

# Basis.

## STANLEYS REVIEW – FINAL REPORT

LGA Productivity Experts Programme

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## STANLEYs Review - Appendices

1	STANLEYs analysis assumptions
2	Summary financials
3	Allocation listing
4 (i) – (xii)	12 x financial reports
5	The 4 'P's of marketing

## 1. Introduction

South Tyneside were successful in attracting funding from the Local Government Association's (LGA's) Productivity Experts Programme to help them improve the sustainability of their directly provided day care.

The LGA's Productivity Experts programme supports councils to make efficiency savings against a backdrop of decreasing funding and increasing demand for services. It offers direct bespoke advice and support to councils to help them deliver efficiency savings or income generation.

Basis Ltd was commissioned to provide the specialist resource to conduct a financial review of South Tyneside's directly provided daycare (South Tyneside Accredited Network for Learning in the Early Years or STANLEYs settings) and work with South Tyneside children's services teams to make measurable savings.

This Final Report provides a summary of the detailed financial analysis and modelling undertaken for the project and includes a series of recommendations submitted to the client as well as a set of next steps resulting from this collaborative approach and agreed at the financial workshop.

The Final Report is accompanied by a set of 12 settings-based financial reports supplied to the Client.

## 2. Brief

Basis Ltd were initially commissioned by South Tyneside Council to undertake a review of their directly provided early years daycare services to investigate:

- Opportunities for net savings opportunities (£300,000 savings over 3 years from annual £1,000,000 net budget)
  - Quick wins
  - Prototype changes
  - Whole system change
- Identification of long-term outcomes

### Revisions to the requirements

After an initial document review it was agreed that the Productivity and Efficiency Resource would be most usefully deployed focusing on the financial requirements of the project.

## 3. Context

Since 2010, South Tyneside Council has lost 60% of central Government funding support and over the next five years a further £44m of revenue savings will be required, necessitating a more innovative approach to service delivery.

The Council's directly managed STANLEYs (South Tyneside Accredited Network for Learning in the Early Years) are 12 childcare settings that are co-located with other children's services in different locations throughout the Borough. Eight of these offer mainly or wholly sessional care, with four offering full daycare. This integrated approach provides wraparound support through access to children's centres and early outreach support, as well as engaging parents in parenting classes and providing access to employment opportunities.

It was understood that the 12 settings currently operate at an annual net cost to the Council of around £1 million. It is believed that there could be scope for reducing this net cost whilst ensuring sufficient age-appropriate high-quality childcare for local children and families.

Considerable progress has already been made in improving the life chances of local children, through quality provision under the auspices of the '*Best Start in life 2017-2020*' strategy, with all daycare, including the private and voluntary sector, either 'Good' or 'Outstanding'.

The current Cluster framework is currently being reconfigured into a set of four Localities which will provide the structure for holistic delivery of health, well-being and early education. This process will be completed during 2019.

## 4. Methodology

We worked closely with the service team, who provided us with contextual reports, source data and internal financial spreadsheets as well as participating in two workshops.

Once we had conducted the initial literature review and financial mapping, we met with the Client<sup>1</sup> to discuss next steps and clarify any ambiguities.

In order to gain a more complete picture than was possible with the existing financial documentation, we then developed two setting-specific templates to gain further finance-related intelligence from the 12 settings:

- (i) 'Financial report' template (partially pre-populated with Budget/Forecast/Staff budget data), looking at context, staffing, non-staff expenditure, income, budget to forecast variance and opportunities to improve financial sustainability
- (ii) Annual attendance by age/ funding source/ period (blank)

These were then circulated and returned to the research team with amendments and original input from the Settings' Managers.

Once we had received the 24 completed templates, we triangulated the provided data with the most recent Budget/Forecast financials available<sup>2</sup>. These consolidated excel spreadsheets provided a sound basis for a set of detailed financial models, at setting, locality and service level.

We were also able to gather valuable expert insight and constructive suggestions from staff working in settings through an interactive workshop<sup>3</sup> held at one of the STANLEY settings on 8<sup>th</sup> May 2019.

The top line analysis from the financial models informed the financial workshop<sup>4</sup> held on the same day, including the provisional recommendations and resulting in a set of agreed Next Steps.

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<sup>1</sup> Site visit March 14 2019

<sup>2</sup> End of February 2019.

<sup>3</sup> Eight staff representing all four localities attended, with a range of roles: one quality assurance officer, one cluster manager, three senior nursery officers and three nursery staff.

<sup>4</sup> The financial review workshop was attended by seven participants, with representation from finance (including Early Years funding), members of the Learning and Early Help leadership team and Corporate Programmes.

## 5. Findings

### Self-completion data

- An updated Financial Report was received from all 12 settings, providing very useful granular detail, particularly in relation to staff costs.
- A completed Attendance Data template was received from all 12 settings. The template provided a useful starting point for assessing attendance by age and weekly pattern and will be useful in the future for each setting to monitor attendance and projected income.
- Five settings provided ideas to improve sustainability (three mentioned fundraising; Bede mentioned increasing hours and Boldon maximising occupancy)

### Outputs

Using the data<sup>5</sup> provided by the client the research team were able to produce:

- Synthesis of settings-provided information (financial and attendance data) with client-provided financial spreadsheet.
- Creation of master spreadsheet allowing complex modelling by setting, Locality and Service with updated staff costs derived from settings' financial reports<sup>6</sup>
  - All costs in master financial spreadsheet allocated to 'Income', 'Staff costs', 'Non-staff costs' and 'TBC'.<sup>7</sup>
- Set of 12 updated financial reports<sup>8</sup> by setting
  - Synthesis of staff information (post holder description, level, salary) provided by setting with detailed on-cost information provided a verifiable and helpful input into the financial data set.
  - Income and salary assumptions based on 2018 rates formula for simplicity.
  - Triangulation of income data (Attendance data, financial forecasts and daycare rate information) provided a rich source for financial modelling re maximising income, including the opportunity cost of missed sessions, but will require more detailed verification before wholesale input into service-wide forecasts.
  - Revised net position was established for the service, each Locality and each setting using revised staff costs.

## 6. Our analysis

### Net position using revised staff costs

The overall net cost of running all twelve settings can be calculated as £655,853 for 540 children, with an average subsidy of £1,215 per child. Primrose has a deficit of £179,806, just under a quarter of the whole net cost of the 12 settings. Jarrow<sup>9</sup> is the only setting showing a small positive position.

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<sup>5</sup> The financial analysis and mapping underpinning this report should be treated as an informed estimate, based on what was made available during the research period. It is likely that further work is required to validate this work after Year End. Supporting calculations have been provided to the Client as Appendices.

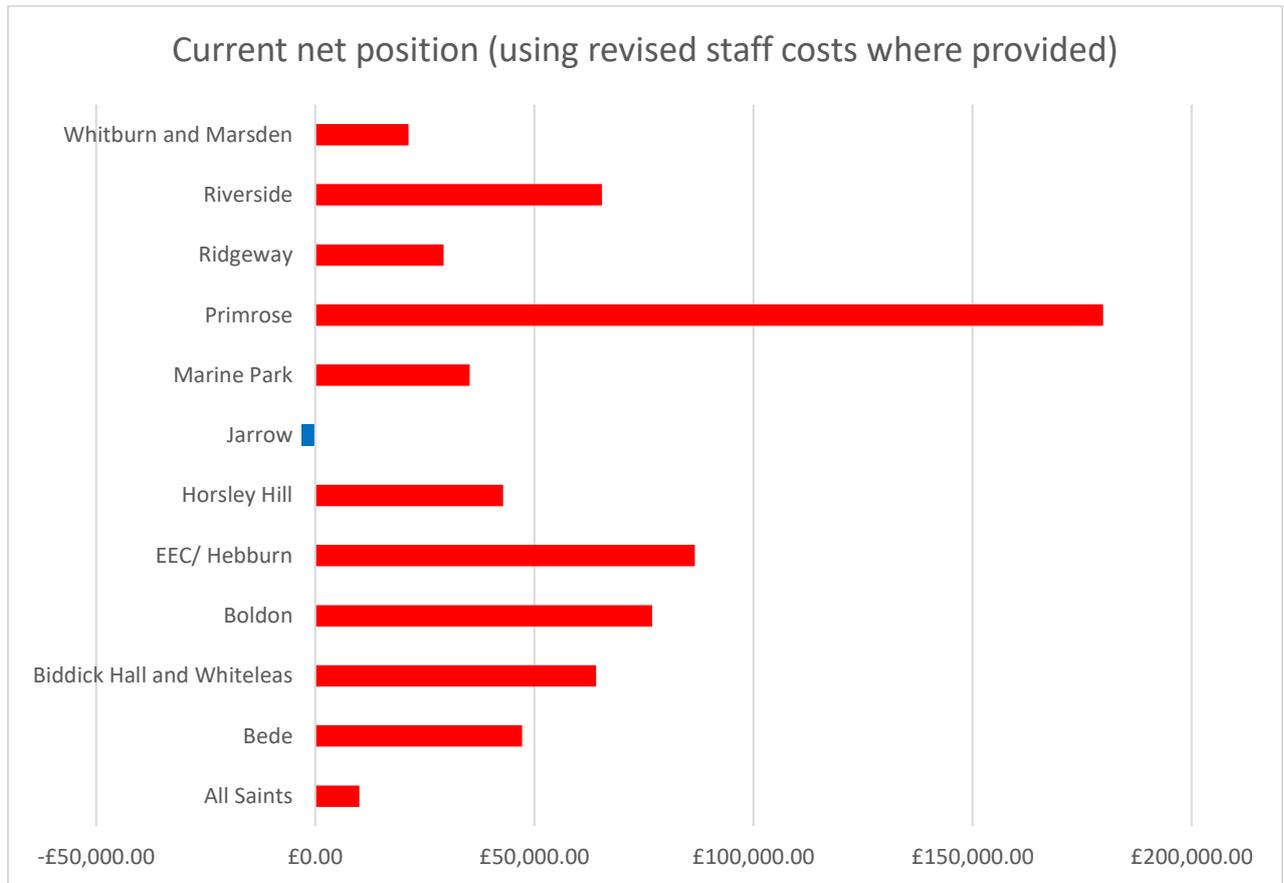
<sup>6</sup> A financial summary document is provided as Appendix 2

<sup>7</sup> The cost allocation is provided as Appendix 3.

<sup>8</sup> Provided as Appendix 4 (i) to (xii)

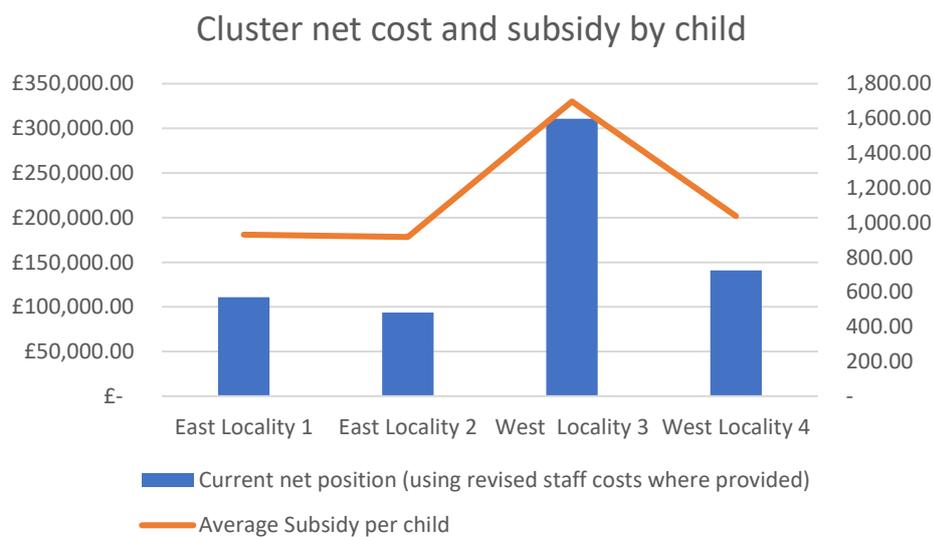
<sup>9</sup> This may be subject to revision according to staff allocation

This figure is considerably less than the initial reported deficit of £1,000,000 as suggested in the project brief.



## Net position by Locality

West Locality 3 is the Locality that is most highly subsidised, with an overall net cost to the service of £310, 679 or an average subsidy of £1,698 per child.



## Focus on reducing net cost by increasing income

We looked at two hypotheses that we were asked to explore during the site visit:

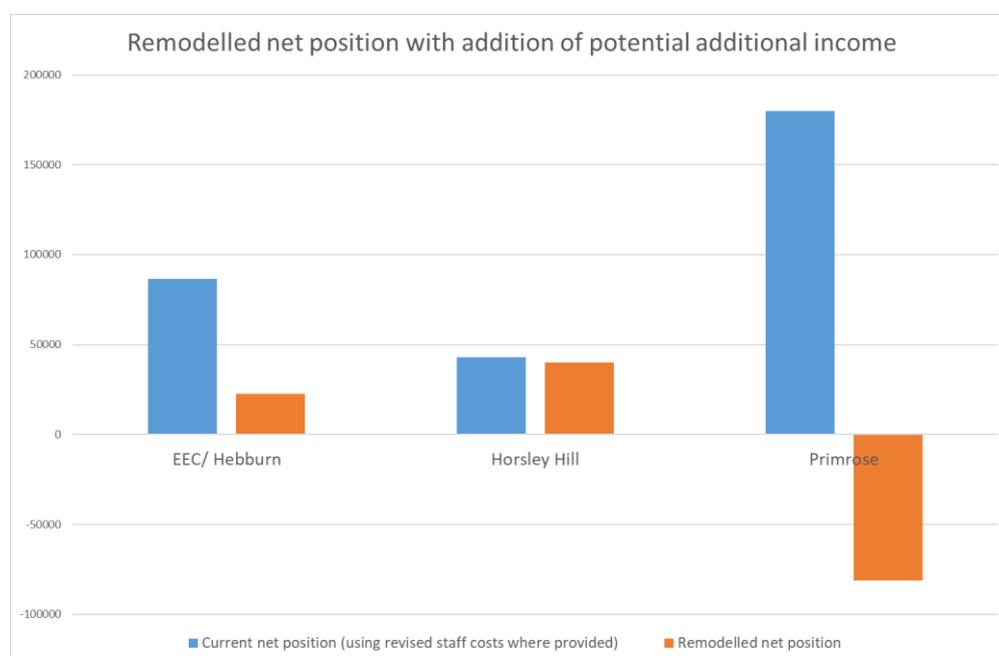
- Opportunity for additional income through maximising current capacity
- Opportunities to mitigate the financial impact of 'Stretched offer'

We sought to quantify these opportunities in order to model increased income

## Hypothesis 1: Potential for additional income through reducing vacancies

First of all, we looked to quantify the additional capacity in the childcare settings.

- Three settings proactively noted vacancies in their returned 'Financial Reports'.
- Possible to model nominal revised net position with addition of potential additional income (subject to caveats).
- This was shown to be a potential £327,890 additional income.
- With this income, the overall service net position is a cost of £327,964.



## Digging deeper

There was a clear link between quality and vacancies:

- All spare capacity reported was in 'Good' full daycare settings.
- No reported spare capacity in the two 'Outstanding' full daycare settings: Boldon and Riverside (Sessional with Care to Learn all day provision).

There is therefore a negative link between quality and cost to the service, due to the disproportionate number of vacancies:

- Average subsidy per child in 'Good' setting: £1,396.
- Average subsidy per child in 'Outstanding' setting: £1,097.

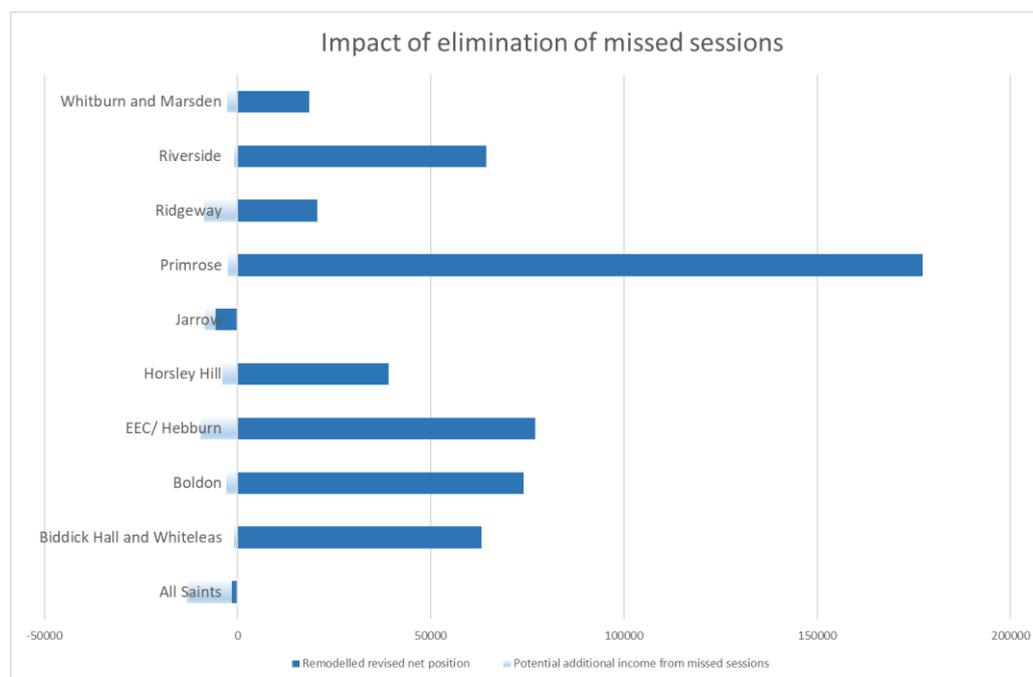
## Hypothesis 2: Potential for reducing lost income arising from introduction of 'Stretched' offer

The financial implications of providing a 'Stretched offer', in which the 570 hours of free funded childcare for two and three olds is offered 'flexibly' outside of a 15 hour 38-week termtime window were identified as:

- Possible loss of income due to missed 'funded' sessions<sup>10</sup>
- Cost of over-supply of staff
- Extra requirement for Agency staff to cover full daycare sessions holiday leave requirements, otherwise covered by sessional staff used as holiday cover.

We were able to model the opportunity for additional income by reducing missed sessions by estimating the value of the missed sessions reported in the Attendance Data returns from each setting.

Once we did this, we could see that All Saints was the only setting that would move to a positive position if all reported missed sessions were taken up.



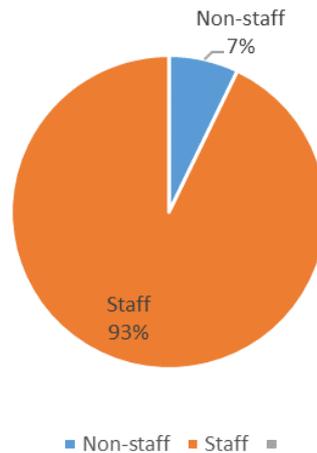
## Focus on reducing net costs by reducing expenditure

Our analysis showed that staff costs made up nearly all expenditure, with no costs for premises, typically the other main expenditure for daycare settings<sup>11</sup>.

<sup>10</sup> We were advised that no income was received by the Council for missed 'funded' sessions.

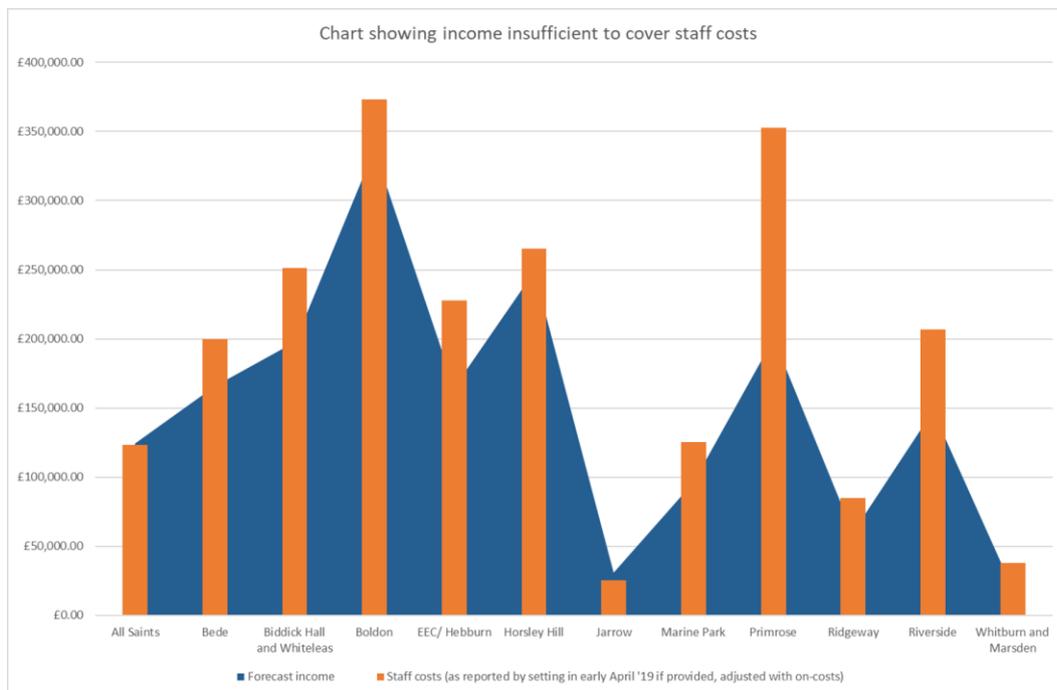
<sup>11</sup> The average rateable value of childcare premises in England is £22,500. (Early Years Report 2017/18, CEEDA)

## Staff costs as a proportion of overall costs



This was true of all settings, with every setting over 90% and Riverside @ 97%.

In fact, when we matched the income for each setting against the staff costs, we saw that it was insufficient to cover staff costs in all but one setting (Jarrow), which is therefore unsurprisingly the only setting to have overall net positive position.



### Focus on staff costs

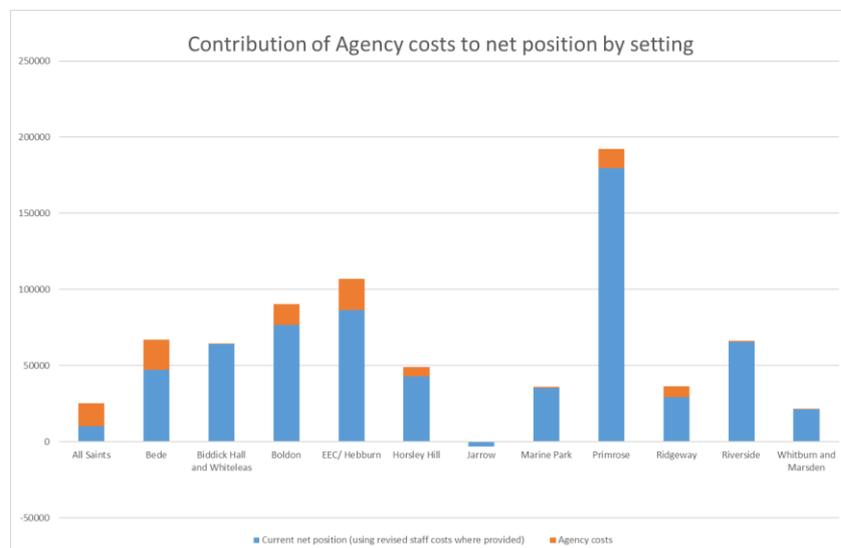
Staff costs are essentially made up of basic pay plus on-costs (N.I., pension) and agency costs.

All staff are level 3 or above, which is well above the statutory minimum, so are likely to be more expensive than competitors. Anecdotal evidence collected during the project indicated that South Tyneside early years staff are comparatively well paid in comparison with other local providers.

We then analysed the financial implications of Agency use, which cost the service as a whole £97,042, or 4% of staff costs. It can therefore be seen that the elimination of Agency costs is unlikely to make an appreciable difference to the overall net position of the service.

- All Saints was the setting for whom Agency costs were most significant, at £15,223 and representing 12% of its staff costs.

Other settings with high Agency bills were Boldon EEC (£20,216) and Bede (£19,682).



## Focus on ratios and sessional funding rates

Having looked at ways to increase income and the key elements of costs, we looked at ways of improving efficiency by achieving economies of scale.

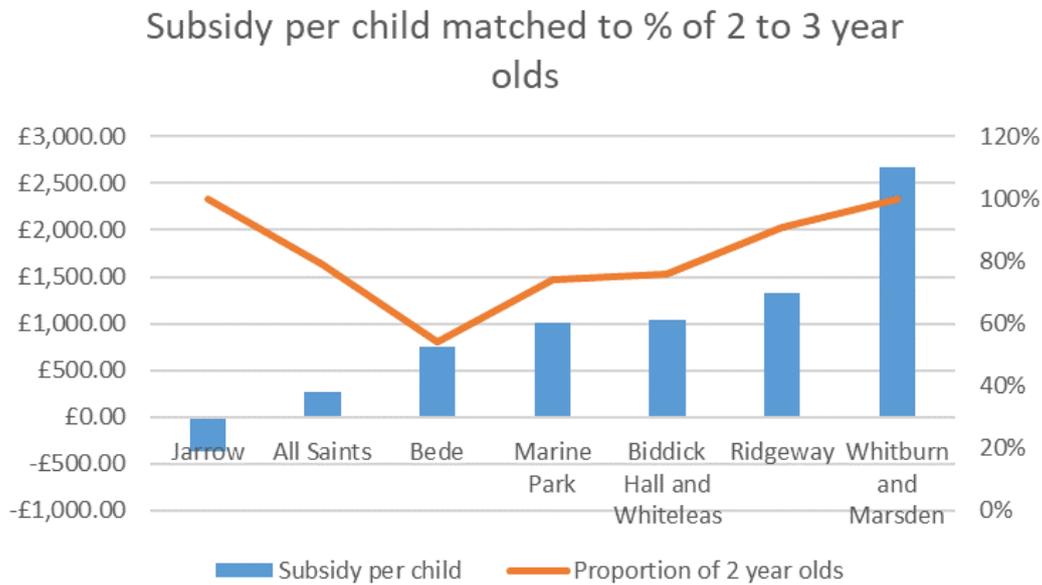
- It is impossible to generate economies of scale with high proportion of sessional 2 year olds as the maximum income that can be generated by one FTE member of staff caring for 8 two year old children (i.e. 2 sessions per day, 4 children per session) is £22,572<sup>12</sup>.
- The comparable income for one FTE member of staff caring for 16 sessional three year olds (i.e. 2 sessions a day, 8 children per session), is £40,584<sup>13</sup>.
- A quick look at FTE staff post rates demonstrates the issue.

Staff position	Grade	FTE post budget
Senior Nursery Officer	Band 6	31,562.95
Nursery Officer	Band 5	25,927.15
Nursery Assistant	Band 3	20,543.41

<sup>12</sup> This is 570 x 8 x £4.95 (2-year old rate)

<sup>13</sup> This has been modelled as 570 x 16 x £4.45 (£4.45 itself is a figure that has been derived from an average estimate of STANLEYS' funded rates and workings are provided as an Appendix 1)

This is illustrated in the chart below, showing the net cost per child increases as proportion of two-year olds increases.



- Jarrow and All Saints are anomalies.
  - Jarrow staff costs @ £25,267 or 2 x 0.5 FTE), 8 children, all 2 years old.
  - All Saints staff costs @ £123, 293, 38 children average roll, 79% 2 years old.

## 7. Findings from workshop conducted with daycare staff

The research team conducted an interactive workshop<sup>14</sup> to gain the views of STANLEY daycare staff, with participation by Nursery Managers and Nursery officers.

### SWOT analysis

The first session looked at their view of the strengths, weaknesses, opportunities and threats facing the Council-run daycare provision. The results have been written up below.

#### Strengths

- In some settings the 30-hour offer has really picked up
- In some settings where there is more flexibility in terms of hours this aids income generation
- The provision is well thought of and when people have experience of the provision, there is no stigma
- Great reputation of working with vulnerable children

#### Weaknesses

- The provision offered (hours, age, sessions etc.) doesn't always match the need of the locality
- More flexibility is required (e.g. 8-6)
- Staff costs are really high and places need to be maximised to cover them
- Some settings have the demand, but the physical environment isn't sufficiently flexible to accommodate it

<sup>14</sup> May 8<sup>th</sup> 2019

- Some expectations around income couldn't ever have been met (e.g. hiring out rooms which are prioritised for internal use by social care)
- The buildings in some cases are starting to look shabby – undermines the quality of the provision
- Income targets don't reflect the reality of what the settings can currently achieve – this is a historical issue
- Staff don't understand budgets and can't make sensible decisions as to how to resolve financial issues without this

## Opportunities

- To really get to grips with the needs of our community so we can effectively plan provision around those needs – at the moment we don't
- Bringing more flexibility could help us compete with PVI settings
- Extending the day could generate more income where the community's needs require this
- Baby rooms act as an effective pipeline for future children
- Setting the budgets based on the needs of the community and the capacity of the setting to meet those needs could resolve some of these issues
- To revisit the branding of STANLEY (South Tyneside Accredited Network for Learning in the Early Years).

## Threats

- Bringing more flexibility could stop us from being able to provide additional support to vulnerable families
- That some settings won't ever be able to meet the income targets they have been set currently
- Expanding the 2-year-old offer removes flexibility
- That staffing costs remain unsustainable

## Sustainability

The second session focused solely on ideas to improve the sustainability of STANLEYs. The team prioritised the ideas they believed would have the greatest impact, resulting in five main themes:

1. Understand the needs of each locality and provide what it needs
2. Look to reinstate baby room provision to develop a pipeline of families
3. Look into changing the hours provided with a view to providing flexibility
4. Refresh the branding, marketing approach to generate business
5. Rebuild budgets based on setting demand and capacity

## 8. Recommendations

The team presented a set of recommendations at the financial workshop<sup>15</sup> based on the extensive financial mapping and modelling as well as the interactive workshop with the nursery staff. These fall into the three categories of 'Quick wins', 'Prototype changes' and 'Whole system changes'

### Quick wins

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<sup>15</sup> On the same date, May 8<sup>th</sup> 2019.

- Undertake CSA or some other market analysis exercise focusing on:
  - Sufficiency of 2-year-old places (demographics, other provision)
  - Sufficiency of breakfast club provision and other wrap-around care
  - Full day care opportunities including 3- & 4-year olds (demographics, other provision)
  - Market positioning of S Tyneside direct full daycare provision (4 'P's)
  - Training and supply of qualified childcare workforce
  - Provide analysis within new locality designations and wards, to allow political decision-making. Are they comfortable with subsidy – only answer that through a CSA
  - Need to make a political decision if gaps are identified – support the market or direct provisions
- Use restructure as opportunity to improve accuracy/ usefulness/timeliness/ ownership of budgeting & forecasting
  - This will allow appropriate delegation responsibilities for budgeting/forecasting/ monitoring/ re-forecasting/addressing issues
  - Useful for management of ratios AND political decision-making with regard to subsidy by Locality/Ward

## Prototype changes

These are changes that can be relatively quickly implemented as test approaches and scaled up if successful.

- Test marketing approaches based on 4 'P's<sup>16</sup>
- Test approaches to reduce missed sessions:
  - Communication of benefits of early years sessions to parents.
  - Initiate some level of 'sign up' or commitment from parent/ carers – potentially a role for behavioural insights here.
  - Reduce availability of 'stretched offer' or sessions by limiting to certain days of the week.
  - Offer holiday sessions at reduced number of sites, with 'merged' provision.
- Proactively find out what ratios are cost effective, then stick to those (i.e. bring down proportion of 2-year olds) and ensure minimal supernumerary staff.
- Consider using 1: 13 ratio availability where Level 6 staff member is 'working directly' with the children.
- Re-think policy of only having Level 3 people, with possibility of using direct managed provision to act as a training pathway. Will reduce staffing bill.

## Whole system changes

These are changes that need more organisational buy-in and are likely to take some time to embed.

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<sup>16</sup> See Appendix 5

- Consider whether South Tyneside need to provide all daycare themselves – could even subsidise other providers to provide care. Three 'Good' settings currently already highly subsidised.
  - Children attending Primrose currently subsidised by **£3,909** per child
  - Children attending Hebburn currently subsidised by **£1,312** per child
  - Whitburn & Marsden offer sessional care, subsidised by **£2,665** per child

## 9. Next steps

Following the two workshops with front line staff and senior managers it was determined the following next steps should be taken forward:

- Conduct a Childcare Sufficiency Assessment
- Codesign the locality offer / mixed model with staff and service users
- Rebuild budgets per setting from the ground-up
- Put proposals forward to members for the new model, grounded in the outcomes of the CSA
- Re-brand and invest in marketing

If you want to know more about our research process and findings, please contact Isabelle Gregory at [isabelle.gregory@basis.co.uk](mailto:isabelle.gregory@basis.co.uk)