those any lower to reduce costs. The risk here is that NEC experience staff also leaving and may risk the continuity of the service. This would free up the space occupied by the nursery and options for its reuse could be considered well in advance and taken into account in the refurbishment of the ground floor and save approx. £[REDACTED] per year in cleaning and heating costs. . £[REDACTED] per year.
2. Look at options to extend the groups that could use the VQ Nursery, to wider public service and/or other parents in the Leith area. It has a separate entrance and security and secure outside space so parents could easily use the nursery. Procurement is confident that we could apply for a licence change. This would of course mean non-SG parents arriving with cars would also need to access the VQ car park and with this being done more remotely/electronically would require them to be provided with passes. It may also require some level of policing to ensure that parents removed cars after dropping off. Whether the nursery will be a viable business going forward is a concern. We need to be aware that last procurement exercise only had 2 interested businesses and NEC were the only ones to submit a bid. The risk here is that we end up with children in a nursery and no service provision to take care of them.
3. Look to close the nursery in shorter time. Giving parents notice now of that intended closure to ensure that they can secure relevant alternatives. This would mean SG meeting the costs of redundancy of approx. £[REDACTED] and would allow NEC to walk away from the contract. Depending on timescales we may

also want to look at subsidising NEC at the rate of £[REDACTED] a month until that point. Again, this would free up the space occupied by the nursery much earlier and allow workplace to include that option in current plans for re-working the ground floor. Should we decide to close the nursery and not invoke the +1-year extension we ideally want to give NEC and parents at least 3 months' notice so would need to do communicated by 31 March 2024. Similar to option 1 this would save approx. £[REDACTED] a year.

[REDACTED]