# Nursery Rates Relief: Evaluation

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Scottish Government
Riaghaltas na h-Alba

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## 1. Introduction

### 1.1 Policy background – Nursery Rates Relief

Since April 2018, premises in Scotland that are used wholly or mainly as a day nursery have been able to apply for 100% relief from Non-Domestic Rates (NDR)[1]. Non-Domestic Rates are paid by business, public sector and third sector organisations unless exempt. Some nurseries may also be entitled to other relief such as Small Business Bonus Scheme relief, Rural Rates Relief or Charitable Rate Relief.

Nursery Rates Relief (NRR) was implemented in response to a recommendation in the Barclay Review of Non-Domestic Tax Rates:

"We believe that one of the most important ways to supporting economic growth is ensuring that the workforce is supported by convenient, affordable and accessible childcare…Although rates are only one overhead for this sector, we believe a reduction in the rates burden may help enable more of the workforce to return to work after starting a family."[2]

The review also recommended that the relief should be evaluated after three years 'to ensure that benefits of the relief have been felt, including by parents and carers'. The Scottish Government committed to evaluating the relief in its implementation plan in response to the Barclay Review[3].

The relief was initially available for the three-year period 1 April 2018 until 31 March 2021. However, in December 2020, the relief was extended until at least 30 June 2023[4]. The extension took place in the context of the Covid-19 pandemic and was intended to provide support to the sector in combination with other measures, at a time when providers were facing financial pressures as a result of the pandemic.

The introduction of NRR in Scotland took place against the background of a considerable investment in Early Learning and Childcare (ELC) by the Scottish Government to support the expansion in the number of funded hours of ELC that eligible children could access from 600 hours per year to 1,140 hours per year. The move to 1,140 hours resulted in substantial change and investment in the childcare sector, in particular as some providers adapted their business models towards delivering increased levels of funded ELC. The expansion of funded ELC is discussed in more detail in section 1.2 below.

In addition, the Covid-19 pandemic, has had a significant impact on childcare providers. As part of the Scottish Government's response to the pandemic childcare services were, from March 2020, subject to varying levels of restrictions on their operations. These included restricting providers to only being able to offer care to children from key worker families or vulnerable children, and operating under specific

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[1] Nurseries within a building which is used mainly for other purposes, such as a primary school, would be ineligible. In addition, eligibility may be restricted below 100% due to subsidy control considerations.
[2] See recommendation 4.25, Non-domestic tax rates review: Barclay report
[3] Non-domestic rates: Implementation plan in response to the Barclay review, December 2017,
[4] See Nursery rate relief extended until 2023 - gov.scot (www.gov.scot)

public health guidance. The pandemic and the resulting restrictions, have impacted these services through a number of routes including on the cost of delivery, demand for services and income, and on staffing.

These factors make it challenging to attempt to estimate the impact of NRR on either the cost of childcare faced by parents or the viability of childcare providers. It should be noted that this report is not an attempt at a Value for Money evaluation of NRR. Estimating the precise impacts of the relief is also made more challenging by the lack of specific data on the baseline position (for example, with respect to rates levied across different nurseries) at the creation of the NRR. Instead, the evaluation has focused on setting out the wider context for the sector during the three-year period of the initial scheme – including sector trends and wider evidence on financial sustainability – and complements this with qualitative information from providers. This helps to provide wider context to the role of the relief and outlines the possible impacts of removing the relief.

### 1.2 Overview of the Nursery Rates Relief evaluation

To evaluate the impact of NRR and its possible removal on childcare providers, this report makes use of:

- an analysis of trends within the childcare sector based on Care Inspectorate data, the ELC Census and the Financial Sustainability Health Check
- Scottish Government data on the costs and recipients of NRR
- a survey of private and third sector childcare providers

Section two describes the background against which NRR has been in operation since 2018. This includes the expansion of funded ELC which has had significant implications including investment in capacity and changes in the business models of private and third sector providers in response. It also describes trends within the childcare sector in recent years such as usage and capacity, making use of Care Inspectorate and Scottish Government statistics. Finally, it draws on data from the Financial Sustainability Health Check to describe the impacts of the COVID-19 pandemic on the sector as well as discussing the possible implications for the sector of the near term economic outlook.

Section three presents data on the number of nurseries in receipt of NRR and other types of NDR relief, the cost of nursery relief and the value of NRR to settings. It also discusses eligibility for the relief and possible reasons why not all premises listed as nurseries on the non-domestic rates Valuation Roll were in receipt of NRR.

Section four briefly sets out the possible impacts of removal of NRR including possible responses by private and third sector providers.

Section five presents the results of a small survey of private and third sector providers. This includes the views of providers on the impact of the relief such as how savings resulting from the relief are currently used as well as possible impacts on providers, children and families of the NRR being removed.

## 2. Childcare sector - trends, policy context and economic outlook

### 2.1 The expansion of Funded Early Learning and Childcare

In 2014, the Scottish Government set out a commitment to increase the number of funded ELC hours from 600 hours per year for eligible children to 1140 hours per year by 2020. Local authorities are responsible for making funded ELC available to all eligible children in their area. This can be through local authority settings or by contracting with providers in the private, third and childminding sectors.

Investment in increasing the capacity (in terms of both workforce and infrastructure) required for the expansion in funded hours began in 2017-18. A statutory duty was placed on education authorities to make 1140 hours of ELC available to all eligible children from 1 August 2020. The COVID-19 pandemic led to a delay in the statutory roll out of 1,140 hours, with the statutory duty coming into effect from 1 August 2021.

The expansion of funded ELC hours is intended to improve outcomes for children, including by reducing the poverty-related attainment gap in schools. It is also intended to contribute to important outcomes for parents and families. The aims of the expansion can be summarised in the three high level outcomes below:

- children's development improves and the poverty related attainment gap narrows
- parents' opportunities to take up work, study or training increase
- family wellbeing improves

NRR may also contribute to the above outcomes, by improving the financial sustainability of providers in the sector. Possible impacts of the NRR are discussed in more detail in Section 3.

### 2.2 **The childcare sector in Scotland – overview**

As of April 2022, there were a total of 3,522 day care of children settings registered with the care inspectorate, with a total registered capacity of around 178,500 children. Of these, 1,781 were local authority run settings, 1,021 were private, 717 were voluntary or not for profit (third sector) and 3 were health board settings[5]. All of these categories of settings would be likely to be required to pay non-domestic rates, although some may be eligible for some other kind of relief (for example Charitable relief). However, childcare settings will only be eligible for NRR if they operate out of a building which 'wholly or mainly' operates as a nursery. This means that settings within buildings mainly used for other purposes (e.g. churches, schools, etc.) will not be eligible for the relief if the property is not wholly or mainly used as a day nursery.

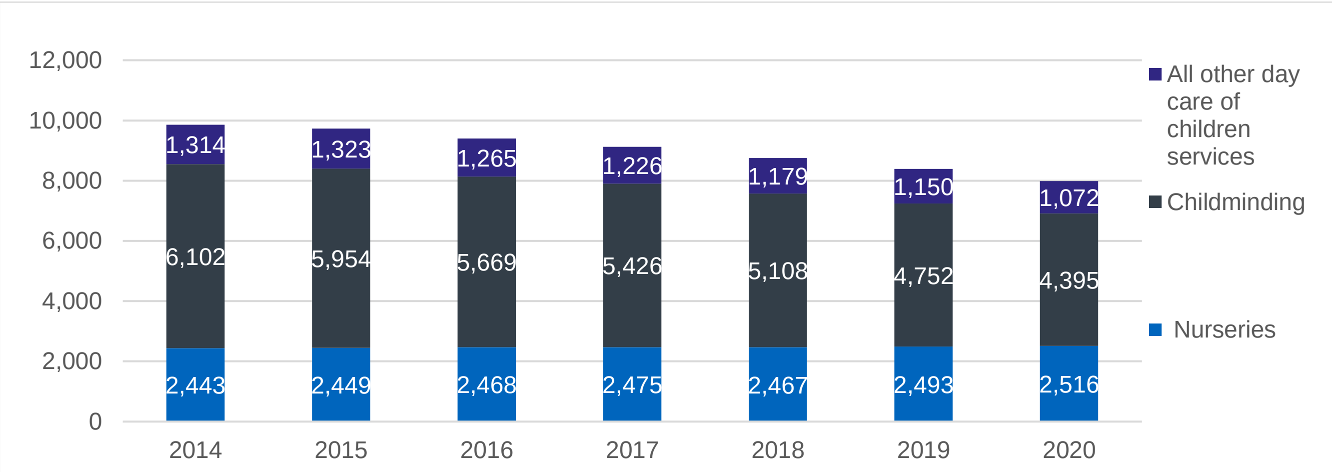
In addition to day care of children settings, there were 3,796 childminders registered with the Care Inspectorate in April 2022 with a total registered capacity of around 23,400 children or around 11.6% of total capacity of the sector. Note that while some

[5] Care Inspectorate Data Store, May 2022: Datastore (careinspectorate.com). Registered capacity is the total number of children that can be cared for in a setting at one time.

settings that have been identified as providing School Age Childcare as a primary service have not been included, in both the case of day care of children and childminder settings, some capacity may be used for care of school age children and it is not possible to identify those settings providing funded ELC in the Care Inspectorate's most recent dataset as it is currently published. As childminders provide childcare from their own homes, they are not typically rated or liable for Non-Domestic Rates[6], and so are not likely to benefit from Nursery Rates Relief.

The Care Inspectorate does publish more detailed statistics on the childcare sector that allow for different types of childcare settings to be more clearly distinguished, the most recently published dataset being as at December 2020. These show that the total number of childminders and day care of children services registered with the Care Inspectorate fell from 9,859 in 2014 to 7,983 in 2020. This fall, however, was due to a reduction in the number of childminders and day care of children services other than nurseries. The number of nurseries actually increased from 2,443 in December 2014 to 2,516 in 2020[7].

**Figure 1: Number of childcare settings, Care Inspectorate ELC statistics 2020**




While the total number of childcare services decreased between 2014 and 2020, the total capacity of the sector increased from around 191,880 registered places to around 203,570 in the same period. Within this total, nurseries increased their capacity (from 108,210 to 129,620) while also increasing their share of total capacity from 56% to 64% of total capacity across the childcare sector in December 2020. The increase in the number of nurseries and their share of capacity in the childcare sector began prior to the introduction of NRR.

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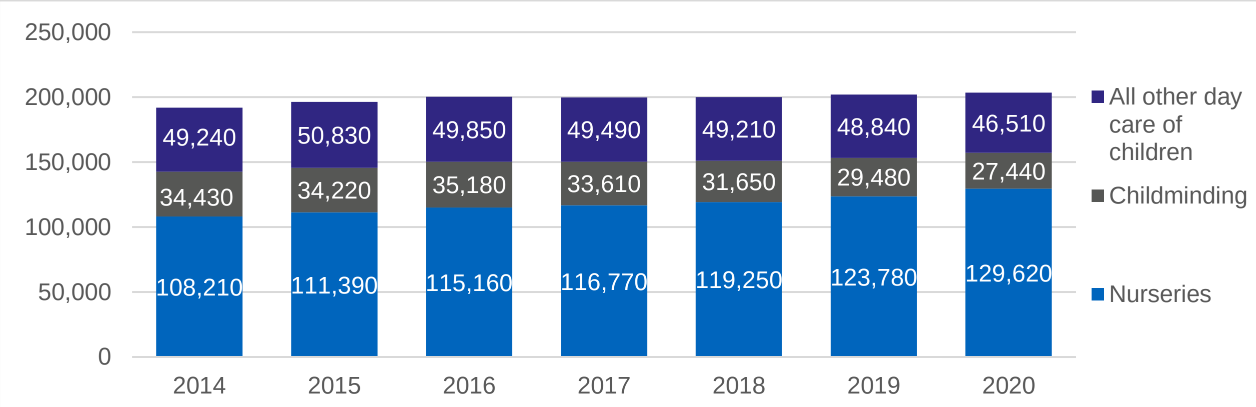
[6] If part of a residential property is used for non-domestic purposes, it may be liable for NDR in principle. This would be for the Scottish Assessors to determine.

[7] Those childcare services that have identified themselves as nurseries in the Care Inspectorate statistics may not always be classified in the same way on the NDR Valuation Roll. Day care of children services other than nurseries include children and family centres, crèches, playgroups, holiday playschemes, out of school care and "others". Source: [Early Learning and Childcare statistics 2020.pdf (careinspectorate.com)]

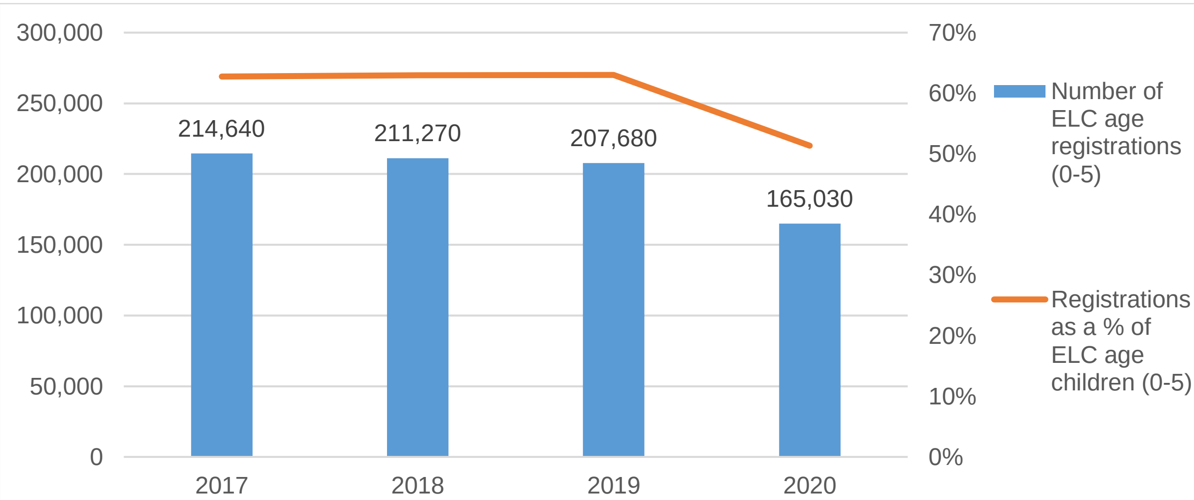
**Figure 2: Registered places by service type, Care Inspectorate ELC Statistics 2020**




Figures from the ELC census show that as at September 2021, there were 91,603 children registered for funded ELC in 2,630 settings, of which, 1,627 were local authority settings and 1,003 were private or third sector settings with 30.5% of children registered for funded childcare with funded providers in the private and third sector[8]. These figures do not include childminders providing funded ELC.

The total number of registrations in childcare settings for children under 6 years old was around 165,030 as at December 2020. This was considerably lower than in December 2019 when there were around 207,680 registrations for children under 6 years old. While the total number of registrations did decrease each year from December 2017 to December 2020, the number of registrations as a percentage of the population of under 6s remained largely similar between 2017 and 2019 with a larger fall in 2020[9], possibly reflecting the impact of the Covid-19 pandemic on the childcare sector outlined in section 1.1.

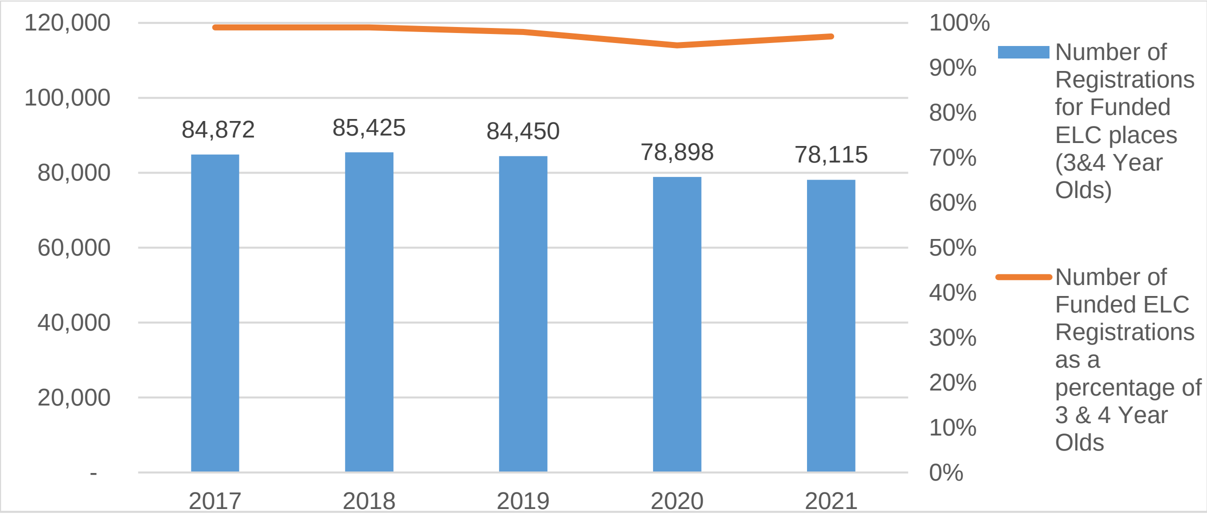
**Figure 3: Registrations in childcare settings of children age 0 to 5, Care Inspectorate ELC Statistics 2020**




[8] See [Supporting documents - Summary Statistics For Schools In Scotland 2021 - gov.scot (www.gov.scot)]
[9] [Statistics and analysis (careinspectorate.com)]

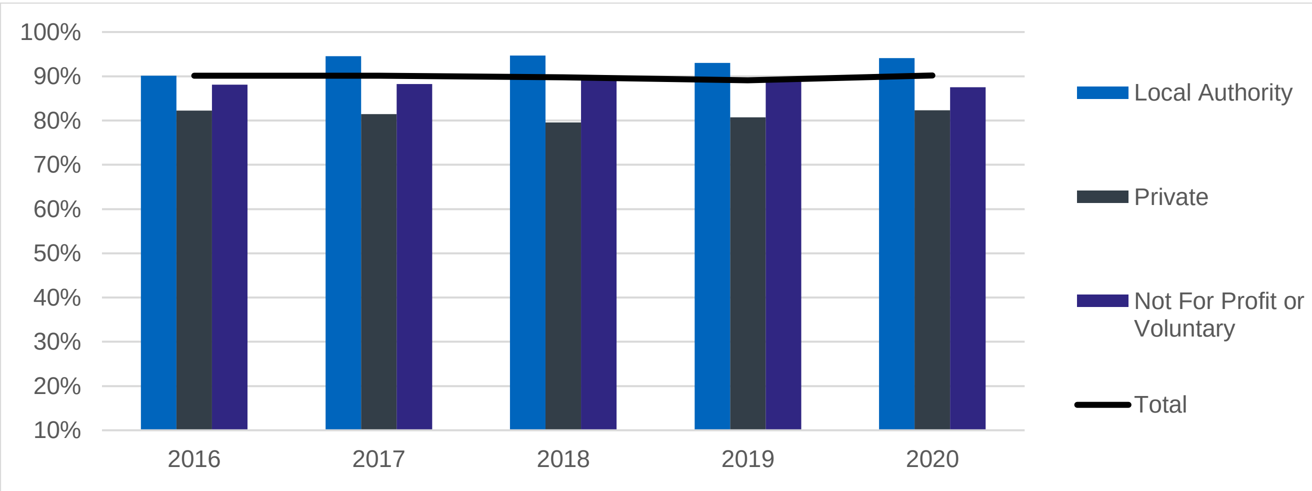
Scottish Government Early Learning and Childcare statistics indicate that registrations of three and four year olds have fallen since 2017. In September 2017, there were 84,872 registrations of three and four year olds for funded childcare places, falling to 78,115 by 2021.

**Figure 4: Registrations for funded ELC places age 3 and 4, Scottish Government ELC Census**




Grading of Care Inspectorate reports on nurseries imply a high level of quality in the sector overall with 90.2% of all nurseries that were graded receiving all grades “good” or better. The proportion of nurseries receiving “good” or better grades was higher amongst local authority nursery settings (94.1%) and lower amongst private nursery settings (82.3%)[10].

**Figure 5: Proportion of services with all inspection grades "good" or better, Care Inspectorate**




[10] [Statistics and analysis (careinspectorate.com)]

The average proportion of nurseries receiving all grades on their inspection reports either good or better has remained at broadly the same level in the 5 years from 2016 to 2020 with local authority nurseries being the most likely to receive all grades good or better and private nurseries the least likely over all 5 years.

### 2.3 The Financial Sustainability Health Check and the economic outlook

In April 2021, the Scottish Government began work on the Financial Sustainability Health Check (the Health Check) to assess the sustainability of the sector, in particular the impact of the COVID-19 pandemic on the childcare sector and of the financial support made available in response to it. The Health Check involved:

- detailed surveys of childcare providers, with separate surveys for day care of children and childminding services
- in-depth case study interviews with a range of providers
- in-depth one-to-one discussions with each the provider representative bodies (Care and Learning Alliance (CALA), Early Years Scotland (EYS), National Day Nurseries Association (NDNA), Scottish Childminding Association (SCMA), and the Scottish Out of School Care Network (SOSCN)
- analysis of trends in Care Inspectorate registration data

The survey results of providers' own assessments of their sustainability indicated a reduction in the proportion who reported their financial position to be sustainable, from 79% in March 2020 to 46% in May 2021. The proportion of providers with serious concerns about the sustainability of their business increased from 11% in March 2020 to 28% in May 2021. Of those services providing funded ELC, 50% indicated confidence in their sustainability in May 2021 whereas 44% of services not providing funded ELC indicated confidence in their sustainability. Similarly, 20% of services providing funded ELC expressed serious concerns about their sustainability compared to 31% of those that did not provide funded ELC[11].

The Health Check reported a significant fall in the occupancy rates of childcare settings between March 2020 and May 2021[12] with around a four-fold increase of services that provided funded childcare reporting occupancy levels of 50% or less in May 2021 compared to March 2020. For childcare services that did not provide funded places, 56% reported occupancy levels of 50% or less in May 2021 compared with 11% reporting that their occupancy levels were 50% or less in March 2020. This is likely due to a reduction in demand for formal childcare due to the wider labour market impacts associated with the pandemic such as furlough, and an increase in home working.

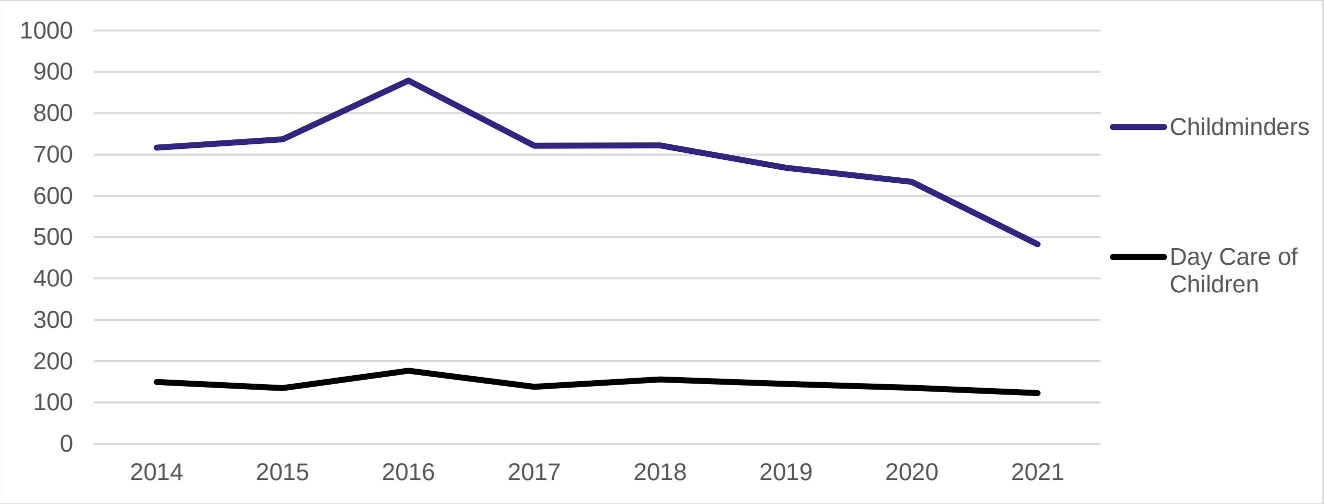
While the responses to the Health Check survey indicated increased concern about sustainability amongst providers, there was no increase in the number of childcare

[11] Financial sustainability health check of the childcare sector: analysis and evidence - gov.scot (www.gov.scot)

[12] See Financial sustainability health check of the childcare sector in Scotland - gov.scot (www.gov.scot) and Financial sustainability health check of the childcare sector: analysis and evidence - gov.scot (www.gov.scot)

settings cancelling their Care Inspectorate registration in 2020 or 2021 when compared to 2019. The overall trend in the number of cancellations amongst day care of children settings between 2014 and 2021 was downward, although it peaked in 2016. The number of day care of children settings cancelling their registration was lower in 2021 than every other year in the period, as was the rate of cancellations as a percentage of the total number of services registered.

**Figure 6: Number of childcare services cancelling their registration with the Care Inspectorate, Care Inspectorate Data**




The costs of delivering an hour of ELC for 3 to 5 year olds is estimated by the survey participants to have increased by around 10% between March 2020 and May 2021 for private settings[13]. Many of the reasons cited for the cost increases were related the COVID-19 pandemic, for example: increased cleaning requirements, the need for PPE and additional staff costs associated with COVID-19. In addition, the cost of utilities and of meeting Real Living Wage requirements was also cited.

Data collected by the Health Check indicates that some of these costs were passed on to parents, with the mean fee for providing childcare to 3 to 5 year olds in private services rising by around 4% to £5.52 per hour between March 2020 and May 2021. A rate of £5.52 per hour also represents an increase in real terms of around 8.7% when compared to the average hourly rate for childcare of 3 and 4 year olds amongst private settings indicated by Scottish Government research in 2016[14]. This comparison is intended to be illustrative only as the figures are taken from two separate pieces of research that used different methodologies.

Although the focus of the Health Check and many of the concerns regarding cost and financial sustainability for the childcare sector were impacts arising from the

[13] The figure presented here is the median value which is less affected by outliers in the dataset and therefore provides a meaningful measure of the average costs of delivery. As part of the quality assurance process, responses in excess of £20 were excluded from the calculation of mean and median values to adjust for where a small number of respondents may not have entered an hourly cost figure or misinterpreted the question.

[14] [Financial review of early learning and childcare in Scotland: the current landscape - gov.scot (www.gov.scot)]

Covid-19 pandemic, the overall economic outlook remains challenging. The OBR forecasts a fall of 2.2% in real household disposable income in 2022-23, an unprecedented fall for a single year in ONS records[15]. Similarly, the Scottish Fiscal Commission forecasts a fall in real average earnings for Scotland of 2.7% in 2022-23[16].

The impact of a fall in real earnings and disposable income on the childcare sector is unclear as it is dependent on the net effects of a number of possible responses from households such as the way that a fall in earnings may interact with income or employment related benefits to influence the labour market behaviour of families. For example, an increase in the cost of childcare relative to the household budget may result in some households reducing their demand for formal childcare by increasing their reliance on informal childcare or reducing the number of hours they work.

Alternatively, households may respond to a reduction in real household income by increasing the number of hours they work, where this is possible, and therefore increasing demand for childcare. This response may be especially prevalent in those households whose children are currently utilising less than their full 1140 hours of funded childcare, as the net increase in income from any additional hours worked will only be reduced by childcare they may have to purchase over and above their funded childcare entitlement. The potential for an increase in the demand for childcare due to an increase in the number of hours worked may be limited, however, by the number of households with multiple children, not all of whom will necessarily be entitled to funded childcare. In addition, those households able to access funded childcare for all of their children may be more likely to be working full time and therefore they may have little scope to significantly increase the number of hours they work.

## 3. Non-Domestic Rates (NDR) Data on NRR

In 2021, there were 1,100 premises registered as 'day nurseries' on the Valuation Roll in Scotland. There are a two main reasons for this number being so much lower than the figure of 3,522 day care of children services operating in Scotland mentioned in section 1. Firstly, as mentioned in section one, the valuation roll lists premises by their primary use. Some childcare settings may be described as having another primary use on the Valuation Roll. This will include, but will not be limited to, childcare settings operating in churches, community centres, office buildings and in schools/school estates. Secondly, the number of registered settings is sourced from Care Inspectorate registration data which includes many settings which offer childcare for school age children as their primary service.

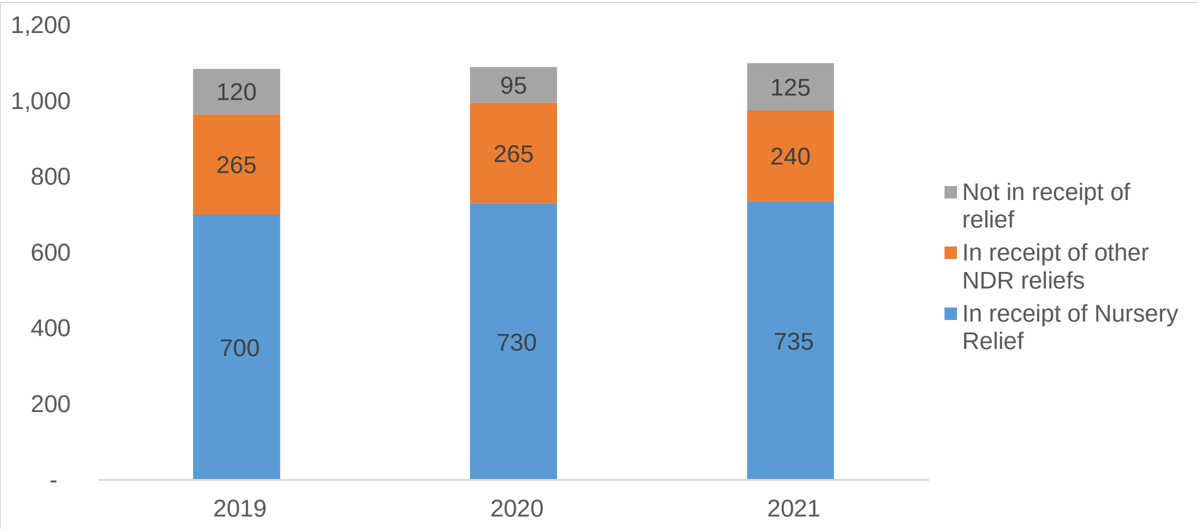
Data on childcare settings, as published in the Care Inspectorate Data Store (which is the most up to date data available), does not currently allow for services providing school age childcare as their primary service to be distinguished from nurseries in every case. Figures from the Care Inspectorate's Childcare Statistics indicate that

[15] Economic and fiscal outlook - March 2022 (obr.uk)
[16] Scotland's-Economic-and-Fiscal-Forecasts-Summary-May-2022

there were 716 settings which provided care for school age children as their primary service as at December 2020.

Of the 1,100 ‘day nursery’ premises on the NDR roll, there were 735 nurseries in receipt of Nursery Rates Relief, 240 in receipt of another kind of NDR relief and 125 not in receipt of any relief. The number of settings on the valuation roll, and in receipt of reliefs, has been relatively stable over recent years (as shown in Figure 7). It is not clear why over 100 nurseries are not claiming any relief, however, it is possible that some or all of these nurseries may have reached the limit to the value of state benefits they are able to receive in accordance with the UK’s international commitments regarding subsidy control.

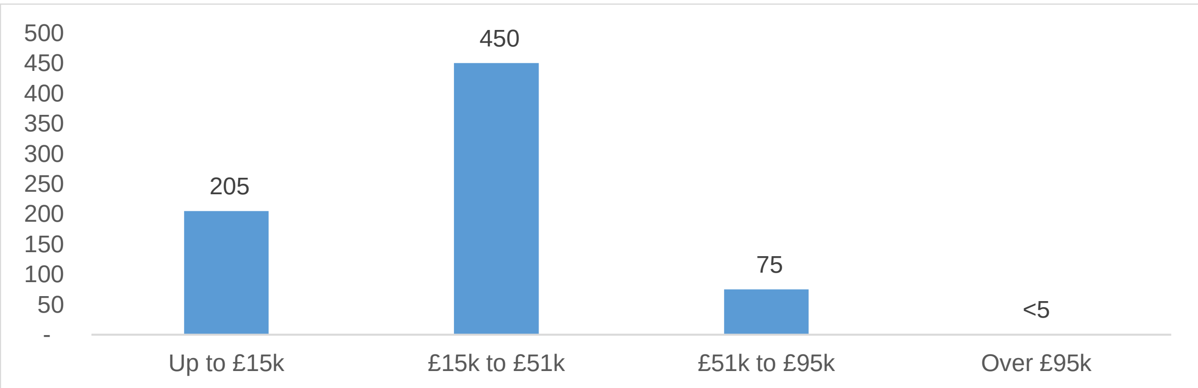
**Figure 7: Day nurseries on the NDR Valuation Roll - by relief status**




## 3.1 The value of NRR

In the financial year 2020-21, the total cost to the Scottish Government of providing NRR (i.e. the value of nursery rates relief to nurseries) was £9.6 million at an average value of the relief per nursery of around £13,200. The majority (61%) of day nurseries have a rateable value of between £15,000 and £51,000 (Figure 8).

**Figure 8: Number of day nursery premises on valuation roll by rateable value band (2021-22)**



The average value of the relief varies by premise (due to the valuation of the premises on the valuation roll – which is driven by factors such as rent prices, size of the premise etc.). The variation between the valuations of premises on the role also impacts the value of the relief in each Local Authority. The average value of the relief per nursery in 2020-21 ranged from £5,600 in Dumfries and Galloway, to £24,500 in Aberdeen City.

**Figure 9: Total value of NRR by financial year, £millions**


While the value of NRR has been relatively stable at around £9.6 million per year to date (Figure 9), the next NDR revaluation in Scotland will take effect in 2023. For this, Scottish Assessors will revalue all properties, and the associated rateable values on the roll will be updated. This may result in changes to the overall value of nursery rates relief but it is not yet possible to say whether this is likely to increase or decrease the value of the relief.

It is also not possible to tell from the NDR data how many of the 'day nurseries' in receipt of nursery rates relief are providers of funded ELC hours. Whether or not a nursery is a funded provider will influence how any future changes to NDR reliefs may impact their organisation. This will be discussed in more detail in section 4.

## 4. Possible impacts of removing Nursery Rates Relief

Removing the NRR would not necessarily imply a saving that is equivalent to the full cost of providing the relief highlighted in Figure 9.  Some nurseries will continue to be entitled to other types of relief such as Rural Rate Relief, the Small Business Bonus Scheme or Charitable Rate Relief i.e. there would be displacement of some of the value of NRR. In addition, direct savings from the removal of NRR may be offset to some extent by an increase in the cost of providing funded ELC. As set out the Sustainable Rates Guidance, rates should reflect the cost of delivery which would need to include the costs associated with paying business rates were the NRR removed (where these are not reflected in the current rates paid to services delivering funded ELC). Finally, if increased costs associated with the removal of NRR lead to higher childcare costs for parents or a reduction in the number of viable childcare services, there may be additional costs associated with lower rates of work or study amongst parents and carers.

The potential impact of removing NRR will vary across depending on their circumstances.

The main factors which will determine impact are:

1. **Value of the relief to the setting** – clearly, the higher the value of the relief, the larger the financial impact. However, the scale of this impact would also be influenced by the size of the setting. If the setting is a large organisation with a high rateable value, this will have a smaller percentage impact than if a small organisation had the same high rateable value (for example because they were in an area with high property values).

2. **Ability to claim another relief** – if settings are able to claim an alternative relief, if NRR were removed, then this could reduce the overall financial impact (or have no impact if 100% relief were available through an alternative). However, discretionary reliefs such as Rural Rate Relief are dependent on Local Authorities agreeing that the organisation operating from the premise is offering a 'benefit to the community' and the local authority would fund part of this relief, rather than the Scottish Government funding the whole relief as happens with NRR. There are also limits which apply to some other reliefs (meaning than some premises, even if they are eligible for another relief, may not receive 100% rates relief in the event of NRR being removed).

3. **Funding mechanisms for that setting**

    - **For providers not offering funded hours** – these providers will have to choose between increasing their prices and/or absorbing the increased costs into their business model.
    - **For providers of funded hours**– it is possible that Local Authorities may adjust the rates they pay childcare providers to reflect the increase in costs associated with the removal of NRR. Even in this scenario, it is unlikely that any adjustments to rates paid will offset the new liabilities entirely due both to the reliance of most settings on a mix of income streams[17] and the variation in the rates which different providers would be liable for. Therefore, providers offering funded hours will likely face similar choices to those who don't offer funded hours in the majority of cases. The extent to which they would have to adapt, however, (such as the scale of adjustments to prices or profit margins) might be reduced if local authorities increase the rates they pay to address increased costs associated with the removal of NRR.

[17] The Financial Sustainability Health Check of the Childcare Sector indicated that, on average, private providers receive between 33% and 45%, and third sector providers between 69% and 77%, of their income from their local authority.

4. **Elasticity of demand for services** – the extent to which services feel that they are able to raise their prices will depend on the price elasticity of demand for their service. This is the extent to which demand for their service falls due to an increase in price. Elasticity of demand will depend on factors such as availability of other providers, cost of other providers and whether the setting offers a unique service (for example, extended opening hours). Price elasticity of demand in the sector may also be affected by the desire of families and carers to keep children with the same service for the sake of continuity.

The third point above tackles what options settings faced with higher costs would have. Below we attempt to cover the possible impacts of these choices:

- **Impact of settings increasing costs to parents**. As mentioned in section one, the UK is currently experiencing large decreases in real household disposable income – meaning that any increase in costs of childcare in the short to medium term future is likely to impact households more than would otherwise have been the case. Overall the impact which an increase in costs had on parents and carers would depend on a number of factors.
    - **Parents with a higher disposable** income may be able to experience a rise in prices with no impact on their childcare behaviours (i.e. no change to hours, setting etc.). Instead they may reduce their savings, increase their hours worked or decrease their spending on other things (such as leisure).
    - **Parents for whom an increase in costs is not easily affordable** may feel forced to cut spend on other essential items; to change their childcare arrangements (perhaps to make more use of informal childcare); or to decrease their hours of work or study to reduce their need for childcare.

  The impact on parents/carers will also vary geographically, as some areas will have more childcare settings to choose from which may lead to lower average prices due to competition, and may mean that parents/carers are more able to move setting if prices become unaffordable. However this may not be the case for parents in more rural areas or for parents with specific requirements from their setting (certain opening hours etc.).

- **Impact of settings absorbing increased costs** – in this case the impact on the business and service users will depend on whether the setting is able to absorb the costs into their existing profit margin or whether or not they will need to cut other spend (for example, investment in staff training, pay increases for staff, new facilities etc.).

### 4.1 Data from 2016 Ipsos Mori Survey

Assessing the impact of an increase in NDR on the overall cost of delivering funded ELC in private and third sector funded provider services is complicated for two reasons: we do not know exactly how many of the settings currently benefitting from the relief are providers of funded ELC, and we do not have up to date data for the scale of what NDR costs would be in relation to all ELC costs, if the NRR were to be removed. However, in 2016, to inform the expansion of ELC within Scotland, the

Scottish Government commissioned Ipsos MORI to produce [Costs of Early Learning and Childcare Provision in Partner Provider Settings](), and it may be helpful to consider the data on costs collected as part of this exercise.

Ipsos Mori reported that, on average (mean), business rates made up 1.64% of per hour costs for private sector ELC settings[18]. Business rates as a percentage of per hour costs also varied by other provider characteristics:

- when considered by urban/rural classification, those providers in 'other urban' areas had the highest business rates costs as a percentage of per hour costs (1.47%) and those in "remote rural" areas the lowest (0.33%);
- when considered by size, large providers had the highest business rates cost per hour (1.72%) and small providers had the lowest (0.56%);
- when considered by SIMD Quintile, those providers operating in SIMD Quintile 2 had the highest business rate costs per hour (1.68%) while those operating in SIMD Quintile 3 had the lowest (0.74%), and;
- when considered by area of Scotland, providers in Eastern Scotland had the highest per hour business cost and those in North Eastern Scotland had the lowest (0.63%).

Per hour business rate costs are likely to be determined by the rateable value and the likelihood of being eligible for reliefs associated with the above characteristics.

## 5. Views of private and third sector providers

The views of private and third sector providers were sought on what impact (if any) the relief has had on their business, as well as the children who attend, and their parents and carers; and what the impact of the scheme being removed would be. While the difficulty in directly linking NDR relief savings to individual spending decisions within a childcare provider is acknowledged, the relatively high and quantifiable value of the relief to each eligible setting should provide weight to the opinions of childcare providers on its value, and the impact of removing it.

A short questionnaire was distributed via some of the childcare representative bodies[19] seeking direct qualitative feedback. There has been a large number of exercises collecting information from the sector ahead of the survey being issued and some survey fatigue was anticipated. A total of 26 providers in the private and third sector responded to the survey. Their responses are summarised below. Where an open question is asked, respondents could provide more than one response.

Caution must be applied to interpreting the results due to both the small sample size (only around 1.5% of all providers in the private and voluntary sectors), and given that NRR will have provided at least an immediate financial benefit to respondents upon its introduction.

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[18] The figure for third sector settings was 0.05%, presumably as they were already able to claim charitable rates relief.

[19] Early Years Scotland, Care And Learning Alliance, National Day Nurseries Association, Scottish Out of School Care Network.

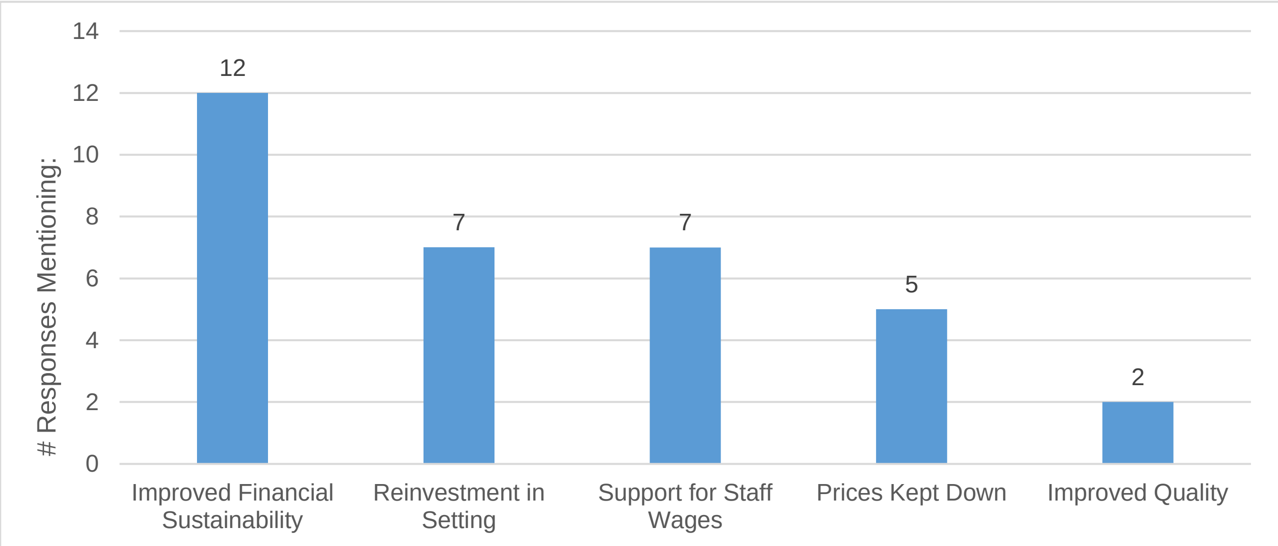
Scottish Government officials also conducted interviews with two childcare providers to obtain further direct feedback. Many of the themes highlighted in the survey responses, as set out below, were also mentioned by the interviewees.[20]

### 5.1 Do you think the Nursery Rates Relief Scheme has had an impact on your setting?

Most respondents (24 out of 26), perhaps unsurprisingly, described the NDR relief as having an impact on their setting. The survey then asked those 24 respondents responding positively to describe the impact. The most common responses are highlighted at Figure 10.

The most commonly cited impact, quoted by half of all respondents, was an easing of financial pressures, and increased sustainability of the business. Of those 12 mentioning cost pressures, three respondents noted that their business may not have remained viable without the relief.

**Figure 10: What Impact has the Nursery Rates Relief had on your setting?**



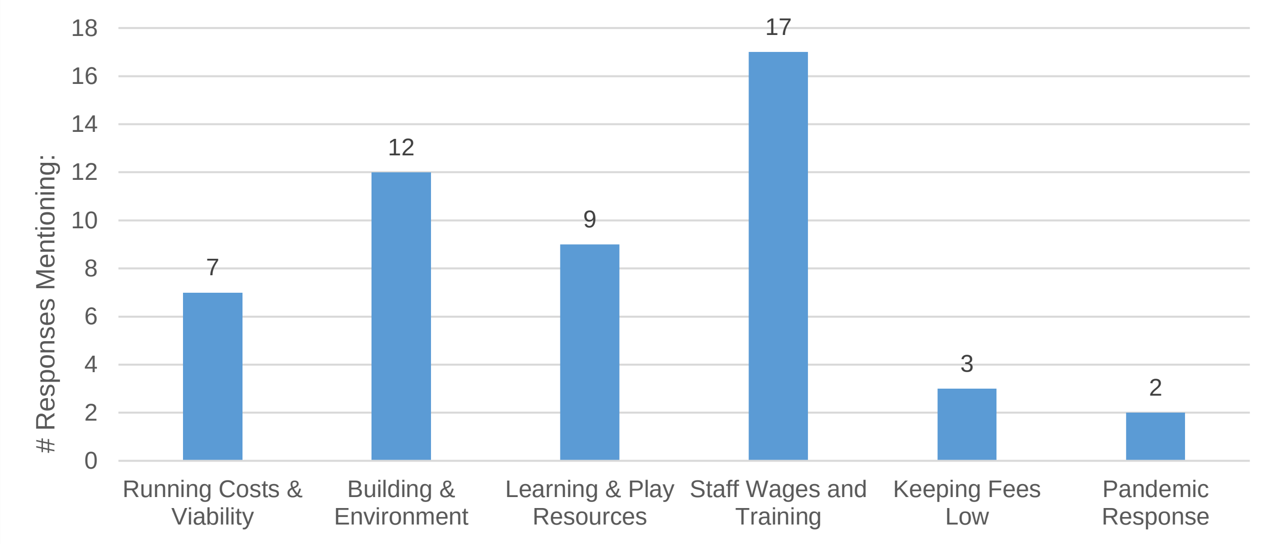

Those providers who answered that the relief had not had an impact noted they were not eligible for NRR.

### 5.2 How has money saved via Nursery Rates Relief been spent within your setting?

Providers were asked to identify where money saved via NRR had been spent in their setting, and asked for specific examples. Respondents could provide multiple answers, and the most frequently identified areas of spending given in response are highlighted at Figure 11.

[20] As only two providers were interviewed, a more detailed account of the two interviews is removed from this published version to preserve the anonymity of feedback provided

**Figure 11: How has money saved via Nursery Rates Relief been spent within your setting?**




The most commonly cited answer was that money saved via the relief had been prioritised to spending on the workforce, with nearly two thirds of respondents stating that the recruitment and retention of staff, paying increased wages, and providing staff training had been their priority. Nearly half of respondents had been able to use the savings to improve the learning environment, including indoor and outdoor facility improvements, while just over a third had been able to spend on learning and play resources. Around a quarter of surveyed settings stated that savings on nursery rates had to be diverted to meet running costs and/or help ensure the business remained viable.

### 5.3 What impact(s), if any, has this spending had on your setting, the attending children, and/or their parents and carers?

The survey then asked providers to estimate the impact of this spending on parents, carers and the attending children. While this produced a wide variety of specific responses, two central themes are evidenced.

First, of the 22 providers who responded to this question, 15 suggested spending that would have increased the quality of the childcare being delivered. This was based upon spending on the environment and building, learning resources, and staff; along with providers who had directly indicated an improvement in the quality of their childcare provision. The improvement to quality will be of direct benefit to the children attending, with one provider also mentioning that the spending enabled improvements to parental communications.

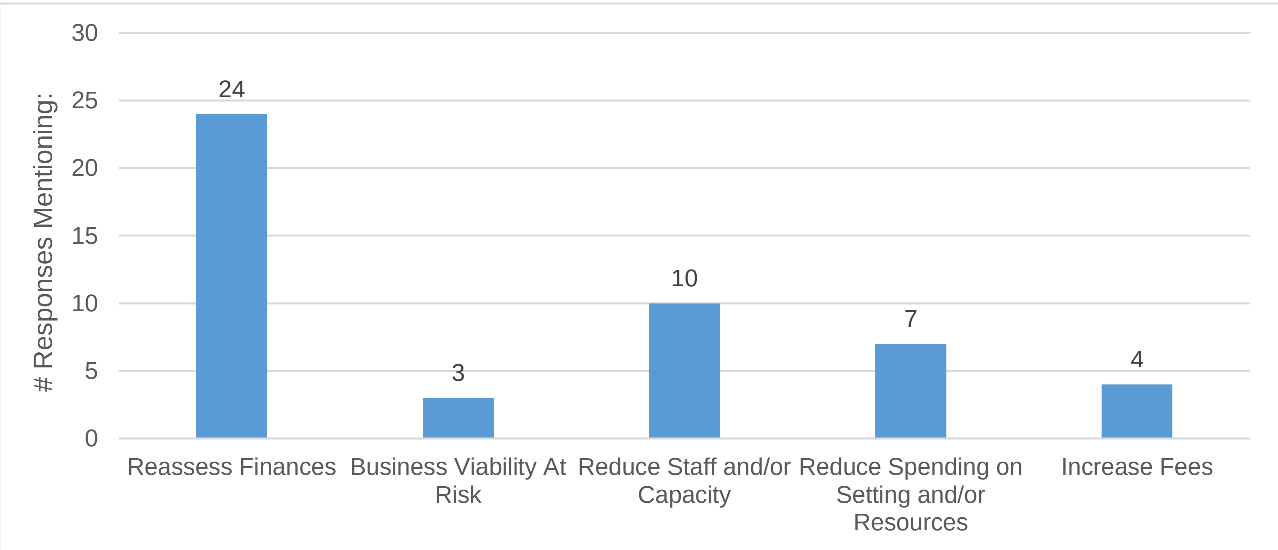
Secondly, 8 of the 22 providers indicated that parents and carers have benefitted from the provider being able to maintain lower fee costs than they would have been able to deliver had the rate relief not been available. This would indicate that a removal of the rate relief may produce an upward pressure on fees charged for childcare delivered outside of the funded ELC hours.

## 5.4 Would the removal of the Nursery Rates Relief Scheme have an impact on your setting?

The survey then asked providers about the potential impacts of removing the rate relief. A large majority, 24 of 26 participants responding, reported that there would be an impact. One provider who indicated that it would not have an impact was not currently eligible for the relief, with the remaining participant unsure.

Providers were then asked the expected impact of the removal (Figure 12). Almost all affirmative responses (24 of 25) indicated a degree of financial re-evaluation within the business to accommodate the resulting increase in costs. 10 indicated that they would struggle to maintain current staffing levels and pay and/or child capacity if rates were reintroduced, suggesting a significant re-shaping of their business could be required. Three of these providers were unsure if their business would remain viable. Over a quarter of responses indicated a reduction in other spending that may reduce overall quality in the service (such as spending on resources and trips), while four providers noted that they would need to increase fees for non-ELC hours.

**Figure 12: What is the expected impact of removing rate relief & how might this be managed?**

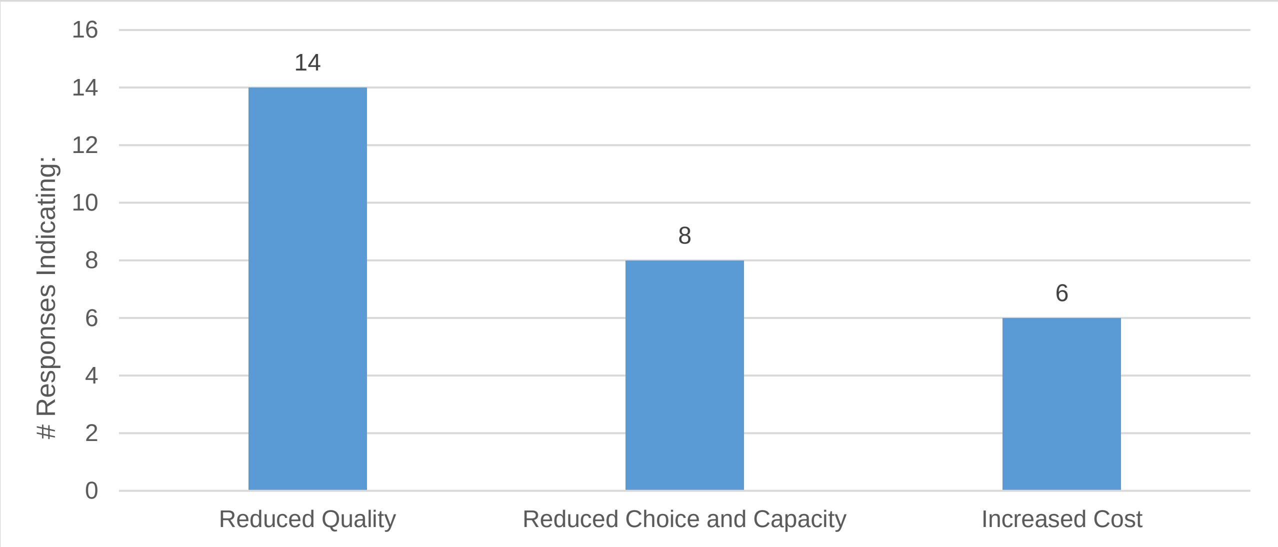



## 5.5 Would the removal of the Nursery Rates Relief Scheme have an impact on the children who attend your setting and/or their families?

The large majority of providers responding (23 of 26) indicated that there would be an impact to children and their families were the rates relief scheme to end.

Those responding positively were then asked to indicate what impact might be expected. Three themes emerged in the 22 responses to this question, which are shown at Figure 13.

**Figure 13: How would the removal of the Nursery Rates Relief Scheme have an impact on the children who attend your setting and/or their families?**




The most common concerns were those that would result in a reduction in the quality of provision.  This includes providers who were concerned at staff training and turnover, with an even stronger downward pressure on the wage bill leading to higher staff turnover and less experienced and settled staff, as well as reduced spending on other resources and activities, and future improvements.

Over a third of respondents felt that there would be impacts from the overall decreased financial viability of the sector, with these responses suggesting that settings could downsize and/or close, which would result in reduced capacity and choice for children and their families.

Over a quarter of respondents mentioned that it would be necessary to increase prices for non-ELC hours in order to accommodate the relief ending, with this expected to particularly impact on prices charged for the 0-2 age group.

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