Finance and Public Administration Committee

20th Meeting, 2022 (Session 6), Tuesday, 21 June

Post-legislative scrutiny of the Financial Memorandum for the Children and Young People (Scotland) Bill

At its meeting on 28 September 2021, the Committee agreed to undertake post-legislative scrutiny of the Financial Memorandum (FM) for the Children and Young People (Scotland) Bill, focusing specifically on the expansion of early learning and childcare (ELC) that was proposed by the Bill. The Bill was introduced on 17 April 2013 and received Royal Assent on 27 March 2014.

At this week's session, the Committee will hear from:

- Panel 1: COSLA and Scottish Borders (Scottish Borders are also represented on the ELC Finance Working Group).
- Panel 2: representatives from ELC partner providers

Context

The Children and Young People (Scotland) Bill included a wide range of measures across a range of policy areas. In respect of ELC, the Bill proposed an expansion in the number of free hours of ELC from 475 hours to 600 hours per year and also broadened eligibility for free childcare to include some 2 year olds. The revenue costs of this policy, as estimated in the original FM were expected to be between £71 million - £96 million per year. In addition, capital costs of £30 million per year for three years were also estimated.

Shortly after the Act was passed, the Scottish Government announced plans to extend the policy to allow for 1,140 hours of ELC per year. This was originally intended to be implemented from August 2020, but the implementation date was delayed to August 2021 due to the pandemic. Reflecting the extension to the policy, estimated costs have also risen and the allocations to councils in respect of the policy have increased. However, as the extension from 600 hours to 1,140 hours was implemented through secondary legislation, there was far more limited scrutiny of the costs involved in this policy extension.

In undertaking this post-legislative scrutiny, the Committee will be able to consider whether the recommendations made by the predecessor Committee have been implemented (for example, in respect of monitoring of costs). Lessons may also be learned that might inform future scrutiny of FMs including, for example, the forthcoming National Care Service Bill.

To inform the evidence sessions, the Scottish Government has provided a range of information to SPICe, which is included as Annexes C-K.

Background

The Session 4 Finance Committee was supportive of the ELC expansion proposals in the Bill. However, when the original FM was considered by the Session 4 Finance Committee, a range of concerns were raised in relation to the financial estimates and the assumptions underpinning them. Specifically, the Committee raised concerns around:

- The extent to which potential variation in delivery models for the expansion of ELC were reflected in the cost estimates

- The assumptions made in relation to rates paid to partner providers of ELC, who (at the time of the Bill) accounted for around 40% of all ELC provision which did not appear to reflect sustainable payment rates

- The lack of detail on the assumptions underpinning the estimated capital costs.

The initial cost estimates were later revised, primarily to reflect a decision during the passage of the Bill to further expand ELC provision for 2 year olds. This was reflected in a supplementary FM and further scrutiny by the Finance Committee.

Delivery models

The original FM acknowledged that there were challenges in estimating the likely costs of the expansion to ELC with accuracy, as a range of different models of implementation were possible and the model adopted by an individual council would have a bearing on the costs of implementation. Reflecting this, the FM stated that:

> "These models are only examples and, therefore, costs are indicative. The final models developed by local authorities will vary according to locally identified need and cannot be anticipated in advance of consultation."

In its written evidence to the Finance Committee on the original FM, COSLA indicated that, while it was broadly content with the cost estimates presented in the FM, ultimately costs could vary depending on the degree of flexibility in provision:

> "There is more difficulty in estimating costs in relation to offering greater choice and a range of options, particularly if that range of options is prescriptive. This is an area where the robustness of the assumptions on costs needs monitoring as the policy is implemented. Flexibility can be introduced gradually in future years, although it is important for Scottish Government to understand that local authorities can only introduction this increased flexibility within the overall resources made available by Scottish Government."

The initial allocations to local authorities for delivery of expanded ELC reflected the cost estimates from the revised FM. This was despite the fact that the Committee's scrutiny of the original FM had raised a number of issues with the initial costing exercise, and the Scottish Government had acknowledged that the FM costs were only indicative at that stage. It is not clear how any concerns around the accuracy of the FM estimates were reflected in the initial allocations for the expansion of ELC, or how later allocation methodologies have been developed to reflect variation in models of delivery.

This Committee's evidence sessions provide an opportunity to explore the extent to which these initial allocations met the commitment to fully fund the policy and how the allocations to local authorities have been adjusted to reflect the subsequent extension to the policy.

Partner provider rates of payment

The original FM noted that around 40% of ELC provision was secured through independent, private and third sector partners. This dependence on partner providers meant that the rates paid to these providers had a significant bearing on the overall costs of the policy.

More recent data based on submissions from 17 local authorities shows considerable variation in the amount of ELC expenditure that is accounted for by partner providers. (Note that this data may not be directly comparable with the 40% figure cited in the FM, which may reflect hours of provision, rather than total costs.)

Table 1: Spending on partner provider provision as % of total ELC expenditure

	2018-19	2019-20	2020-21
Aberdeenshire	20%	34%	36%
Argyll & Bute	26%	27%	28%
Dumfries & Galloway	21%	19%	25%
East Ayrshire	4%	6%	7%
East Lothian	20%	25%	27%
Edinburgh	28%	28%	35%
Eileanan Siar	11%	9%	10%
Falkirk	6%	9%	9%
Midlothian	22%	19%	28%
Moray	55%	47%	43%
North Ayrshire	12%	14%	13%
Perth & Kinross	14%	15%	19%
Scottish Borders	19%	16%	21%
South Ayrshire	7%	6%	12%
Stirling	10%	11%	11%
West Dunbartonshire	9%	13%	15%
West Lothian	8%	14%	16%

Source: Scottish Government (based on ELC Finance Working Group analysis – Annex H)

Although these figures suggest a lower dependence on partner providers, there is considerable variation across Scotland and such provision still accounts for a significant element of overall ELC provision.

At the time of the original FM, the (then) Committee expressed concerns that the ELC costings were based on an assumed payment rate of £4.09 per hour to partner providers that did not reflect the actual payments being made to partner providers. In written evidence to the Committee on the FM, the National Day Nursery Association (NDNA) noted that average payment rates were only £3.28 per hour and varied widely across Scotland. At that time, NDNA advised that a payment rate of £4.51 per hour represented a sustainable payment rate that would fully cover actual costs.

During the passage of the Bill, the Scottish Government allocated some additional funding to allow for increased payments to partner providers, but there was a lack of clarity around the assumed rates and whether the Scottish Government was recommending an advisory rate. In addition, the Scottish Government noted that they would not intend to ring-fence funding and that it was for local authorities to ensure that partner providers were appropriately funded. The Committee recommended that local authorities should be required to report annually on levels of expenditure on partner providers, including hourly rates paid.

Since the Bill was passed, there has been further work on establishing sustainable rates for ELC partner providers, as outlined below.

In April 2019, guidance was published to support local authorities to set sustainable rates for ELC partner providers from August 2020. The Scottish Government stated that:

> "This was produced based on feedback gathered from across the sector, and sets out the principles that should underpin any approach to setting sustainable rates; and options for taking forward the process."

Interim Guidance on the payment of sustainable rates was published in March 2021 to reflect the impact of the pandemic and ensure that any additional costs resulting from the pandemic were reflected in partner provider rates.

In August 2021, the Scottish Government published an Overview of local authority funding and support for early learning and childcare providers, which set out the hourly rates paid by local authorities to providers delivering the funded ELC entitlement. This report notes that "A key aspect of Funding Follows the Child is the payment of sustainable rates to providers in the private, third and childminding sectors for the delivery of funded ELC." Annex A of the report sets out the rates paid by local authorities to partner providers in 2020-21 and 2021-22. For 3-5 year olds, rates paid range from £5 per hour (Orkney) to £6.40 per hour (West Lothian). Different rates applied for 2 year olds and (for some local authorities), different rates were paid to childminders.

Also in August 2021, the Scottish Government published a Financial sustainability health check of the childcare sector in Scotland. One of the findings of this report was that "some respondents felt that the hourly rate that they received from their local authority for delivering funded ELC did not cover their current costs of delivery", although it also noted that "being a funded ELC provider was highlighted by a number of respondents as a benefit in terms of their sustainability". One of the 'next steps' highlighted in the report suggests that there is further work to be done on setting sustainable rates:

> "Strengthen the process for local authorities to set sustainable rates for providers in the private, third and childminding sectors to deliver funded ELC. We will do this through working with partners to review and update the sustainable rates guidance; and exploring the potential for making additional support and advice available to local authorities, where that is required, to support the sustainable rates setting process and ensure that rates reflect the costs of delivery, provide scope for reinvestment and implementation of the

real Living Wage commitment. We will work with COSLA to ensure that these changes are made in time to be reflected in the process for setting sustainable rates for August 2022."

There is a commitment to repeating the sustainable rates data collection exercise every year, with updated information published by the end of August each year.

The report also highlights a decline in the number of private sector childcare service operators since 2017, while the number of local authority childcare services has increased. In their written submission to the Committee (Annex B), the Scottish Childminding Association (SCMA) noted a 26% decline in the number of childminders over the last 5 years and added:

> "We agree that the issue of sustainable rates is important to providers' business sustainability and we have received feedback from a number of members to indicate that for some childminders the level of rates offered by local authorities in some parts of the country are too low to make their participation in ELC delivery financially viable."

However, the SCMA submission highlighted that sustainable rates should not be considered in isolation and that sustainable hours are also critical (with childminders unable to operate effectively with only a small number of hours). Factors such as increased administration and bureaucracy costs also needed to be taken into consideration in setting rates.

The Education, Children and Young People Committee recently (25 May) held an evidence session on the expansion of ELC and also intends to consider the funding of ELC as part of its pre-budget scrutiny later this year.

Capital costs

In its written evidence to the Finance Committee on the original FM, COSLA noted:

> "With regard to capital costs, the FM highlights the very limited basis of the assumptions, and costs to individual local authorities will depend on local circumstances and current pre-school estate. This is an area where close monitoring of the actual costs against the costs identified in the FM is recommended."

In giving evidence to the (then) Finance Committee on the original FM, the Scottish Government admitted that the assumptions underpinning its estimates of the capital costs associated with expanded ELC provision had not been based on "a thorough and detailed assessment", and acknowledged that "this is one area in which the estimate represents a best guess".

The supplementary FM which reflected increased provision for 2 year olds did not include any revised capital cost estimates, and noted that:

> "Capital costs have not been explicitly estimated. It is not possible to provide an accurate estimate of the level of infrastructure investment required at this

stage. Further work will be required to explore the need for any additional capital funding."

With the expansion to 1,140 hours, a further £476.1 million in capital funding was provided to local authorities over the period 2017-18 to 2020-21 (see Annex D). The allocations were based on local authority estimates of the funding required. However, Audit Scotland reported that local authority plans indicated a requirement for £747 million of capital investment, so these plans were adjusted to take account of funding principles for new buildings (using standard area and cost reference rates and excluding any land purchase costs). According to Audit Scotland's 2020 report on Early Learning and Childcare, the adjustments resulted in some local authorities receiving less capital funding than they estimated the expansion would require and some receiving more than they had estimated.

The focus of data collection and publication has been on revenue costs, rather than capital costs. The Scottish Futures Trust (SFT) has been working with the Scottish Government and local authorities to support the development of local Early Learning and Childcare expansion plans and provided an update in February 2021 to the ELC Finance Working Group (Annex K). However, this does not give a clear overview of how actual spend on capital projects compares with the allocated amounts. In terms of numbers of projects, the report notes that 620 projects were required for delivery of 1,140 hours ELC and that 581 were complete as at August 2021.

In written evidence to the Committee on the original FM, the National Day Nursery Association (NDNA) highlighted the need for partner providers to be able to access funding for capital investment:

> "In addition, to ensure that there is sufficient capacity to meet demand for increase numbers of places and increased hours, local authorities' capital funding should be available for investment, subject to appropriate terms and conditions, by partner providers. Historically this approach has been successful in some local authority areas. The assumption of the Bill and FM appears to be that capital will be used solely for maintained provision, but there is an opportunity for cost-effective development in private and third sector partner provision that can provide value for money, meet parents' needs for flexible childcare and avoid duplication of existing services."

Again, it is not clear whether partner providers have been able to access capital funding where required to enable them to expand provision.

The need for monitoring of implementation costs

During the evidence session on the original FM, the Scottish Government acknowledged that there were uncertainties around the costs set out in the FM:

> "The Government has promised to fully fund the additional costs. The financial memorandum represents our estimate of additional costs as at earlier this year. Of course, more information will come out, now and as we proceed

towards implementation of the measures, and the Government is committed to ensuring that additional costs are properly assessed as they arise and are funded as appropriate."

Reflecting the commitment to fully fund the ELC policy, as well as concerns around the accuracy of the cost estimates, the (then) Finance Committee agreed that monitoring of expenditure would be critical as the policy was rolled out. The Committee made specific recommendations in its report regarding the collection and publication of data to enable costs to be monitored:

> "The Committee recommends that the Government requires local authorities to report annually on spending in relation to pre-school provision, in order that it can ensure that the anticipated levels of investment are being achieved. This should include details of expenditure on partner providers, including hourly rates paid. This information should be published."

In its written evidence to the Finance Committee on the original FM, COSLA also noted:

> "We also believe that it will be necessary for both COSLA and Scottish Government to jointly scrutinise and monitor the spending on this legislation, to ensure that local government is and continues to be sufficiently resourced to carry out the new duties that will be enacted."

Initial review of costs

A Financial review of early learning and childcare in Scotland by the Scottish Government in 2016 concluded that spending by local authorities on the expansion of ELC did not appear to be in line with the amounts allocated to local authorities by the Scottish Government, with actual spending reported to be considerably lower than the amounts allocated.

The review found that:

> "In the first three years after implementation of the CYP Act, 2014/15 to 2016/17, the Scottish Government has provided local authorities with an additional £329 million to cover the additional revenue costs of the ELC elements of the CYP during those three years.
>
> During the same period, final net expenditure figures from 2014/15, provisional outturn figures for 2015/16 and budget estimates for 2016/17 indicate that local authorities spent or plan to spend an additional £189 million on pre-primary education over the three years compared to continuing spend at 2013/14 levels."

The gap between the funding provided (£329 million) and reported expenditure (£189 million) appeared to indicate that the policy was not costing as much as had been anticipated.

However, COSLA criticised the methodology of the report and its conclusions. As noted in Audit Scotland's written evidence to the Committee (Annex A):

> "COSLA disputed the accuracy of the funding gap for a number of reasons, including limitations in data quality. COSLA also felt that the review failed to adequately account for the need for councils to deliver efficiencies to balance budgets over the review period."

According to COSLA, the reliance on existing financial data resulted in a "crude assessment". Since that review, there have been changes both to the allocation methodology for ELC grants and to the approach to data collection.

Revisions to allocation methodology

In June 2017, an ELC Finance Working Group was established to lead the work on determining allocations in relation to the expansion of ELC to 1,140 hours. The Group has 17 members and includes representation from:

- Scottish Government
- COSLA
- Local Authority Directors of Finance
- Society of Local Authority Chief Executives (SOLACE)
- Association of Directors of Education in Scotland (ADES) Resources Network

In total, 11 local authorities are represented in the Group, including Scottish Borders \who are on today's panel of witnesses.

The Finance Working Group agreed the process for gathering data and a finance template to be issued to local authorities.

For the period 2019-20 to 2021-22, a multi-year funding agreement was agreed between the Scottish Government and COSLA (Annex D). This reflected the planned expansion of the policy to 1,140 hours of ELC by August 2020 (as was originally intended) and used a new methodology for determining allocations to local authorities. The agreement covered both revenue and capital allocations.

The ELC Finance Working Group had suggested the use of a formula based distribution, but COSLA did not accept this approach. Allocations were instead based on refreshed finance templates submitted by local authorities, reflecting local authority estimates of the costs of provision, based on latest population estimates and forecasts (Annex C).

The letter setting out the allocations (Annex D) stated:

> "This funding is allocated as a specific grant to ensure that it is protected for investment in early learning and childcare. Authorities will be required to report to the Scottish Government on how this funding has been applied. The intention is for this to be light touch, integrated with an agreed annual review of revenue funding, and we will consult with COSLA and the ELC Finance Working Group on these arrangements."

Data collection

As noted above, the 2016 financial review of ELC was criticised by COSLA for its reliance on existing finance data which did not accurately reflect the nature of expenditure on ELC expansion.

In their written evidence (Annex A), Audit Scotland noted concerns in relation to the data available on spend in this area:

> "Our 2018 report highlighted inconsistencies in how councils compiled local financial return information, making it difficult to conclude how much of the variation in council spend was genuine variation and how much was a result of these inconsistencies. Limitations in the available financial data made it difficult to examine the financial impact of different models of ELC and changes to flexibility. We recommended that the Scottish Government and councils collect better information on the cost of different models of ELC and their impact on children's outcomes to allow them to better plan for the expansion to 1,140 hours. We have highlighted the importance of comprehensive financial information to support planning and decision making in previous audit work."

As noted above, a new finance template was developed to monitor expenditure on ELC, although it is not clear whether the Scottish Government followed the Audit Scotland recommendation to collect information on different models of ELC.

An initial round of financial data collection was undertaken in June 2019 using the new finance template. When reviewed, significant data quality issues were identified and there were incomplete or missing returns. As a result, the data was not considered sufficiently robust to be published (Annex G).

A revised template was therefore drawn up and a further data collection exercise was undertaken. This new template sought to address some of the data quality issues encountered in the first data collection exercise e.g. by using embedded formulae and including some pre-populated data. However, this still failed to provide a comprehensive picture of total expenditure on ELC. Although all 31 local authorities submitted returns, only 17 returns were considered sufficiently accurate and robust to include in the analysis (Annex H).

Results from analysis of returns from 17 local authorities

Analysis was presented to the ELC Finance Working Group based on the returns from 17 local authorities (Annex H). The analysis shows that – across all these 17 local authorities, the expenditure on the expansion to 1,140 hours ELC represented 102% of the specific grant for the expansion in 2018-19. That is, local authorities (on average) were spending more on the ELC expansion than they were receiving by way of the specific grant for the expansion. However, in reported expenditure for 2019-20 and planned expenditure for 2020-21, the expenditure represented a lower proportion of the specific grant (95% and 81% respectively). Table 2 shows a breakdown across the 17 local authorities, indicating a considerable degree of variation.

Table 2: Spending on 1,140 expansion as % of specific revenue grant

	2018-19	2019-20	2020-21
Aberdeenshire	91%	65%	54%
Argyll & Bute	122%	105%	100%
Dumfries & Galloway	100%	100%	90%
East Ayrshire	123%	122%	93%
East Lothian	97%	100%	55%
Edinburgh	100%	100%	67%
Eileanan Siar	102%	94%	87%
Falkirk	100%	100%	100%
Midlothian	108%	105%	99%
Moray	117%	100%	92%
North Ayrshire	100%	100%	81%
Perth & Kinross	107%	58%	80%
Scottish Borders	90%	94%	76%
South Ayrshire	100%	100%	83%
Stirling	100%	100%	100%
West Dunbartonshire	100%	109%	88%
West Lothian	100%	100%	100%

Source: Scottish Government (based on ELC Finance Working Group analysis)

The analysis notes that expenditure patterns for 2019-20 and 2020-21 are likely to have been affected by Covid-19, as local authorities were allowed to re-direct ELC spending where necessary. The deadline for implementing the 1,140 hours was extended to August 2021 as a result of the pandemic.

Further data collection and 2022-23 allocations

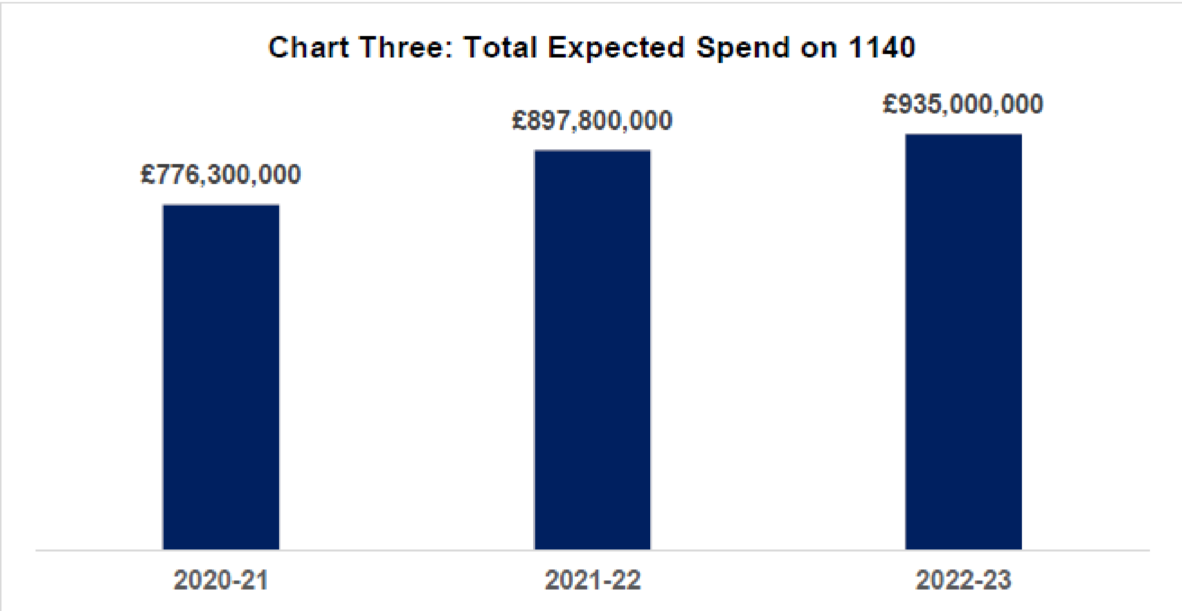
It is clear from the information provided by the Scottish Government that monitoring of expenditure in relation to the expansion to ELC is still proving to be a challenge.

This makes it difficult to assess whether the policy is being appropriately funded or whether the Scottish Government is providing more or less than is required to deliver the policy.

Despite acknowledging at the outset that monitoring of expenditure was going to be important as this policy was implemented, the Scottish Government is still working towards a comprehensive picture of levels of expenditure in this area. A further data collection exercise was undertaken in December 2021 and findings were presented to the ELC Finance Working Group in May (see Annex I).

This data collection exercise seems to have been more successful, although the analysis presented to the ELC Finance Working Group notes that there was still one local authority that did not return the requested data. The data was subject to extensive quality assurance, as detailed in the report at Annex I and the report suggests a much greater degree of confidence in the reported figures. Figures for the missing local authority have been estimated by the Scottish Government so as to provide figures for the whole of Scotland.

The report shows actual and planned expenditure on ELC expansion (see Chart below, extracted from the report). This shows expected expenditure increasing from £776.3 million in 2020-21 to £935 million in 2022-23. However, the report does not provide any direct comparisons with the level of allocations to local authorities, making it hard to assess whether allocations are at an appropriate level.



Separately, the latest specific revenue grant allocations to local authorities for 2022-23 have recently been confirmed (see Annex J) and the letter states that:

> "In 2022-23 the Scottish Government will provide £530.96 million of funding to Local Authorities through the ELC Specific Revenue Grant, this includes an allocation of £8.9 million for the 10 Local Authorities participating in the 2022-23 Deferral Pilot Programme. This ring-fenced funding is in addition to the £475 million core ELC funding provided through the General Revenue Grant

> (GRG), bringing total Scottish Government investment in ELC services to £1.006 billion."

This would suggest that the total planned expenditure of £935 million is lower than the total allocation of £1.006 billion. However, it is not clear if these figures are directly comparable. The Scottish Government's letter confirming the 2022-23 allocations (Annex J) states:

> "The Scottish Government is clear that the total ELC settlement provides sufficient funding to local authorities to continue to deliver high quality 1140 provision in line with the interim National Standard guidance."

The Scottish Government has indicated that 2022-23 will be treated as an interim year and that future funding will be informed by the latest data collection exercise. The Scottish Government's letter confirming the 2022-23 allocations (Annex J) states:

> "The 2022-23 allocation also begins to implement the new needs-based distribution methodology agreed by Scottish Ministers and CoSLA Leaders. This is designed to ensure the allocation of resources to local authorities more accurately reflects changes and local variation in the ELC population and measures of deprivation and rurality. The first phase of this methodology is applied from April 2022 and, as with any other change, we will continue to engage with CoSLA and Local Authority partners to ensure the subsequent phases can be implemented in a sustainable manner."

Funding for ELC continues to be provided through a combination of core ELC funding provided through the General Revenue Grant and a ring-fenced specific revenue grant related to the 1,140 hours expansion.

Learning from the FM and subsequent policy roll out

It is understandable that, when an FM is prepared, cost estimates may be out of line with actual expenditure when the policy is introduced. The level of uncertainty in the FM estimates was acknowledged in respect of the expansion of ELC and was why the Committee recommended that a priority should be given to data collection once the policy was rolled out. The evidence supplied by the Scottish Government suggests that there remain challenges in accurately assessing levels of expenditure on the ELC expansion.

There have also been several changes in the approach to determining local authority allocations in this area. Initially, allocations were based on local authority estimates of costs, however, for 2022-23 a formula approach has been implemented, and the approach to determining future allocations is still being developed.

In terms of other policy areas and future FMs, there are potentially lessons to be learned in respect of:

- how cost estimates are developed for FMs, including the data gathered to inform FMs and the extent to which different delivery models are considered and reflected in the estimates

- what arrangements are put in place at the outset to monitor expenditure to ensure that new policy initiatives are being appropriately funded

- what methodologies are used to determine allocations to local authorities (or other public bodies) and the usefulness of formula distribution methodologies as opposed to basing allocations of cost estimates from the bodies themselves.

These factors may be of relevance for future consideration of other policy areas or future FMs e.g. for the National Care Service Bill.

Nicola Hudson, Senior Analyst, Financial Scrutiny Unit, SPICe
15 June 2022

Annexe A

Finance and Public Administration Committee

Post-legislative scrutiny of the Financial Memorandum for the Children and Young People (Scotland) Bill

Written submission from Audit Scotland

Purpose

1. The Finance and Public Administration Committee has invited Audit Scotland to provide evidence to support its Post-legislative scrutiny of the Financial Memorandum for the Children and Young People (Scotland) Bill, with a specific focus on the expansion of early learning and childcare to 600 hours per year that was proposed by the Bill. This briefing summarises key findings from Audit Scotland's work on early learning and childcare to date and relevant themes from our broader work. These include the importance of timely and reliable financial information, which should be regularly reviewed throughout implementation of policy, and the importance of considering outcomes at the planning stage.

Audit Scotland work on early learning and childcare

2. Audit Scotland has produced two reports on funded early learning and childcare (ELC). Our Early learning and childcare 2018 report examined how effectively the Scottish Government and councils were working together to improve outcomes for children and support parents by expanding access to funded ELC. This covered both the expansion of funded ELC from 475 hours per year to 600 hours per year from August 2014 and the planning for further expansion to 1,140 hours a year. Our Early learning and childcare follow up report, published in March 2020, provided an update on planning for the expansion to 1,140 hours. That expansion was initially due by August 2020 but was extended to August 2021 due to the Covid-19 pandemic.

Funding for, and spend on, funded ELC

3. The original Financial Memorandum in 2013 indicated that the costs of extending early learning and childcare provision to 600 hours were estimated to peak at £108m in 2016/17, reducing to £96m by 2019/20. In a letter to the Convener of the Finance Committee on 12 September 2013, the Scottish Government set out its intention to provide an extra £4.2m per year in addition to the amounts set out in the Financial Memorandum to meet the costs of the ELC expansion. On 24 January 2014, a supplementary Financial Memorandum was introduced to include amendments to the Bill at Stage 2 increasing the numbers of two-year-olds eligible for funded ELC. This increased the estimated costs of extending funded ELC to a peak of £166m in 2016/17, reducing to £156m in 2019/20. We did not specifically comment on the Financial Memorandum for the expansion to 600 funded hours in our reports.

4. Our 2018 report included information on the additional revenue and capital funding allocated for the expansion to 600 hours. This was distributed to councils on the basis of the Grant Aided Distribution formula and the estimated numbers of two-year-olds in workless households. We also reported the published information on

council spending on pre-school education from the Local Financial Returns, which provide annual information on the financial activity in councils.

5. The Scottish Government's financial review of ELC concluded that over the three years 2014/15 to 2016/17, councils received £329 million additional revenue funding for providing ELC. But they only increased their spending on ELC by £189 million. Our report highlighted that COSLA disputed the accuracy of the funding gap for a number of reasons, including limitations in data quality. COSLA also felt that the review failed to adequately account for the need for councils to deliver efficiencies to balance budgets over the review period.

6. Our 2018 report highlighted inconsistencies in how councils compiled local financial return information, making it difficult to conclude how much of the variation in council spend was genuine variation and how much was a result of these inconsistencies. Limitations in the available financial data made it difficult to examine the financial impact of different models of ELC and changes to flexibility. We recommended that the Scottish Government and councils collect better information on the cost of different models of ELC and their impact on children's outcomes to allow them to better plan for the expansion to 1,140 hours. We have highlighted the importance of comprehensive financial information to support planning and decision making in previous audit work.

7. The entitlement to funded ELC almost doubled to 1,140 hours from August 2021 and was not included in the Financial Memorandum, which reflected the policy at that time. The funding for this expansion was distributed on a different basis to the 600-hour expansion and it took more account of how the expansion would be delivered locally. A multi-year funding settlement was agreed for the expansion to 1,140 hours. This was distributed to councils on the basis of financial templates submitted by councils to the Scottish Government, outlining the costs of their expansion plans, after some adjustments.

Impact on outcomes

8. Our 2018 audit highlighted that the Scottish Government implemented the increase in funded hours of ELC without considering different options to improve outcomes for children and parents, and the potential impact and cost of these options. We recommended that future major policy changes are backed up by options appraisal, supported by economic modelling.

9. In 2018, we reported that the impact of the expansion to 600 hours on outcomes for children was unclear, as the Scottish Government did not plan how to evaluate this. This lack of planning meant it was difficult to assess the cost and impact of the increase in funded hours and whether the policy was delivering value for money. As we have highlighted previously, this is a key requirement in Planning for outcomes. Significant gaps in the data at that time included a lack of accurate cost and spend data on funded ELC; incomplete data on staff providing funded ELC; and a lack of data on the number of hours of funded ELC children received. Work was ongoing to address some of these gaps at the time of publishing our 2018 report.

10. By the time of our 2020 report, we found that the Scottish Government's plans to evaluate the expansion to 1,140 hours were well advanced. An evaluation strategy

was being finalised which would measure both the short-term objectives and the longer-term outcomes of the policy. At this stage, work was under way to capture important baseline information, but challenges remained. For example, it was not clear how the longer-term economic benefits will be assessed, or how family wellbeing will be measured. A delay in updating software used to record children's data meant that there were some gaps in the baseline equalities information.

Commentary on cost estimates for financial planning from our audit work

11. Developing financial reporting in Scotland, published in July 2013, and Update on developing financial reporting (March 2015) highlighted the importance of comprehensive and reliable financial information to help support decision-making, for example, by allowing decision-makers to analyse options and prioritise activities. The update noted '*As improving outcomes is a long-term goal, financial planning should also have a longer-term lens. An honest assessment of gaps in funding will help identify any future threats to achieving outcomes*.' In Planning for outcomes (June 2019), the Auditor General highlighted the importance of considering longer-term outcomes and reflecting this in financial planning.

12. Cost estimates need to be kept under review. In Managing the implementation of the Scotland Acts (March 2018), the Auditor General said: *Budgeting, financial monitoring and reporting require further development to enhance transparency and support effective scrutiny. More detailed estimates of costs need to be developed and refined as decisions are made about service delivery and long-term IT solutions.*

13. In Social security: implementing the devolved benefits (May 2019) we reported that *the Scottish Government does not yet have a clear understanding of the key things needed to deliver all remaining benefits in the way it intends. This includes not monitoring and reporting on how much it will cost to fully implement all the benefits*. Our latest report Social security: progress on implementing the devolved benefits (May 2022) said that the implementation costs have not been routinely reported on publicly and that the scale of staffing required to implement and administer the benefits is much larger than the Scottish Government initially estimated.

14. Our Social care briefing (January 2022) stresses the importance of including realistic costs in financial memorandums accompanying parliamentary bills for legislative change as the Scottish Government takes forward its plans for a National Care Service.

Conclusion

15. We have identified some key points through our audit work that we would like to highlight to the Committee:

- The need to be clear from the outset about the outcomes that policy is expected to deliver, and to consider the different options for achieving those outcomes – the Scottish Government did not do this for the expansion to 600 hours of funded ELC.

- Financial projections and budgets should be based on detailed cost estimates and scenarios to deliver the intended outcomes – gaps in the available information made this difficult when planning to deliver the expansion to 600 hours.

- Comprehensive, good quality and timely financial information is needed to monitor and report on progress as policy is implemented – gaps in the information made this difficult.

Annexe B

Finance and Public Administration Committee

Post-legislative scrutiny of the Financial Memorandum for the Children and Young People (Scotland) Bill

Written submission from Scottish Childminding Association

Declaration of Interest: The Scottish Childminding Association (SCMA) is a professional membership organisation (approx. 3200 members/over 80% of childminders in Scotland), a national Third Sector organisation and a service provider. Our income streams include core funding from the Scottish Government through the Children, Young People & Families Early Intervention Fund (providing a contribution to our activities including in increasing the number of childminders involved in funded ELC delivery) and contracts with a number of local authorities to support ELC delivery, children and families.

Introduction

SCMA welcomes the opportunity to present oral evidence to the Finance & Public Administration (F&PA) Committee on the cost of expanding the statutory entitlement of Early Learning & Childcare (ELC) in Scotland to 1140 hours annually for all eligible two, three and four year-olds. However, we believe that scrutiny of this important area must extend beyond reviewing the direct financial costs and estimates of ELC expansion, including sustainable rates, to also examining the secondary costs (or unintended consequences) of ELC expansion including the devastating effect on the childminding workforce in Scotland which has declined by 26% (1457 childminders) in the last 5 years during the implementation of '1140 by 2020', and to considering the wider inter-connected issues which threaten the sustainability of childminding as a form of childcare in Scotland. In simple terms, the financial consideration of ELC is not just about current costs and sustainable rates - we have to move beyond the postcode access to childminders for receipt of funded ELC which has arisen under ELC expansion as a result of inconsistent local implementation and childminders also have to be included meaningfully and equitably in ELC delivery and at a level of funded hours which supports their business sustainability. *[This evidence has been adapted from written evidence submitted to the Scottish Parliament's Education Children & Young People Committee in May 2022 on the implementation of ELC and provides a stronger financial focus linked to the F&PA Committee's interests].*

Summary

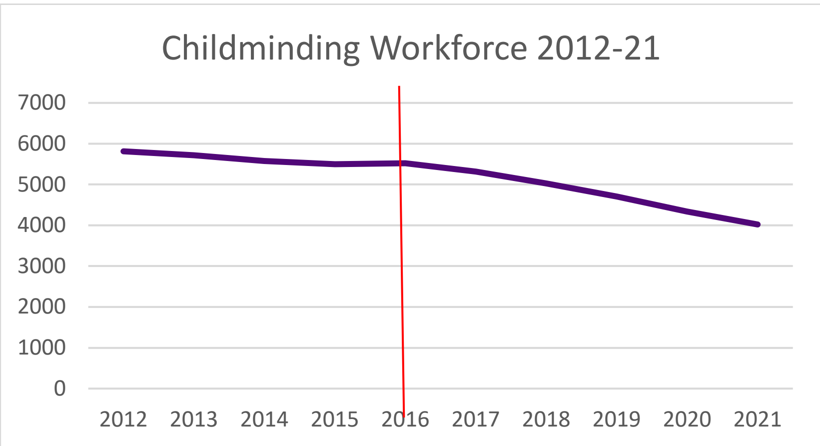
Funded ELC has been operating in Scotland for a number of years. While it is not a new policy as such, what has changed has been the level of the statutory entitlement of hours offered to parents. The Children & Young People (Scotland) Act 2014 expanded the previous entitlement to funded ELC from 475 to 600 hours per year; then in 2016 the Scottish Government published its blueprint and commitment to almost doubling the number of hours of funded ELC to 1140 hours per year for all three, four and eligible two-year-olds by August 2020[i,ii]. This has been a significant undertaking and is understood to be the most generous entitlement in the U.K.

While the impact of increasing the statutory entitlement to 1140hrs on children's and family outcomes is undergoing ongoing evaluation, the phased expansion of ELC over a period of years has meant there is now an increasing body of evidence about what has been working or not working with the implementation of ELC expansion.

It should be clearly stated that SCMA is very supportive of ELC policy, it's intent to close the attainment gap and to provide free childcare to families, particularly on low incomes. Our concerns relate to the manner in which the expansion of ELC policy has been implemented nationally and locally and the significant adverse effect which this has had on the childminding workforce which has declined by 26% (1457 childminders) in the last 5 years during the implementation of '1140 by 2020'[iii]. This cannot be sustained.

Particular problem areas include –

- the national drive to recruit additional staff into nurseries to support ELC expansion and the destabilising effect this had on the sector;
- inequitable and inconsistent local implementation of national ELC policy (including continuing local prioritisation of local authority nursery provision, continuing low-level inclusion of childminders in funded ELC delivery at levels which support business sustainability and continuing inequitable promotion of all childcare options);
- duplicative quality assurance at a national and local level and a significant increase in bureaucracy under ELC expansion; and
- the requirement for practitioner qualifications set against a backdrop of a long-standing, high-quality and older workforce.



As a policy, it was hoped that the expansion of ELC would increase choice for parents; instead, its implementation has largely failed childminding and is decreasing choice with shortages of childminders being experienced around the country. This not only has implications for parent choice and the delivery of funded ELC, but also the delivery of the Scottish Government's Programme for Government commitments to extend ELC to one year-olds and all two year-olds, and to develop a new system of wraparound school-aged childcare (areas of childcare in which childminders play a vital role)[iv]. These commitments and the Scottish Government's wider, but inter-connected, policy agendas on Education Reform and the National Care Service also present additional potential risks to the sustainability of childminding in Scotland if these were to add further to the levels of bureaucracy created by ELC expansion. Urgent step change is required.

ELC Expansion and Childminding (SCMA audit findings 2017-21)

Linked to the delivery of '1140 by 2020' the Scottish Government has commissioned SCMA to undertake an annual, independent, audit of local authorities' progress in involving childminders in delivering funded ELC. Our first three audits were undertaken and published in 2017-19[v,vi,vii]. These audits, and our work in this area, highlighted a number of recurring issues including –

- some local authorities who understood the unique benefits of childminding had been supportive and were including childminders, but were in the minority;
- very slow progress in including childminders in ELC delivery - only approx. 4-5% (200 childminders out of a workforce of 4000) included in delivering funded hours by 2019;
- significant disparities in the levels of childminders approved for and actually delivering funded ELC;
- local authorities have a conflict of interests – responsible for overseeing local ELC expansion plans and are also a direct service provider themselves. Many local authorities had been prioritising their own nursery provision and not promoting childminding as an option for receiving their funded ELC entitlement to parents;
- few local authorities had undertaken impact assessments of their expansion plans on childminders;
- a number of local authorities had proceeded with capital build projects without first using existing provision in other providers (including childminders);
- the childminding workforce was decreasing annually in parallel to ELC expansion and recruitment into local authority nurseries to support expansion (14.5% reduction in 2014-19).

We made a series of recommendations to the Scottish Government in our 2019 audit including the urgent need for both independent research into the declining workforce trends to be conducted (this was accepted) and a national childminder recruitment campaign (which was not accepted).

We did not conduct an audit in 2020 due to the pandemic, but re-introduced this last year and conducted it in July/August 2021. The implementation of ‘1140 by 2020’ had itself been put back to August 2021 due to the pandemic and the impact which this had had on local authority recruitment of additional staff and capital build projects. We recognise the unprecedented and highly disruptive nature of the pandemic, and the need to prioritise the national response and the co-ordination of critical childcare for key workers and vulnerable children at that time ahead of ELC implementation (to which SCMA contributed with 700-1000 childminding settings remaining open during the national lockdown in 2020). However, it should be noted that some local authorities were already delivering 1140 to families by the time that the pandemic struck in March 2020, a number of others were close to doing so and that the problems with ELC implementation which have been experienced in childminding were deeply embedded before the pandemic.

Our most recent ELC Audit (2021) provided a snapshot of both where we were in August 2021 and also after 5 years of national and local implementation activity to support ELC expansion. The audit provided triangulated data based on the audit (returns from all 32 local authorities) and accompanying snapshot surveys of childminders (n=474 childminders) and parents (n=276 parents)[viii, ix, x]. The main findings may make stark and uncomfortable reading –

- the childminding workforce had declined by 26% (1457 childminders) in the last 5 years (2016-21)
- continuing slow progress in including childminders in delivering funded ELC –
    - only 4% of childminders were delivering funded ELC to eligible two year-olds (no change since 2019). This was of particular concern, as eligible two year-olds are a priority group of the Scottish Government’s to increase uptake in due to the desire to support low-income families;
    - only 17% of childminders were delivering funded ELC to three and four year-olds (this represented progress on 4% in 2019, with an additional 510 childminders involved in delivery and SCMA has worked with local authorities around Scotland to bring more childminders into ELC delivery. However, this improvement does not present the full picture. The accompanying snapshot survey of childminders found that 75% of childminders involved in delivering funded ELC to three and four year-olds are largely doing so on the basis of blended placements split between nurseries and childminders, with a number of childminders and parents reporting that local authorities were continuing to require the bulk of the entitlement of funded hours to be taken with their own local authority nurseries and with childminders just receiving the remainder of the hours (either before or after nursery). This is not sufficient to support childminders’ business sustainability; 67% of childminders believe delivering funded ELC is very important to their business sustainability, but only 30% believe there is a strong match between the offers made by local authorities and their business sustainability:

- continuing differentials in the number of childminders approved for providing funded ELC by local authorities and actually involved in delivering funded ELC: eligible two year-olds – 29% approved / 4% involved in delivery; three and four year-olds – 29% approved /17% involved in delivery. As to the reason for this continuing differential, parents and childminders who responded to our snapshot surveys both reported that in many cases local authorities are still not promoting childminding equitably to parents, alongside their own nursery provision, as an option for receiving their funded ELC entitlement (see below);

- problems continue to be experienced with many local authorities' lack of Provider Neutrality (a founding principle of ELC). Only 4 out of 32 local authorities had conducted an impact assessment of their own ELC expansion plans on childminding businesses in their area, and parents and childminders who responded to our snapshot surveys both reported continuing problems with childminding not being promoted equitably by local authorities -

  - 49% of parents who are accessing funded hours through a childminder were not offered childminding as an option for their funded hours and had to request it;
  - a number of local authority audit returns, 20.5% of parents accessing funded hours through a childminder and 33.3% of parents accessing funded hours through another provider reported a requirement to take some or all hours with a local authority nursery.

- lack of flexibility in funded ELC offers to parents – many parents and childminders reported a requirement for parents to take their funded ELC hours on fixed days and times of the week, including examples of parents receiving single offers of fixed 10 hour days which did not match their families' needs and resulted in reduced numbers of hours received by parents when they did not use all the allocated hours in the offer as a result of this. This is at odds with the founding ELC principle of flexibility and there was strong demand from parents and childminders for much more flexibility in ELC offers made to parents by local authorities;

  [We recognise the small sample size of the snapshot surveys of childminders (474) and parents (276) and recommended that the Scottish Government should repeat the questions we asked of parents in their larger-scale national survey of parents launched earlier this month. It is disappointing that these questions have not been replicated in this exercise. However, even without larger-scale testing and replication we do believe the survey findings provide valuable tri-angulated data alongside the local authority audit and in line with our experience of supporting childminders and parents around Scotland].

- a number of procurement and tendering exercises to recruit funded providers were disproportionate to childminding: recurring evidence during expansion that some procurement and tendering exercises have been very bureaucratic, have put some childminders off from applying and have also been disproportionate to childminding i.e. applying high levels of nursery insurance cover required to small childminding businesses. Some progress has been made in simplifying tendering processes, but more work is still required.

In parallel the ELC Delivery Progress Report (Improvement Service, September 2021) reported that only 2% of children accessing funded ELC receive this from a childminder[xi]. We do not believe that either this or the results obtained in our latest audit could be considered a success after 5 years of national and local implementation activity.

ELC Policy Implementation & Administration: Main Areas of Weakness (or where things have gone wrong)

1. Recruitment to Support ELC Local Authority Nursery Expansion

   A large-scale national advertising campaign was undertaken to recruit an additional 12,000 staff into local authority nurseries to support ELC expansion and the delivery of '1140 by 2020'. Evidence from multiple sources has shown that this rapid recruitment drive had a de-stabilising effect on the childcare and wider social care workforce by taking staff from Private, Voluntary & Independent (PVI) settings, childminding and the wider social care workforce into higher-paid local authority positions instead of attracting new recruits into the workforce as had been hoped [vii, xii, xiii, iii]. This has adversely effected recruitment and retention and has been acknowledged by the Scottish Government as an "unintended consequence" of ELC expansion – a phrase also used by another Scottish Government Directorate in relation to the planned development of the National Care Service and the intent this will address the "unintended consequences" of the earlier integration of health and social care. While sympathetic to and understanding of the challenges faced when developing and delivering large-scale policies at pace, it is also of concern if "unintended consequences" with adverse impact on existing services which predicted this effect were to become a recurring feature of policy implementation.

2. National Policy with Inequitable and Inconsistent Local Implementation

   We recognise the democratic strength and value of parallel systems of government at a national and local level, but also that this can present challenge when trying to achieve consistent implementation of national policy at a local level in 32 local authority areas. This dynamic has been complicated further during the delivery of '1140 by 2020' in which local authorities have had a dual responsibility for overseeing local expansion while being a direct service provider of childcare in their own right through their own nurseries. Some local authorities have managed this conflict of interest well, others less so. As noted earlier, while some local authorities who have recognised the value of childminding have approached this fairly and been very supportive, there has been recurring evidence of local authorities prioritising their own provision ahead of other providers and not promoting childminding equitably to parents as an option for receiving their entitlement of funded ELC hours and in a manner which supports childminders' business sustainability. These are not new issues, have featured throughout ELC expansion and have not been addressed. While recognising that neither the Scottish Government nor the Convention of Scottish Local Authorities want to interfere with local autonomy by telling local authorities what to do, this can create a vacuum, standing off enables the negative behaviours to continue, and the preferred approach of encouraging the sharing of good practice has not been sufficient to deliver substantive improvement and has enabled these problems to continue. Greater ownership is required.

3. Duplicative Quality Assurance and Significant Increase in Bureaucracy

As a professional membership body involved in ongoing quality improvement we are supportive of quality assurance, inspection and scrutiny. However, we also strongly believe that this should be proportionate and the statutory sector has a responsibility to minimise the level of bureaucracy for practitioners where this is harmful. There is now compelling evidence that duplicative quality assurance and an increase in bureaucracy during ELC expansion are the main reasons that childminders have been leaving or are planning to leave the childminding workforce.

In recent years there has been a significant increase in requirements placed on childcare providers by a range of statutory stakeholders to demonstrate their adherence to a range of frameworks and standards. This has included wider policy frameworks such as Getting it Right For Every Child (GIRFEC) and Building the Ambition which are firmly embedded in childminding practice, Curriculum for Excellence and the National Health & Care Standards, but it has also seen a range of updates and refreshes including Realising the Ambition (following on from Building the Ambition). In parallel, the Scottish Government was developing a new National Standard with ongoing criteria that providers must meet to deliver funded hours and a range of specific frameworks have been layered on to support the development and expansion of ELC policy and improving outcomes for children, while local authorities continued in the interim with their existing local systems. [xiv, xv, xvi, xvii, xviii, xix, xx, xxi xxii, xxiii].

The Care Inspectorate has the responsibility to regulate, inspect and scrutinise all forms of childcare in Scotland. As such, childminding is a regulated profession which prior to ELC expansion was already subject to inspection and scrutiny covering a wide range of detailed quality indicators. During this time childminding has consistently achieved higher ratings across all quality criteria, through independent inspection by the Care Inspectorate, than Daycare of Children's Services (local authority nurseries, private nurseries and other early learning and childcare settings)[xxiv]. Education Scotland was charged with developing a learning framework to support the delivery of ELC and published How Good Is Our Early Learning & Childcare (HGIOELC) in 2016 [xxii]. This provides a self-evaluation framework of quality indicators to measure learning improvement against in ELC settings. In parallel, to support it's role in ELC expansion, the Care Inspectorate started developing a new Quality

Framework[xxiii]. Local authorities have also been making varying demands of childminders for the use of HGIOELC alongside the existing Care Inspectorate requirements for self-evaluation using the Quality Framework.

SCMA recognised at an early stage that ELC expansion was creating additional bureaucracy, leading to duplication and engaged with the Scottish Government and others about this, as while larger childcare providers such as nurseries may have been able to sustain this (although some may struggle as well), we recognised this would put much more pressure on childminding where the effect would be more pronounced. For additional context, the majority of childminders are sole workers and while they are expected to follow the same standards and curricula as nurseries, they do not have teams of staff (practitioners, managers, finance/admin and quality improvement officers) to support them. During the day their sole focus is on practice delivery and everything else has to be done by them individually, unpaid, in their own time in the evenings or at weekends (cleaning their settings, undertaking professional learning, documenting quality assurance, keeping up-to-date with the latest guidance, administration, finance, liaising with parents, marketing etc).

Recognising these issues, and the risks posed by separate, dual inspections, an independent review of ELC had recommended in 2015 that "*in future, either a joint education and care inspection or one inspection conducted by one single inspectorate body for ELC should be standard*"[xxv]. In response to this the Scottish Government charged the Care Inspectorate and Education Scotland with developing a single/shared inspection. This work was very slow and the Care Inspectorate and Education Scotland failed to reach agreement on a single/shared inspection and continued to develop their own separate frameworks.[xxvi] While we do not under-estimate the challenges involved, this was very disappointing as we were aware from supporting childminders around Scotland of the adverse impact this was having on them.

It is now almost 7 years since a single/shared inspection was recommended and has still not been delivered. During this period childminders have had to absorb the consequences of this – an evolving, detailed quality framework (with self-evaluation and inspection) by the Care Inspectorate and a separate detailed learning framework by Education Scotland (with self-evaluation and possible local authority inspection based on this). In parallel both the Care Inspectorate and local authorities consider themselves the guarantors of quality under ELC and we are already aware of some local authorities who do not recognise the role of the Care Inspectorate and are planning to undertake their own twice-yearly inspections and self-evaluations (using a mix of indicators) in addition to what the Care Inspectorate is doing at a national level.

However, it is not just a matter of the model of inspection - which is only part of the problem; the other is the ever-increasing number of standards and frameworks (noted earlier), produced by different organisations each with their own detailed and methods of outcomes reporting, which require to be embedded into practice, documented and have layered on additional requirements which are not sustainable for sole workers/practitioners. During this time SCMA's role in bridging the gap between policy and implementation in practice has become of increasing importance as without this support many childminders would struggle to keep up with the volume of official output with which they must comply.

SCMA undertook a large-scale membership survey in spring 2020 (1470 responses/38% response level). This survey found that the level of paperwork and bureaucracy associated with current childminding practice was the main reason that childminders had left the workforce (70%) and were considering doing so within the next five years (59%), closely followed by not being able to compete with local authority nursery expansion[xxvii]. The survey also found that

know

if they would. We believe this data to be deeply worrying and compelling, as when running this data together we have the makings of a workforce crisis. And while we need to account and adjust for the age profile of the childminding workforce, the results indicated a strong opportunity to positively influence this if we could reduce the pressure on the childminding workforce - only 25% said that nothing could be done to change their minds.

SCMA used this powerful data constructively. This was instrumental in our advocating the need for and securing a new Action Plan on Childminding from the Scottish Government[xxviii], [xxix]. However, despite an encouraging start in providing business sustainability grants to offset the financial impact of the pandemic, the Action Plan has faltered since. Our survey findings were also fed into independent research into the childminding workforce trends undertaken by Ipsos/MORI and overseen jointly by the Scottish Government, Care Inspectorate and SCMA. This research was published in April 2022 and largely reaffirmed our findings with concerns about bureaucracy and paperwork dominating the findings running through interviewees (from those considering becoming a childminder, through recent entrants to the childminding workforce, those mid-career and considering leaving and also those who had left the workforce)[xxx]. A separate SCMA survey also found that 86% of childminders involved in delivering funded ELC had reported a very significant or significant increase in paperwork and the level of paperwork associated with ELC is now becoming the main reason that more childminders do not wish to become involved[ix].

We recognised that the reasons for the decline in the childminding workforce were multi-factorial and also included the childminding workforce was ageing (21% aged 55+) and that the requirement within the National Standard for all providers delivering funded ELC to have either obtained or be working towards the benchmark qualification could also be a contributory factor, particularly for more experienced childminders who may have been practising for over 20 years and had been consistently achieving high quality ratings through independent inspection by the Care Inspectorate without the benchmark qualification. As such, we had anticipated that there may some premature skills loss in older age groups if childminders did not believe it was worth obtaining a qualification at this point in their career.

Time to Look Beyond Sustainable Rates and also at Sustainable Hours for Childminders

SCMA has historically captured data from members on the rates which they charge parents for the delivery of childminding services and the factors which influence this. This continued during ELC expansion alongside much wider data capture on ELC implementation, both through our published ELC Audits and a range of surveys. During the pandemic, and given the need to prioritise supporting members to continue to practice safely and to contribute to national recovery, we did not repeat this routine data capture on childminding rates, but we did undertake a wide range of activity and surveys linked to childminders' business sustainability including building the case for much-needed financial support for childminders during COVID-19 and contributing to the Scottish Government's Financial Health Check of the childcare sector (summer 2021)[xxxi, xxxii, xxxiii, xxxiv,]. The Financial Health Check found that as a result of the sustained reduction in demand for childcare during the pandemic due to the official requirement for parents to work from home and/or parents being on furlough, childcare providers' concerns about their financial sustainability had increased significantly during COVID-19 and the two most financially vulnerable provider types were childminders and school-aged childcare settings.

We agree that the issue of sustainable rates is important to providers' business sustainability and we have received feedback from a number of members to indicate that for some childminders the level of rates offered by local authorities in some parts of the country are too low to make their participation in ELC delivery financially viable – particularly if only receiving a small number of hours. This matter has taken on greater prominence as a result of the cost of living increases experienced over this last year. As with other providers, the cost of delivering childminding services has increased and even before the current cost of living pressures, the Financial Health Check exercise found that many childminders were planning to hold their prices and not to pass costs on to parents as they felt this could adversely affect their already financially vulnerable childminding businesses due to COVID-19. SCMA is currently in discussion with COSLA and the Improvement Service regarding a Cost Collection survey of childminders, as was recently conducted of other ELC providers, to obtain a more up-to-date cost of the delivery of childminding services. However, to be meaningful it is essential that this captures data on the hidden costs of delivering childminding services (including increasing unpaid time in the evenings and at weekends in support of their businesses), so that a truer sustainable rate for childminding services is established. To date there has been a reluctance to explore this and to understand how childminding businesses actually operate.

However, sustainable rates are just one part of the sustainability equation and should not be considered in isolation. As noted earlier, despite the headline finding in the SCMA ELC Audit 2021 that the number of childminders involved in delivering funded ELC for 3 and 4 year olds has increased from 4 – 17% of the childminding workforce since 2019, the linked Childminder Survey found that 75% of childminders involved in delivering funded ELC are mostly just involved on the basis of blended placements split between nurseries and childminders with a number of childminders and parents reporting that local authorities were continuing to require the bulk of the entitlement of funded hours to be taken with their own local authority nurseries and with childminders just receiving the remainder of the hours (either before or after nursery). This is not sufficient to support childminders' business sustainability; 67% of childminders believe delivering funded ELC is very important to their business sustainability, but only 30% believe there is a strong match between the offers made by local authorities and their business sustainability. As such, five years into ELC implementation we believe the time is long overdue for all local authorities to be required to involve childminders equitably in ELC delivery and with a level of hours which will support their business sustainability. Failure to act on this will only result in the further decline of childminding as a form of childcare.

The Need for Greater Scrutiny

During ELC expansion a range of scrutiny activity has taken place, but this has focussed principally on progress with implementation (via the ELC Joint Delivery Board, Improvement Service, Scottish Parliament, Audit Scotland) and the financial cost of delivering the expansion (via the Scottish Parliament and Audit Scotland). In parallel, SCMA has been commissioned by the Scottish Government to undertake an annual audit of local authorities' progress in including childminders in ELC delivery in which we have made recommendations to the Scottish Government and shared our findings with COSLA, the Scottish Parliament and Audit Scotland. These annual audits and our ongoing work have reported recurring weaknesses or failings in policy implementation at a national and local level, with very limited response or responsibility taken.

It is also unclear who, if anyone, in Scotland is providing scrutiny on the secondary costs (or unintended consequences) of ELC expansion – an issue, from a public accountability perspective, as important as direct financial costs - and, in the case of the current problems caused by duplicative quality assurance and excessive bureaucracy, who is providing scrutiny to the scrutiny bodies (Care Inspectorate, Education Scotland) who gave up on delivering the single/shared inspection recommended by an independent review and requested by the Scottish Government, and on how they work with local authorities regarding quality assurance? These are important areas of public administration where it is difficult to see responsibility being taken. Meanwhile the childminding workforce continues to decline and there is an urgent need for action to redress this situation.

Attempting to Lead Change

Against this background, we recognised that leadership was required and we launched our own new 3-year strategy in May 2021, midway through the pandemic, to promote recovery, strengthen childminding, support families and increase choice[xxxv]. Central to this has been the need to develop a more sustainable childminding workforce and we have been leading nationally on tackling the issues which affect retention and on recruitment. We engaged early with the independent expert group on Education

Reform to share evidence of the adverse effects of duplicative quality assurance on the childminding workforce, given that the Scottish Government had decided to remove the inspection function from Education Scotland and the group was asked to consider what should replace this. Recognising that childminding shortages were having a greater adverse impact in remote and rural areas we also convened a national and local stakeholder strategic discussion on childminder recruitment in remote and rural areas last November which has led to the establishment of the Scottish Rural Childminding Partnership, launched in late March 2022. This partnership, led by SCMA with financial support from Highlands & Islands Enterprise, South of Scotland Enterprise, Skills Development Scotland and the Scottish Government and delivered in partnership with 10 local authorities aims to recruit 100 childminders in remote and rural areas where they are urgently needed and to pilot a demographically-targeted recruitment campaign (including induction support through registration, a package of training and £750 start-up grants) which SCMA believes needs to be extended and rolled out nationally across Scotland. We are also currently piloting the delivery of training to support childminders with their quality assurance requirements (with a Scottish Government grant) and to reduce some of the pressure while we continue to engage nationally and work to reduce duplicative quality assurance systems and excessive bureaucracy.

Implications for Delivery of Programme for Government

The decline in the childminding workforce not only has implications for existing ELC delivery and parental choice, but also for the delivery of Scottish Government commitments within the Programme for Government to extend ELC to one year-olds and all two year-olds, and to develop a new system of wraparound school-aged childcare. These are both areas of childcare in which childminders play a vital role. Childminders provide unparalleled continuity of care for children from 0-12 (or 16 years in the case of children with additional support needs). Approximately 50% of the 32,000 children in childminding settings annually are in the pre-school age range (0-4) and 50% in the school-aged childcare age range (5-12/16). Parents using childminding services do so for many reasons and make an informed choice. This includes a home-based form of childcare, delivered in small groups and in which children of different ages learn and play together (which can benefit a number of aspects of development). Childminders have extensive experience of providing nurturing care to babies and one year-olds which could play a key role in informing the development of the Scottish Government's offering for one year-olds which it has been recognised will be fundamentally different in nature to and not simply a roll down of existing ELC provision. Childminders also have extensive experience of providing school-aged childcare. In simple terms, if our workforce continues to contract this will have direct implications for the delivery of these new commitments.

Potential for Programme for Government, Education Reform and the National Care Service to Compound Problems for Childminding

We welcome the recommendation from Prof Ken Muir's report on Education Reform that a single/shared inspection for ELC should be delivered and the Scottish Government's acceptance of this recommendation and commitment to consult on this over the next few months[xxxvi, xxxvii]. However, we also note that it was recommended to replace Education Scotland with not one, but two new bodies which feels contrary to reducing bureacracy. We believe there is still potential for duplicative quality assurance to continue, as the need for a single/shared inspection was previously recommended and accepted 7 years ago, but not delivered and also as a number of local authorities are continuing to develop their own local systems of quality assurance. Childminding businesses cannot withstand duplicative inspection and quality assurance. This must be addressed as a matter of urgency and will require a commitment from all stakeholders (including the Scottish Government, Care Inspectorate, the bodies which replace Education Scotland, local authorities, local government representative bodies and provider organisations) to deliver change. In parallel, there is a pressing need to reduce the layering and paperwork which has built up during ELC expansion and is not sustainable nor proportionate to childminding.

To compound matters further, childminding businesses could face the prospect of duplicative quality assurance increasing further if it was to be decided that either or both of the Programme for Government commitments on one year-olds or school-aged childcare also require additional quality assurance, self-evaluation, inspection or qualifications. Many childminders have mixed business models in which they may provide childcare to babies and one year-olds, pre-school childcare to 2-4 year olds and school aged-childcare to 5-12/16 years. It would not be credible or sustainable if they were expected to comply with different quality assurance, inspection and qualification requirements for each of these policy areas. The situation could be even worse for childminders who also currently deliver community childminding. This is a specialised early intervention and form of family support which has supported over 900 vulnerable families in Scotland in the last three years and for which demand is increasing. Currently the proposals for the development of the National Care Service (NCS) do not include ELC, but they do include children's social care under which community childminding falls. The consultation on the NCS made clear that it is intended to develop standards, quality assurance and consider qualification requirements for all NCS providers. As such, this could layer on further requirements of community childminders making their roles unsustainable and lead to the loss of vital family support when demand is increasing.

SCMA has engaged constructively with the consultations on Education Reform and the NCS and submitted detailed written evidence to these exercises warning of the further serious risks which these policy agendas present to the sustainability of childminding in Scotland[xxxviii, xxxix]. We have also advised the Scottish Government of the urgent need to review the wider scrutiny landscape BEFORE creating any additional scrutiny through Education Reform, the National Care Service and the development of the Programme for Government's commitments to extend ELC to one year-olds and to develop a new system of wraparound school aged childcare.

Recommendations for Change

As should be clear from the detail contained within this submission, the expansion of ELC and the manner in which it has been implemented nationally and locally in Scotland has had a devastating effect on the childminding workforce which has declined by 26% (1457 childminders) during the last 5 years and the implementation of '1140 by 2020'. This decline is continuing to accelerate and cannot be sustained. It should also be clear that over the course of the last five years there has been a series of weaknesses or failings in implementing the expansion of ELC policy and that existing measures to support childminding within ELC expansion are inadequate.

Our ELC Audit 2021 included a series of recommendations to the Scottish Government including –

- the principle of Provider Neutrality is not working in practice and should be replaced as a matter of urgency to incorporate a minimum childcare provider mix which all local authorities must meet, guaranteeing equitable opportunity to participate in funded ELC delivery (and taking into account remote and rural challenges). All 32 local authorities should be required to report on this and to evidence annually their equitable inclusion of childminders and other childcare providers alongside their own provision. However, if the principle of Provider Neutrality is to be maintained, then it is essential that the Scottish Government and local authority representative bodies accept responsibility to ensure this is implemented fairly, equitably and consistently and that local authorities who fail to implement this principle in practice are held to account;

- it is clear that much work remains to be done in ensuring all local authorities promote childminding equitably to parents, alongside local authority nursery provision, as an option for receiving their funded ELC entitlement. While the promotion and encouragement of good practice has been the favoured approach to date, this has not been working as much as hoped and there is a need for the Scottish Government to step in, to move beyond encouragement to requiring and ensuring that this now happens;

- urgent, and immediate, action is required by the Scottish Government to reduce the level of bureaucracy associated with ELC expansion which has played a significant role in the reduction of the childminding workforce. Many childminders' workloads have become unsustainable and a range of ongoing policy proposals present a risk of compounding this further. The Scottish Government should undertake an urgent review of the wider scrutiny landscape BEFORE creating any additional scrutiny through Education Reform, the National Care Service and the development of the Programme for Government's commitments to extend ELC to one year-olds and to develop a new system of wraparound school aged childcare;

- the Scottish Government should work with SCMA, the Care Inspectorate, Association of Directors of Education and COSLA in reducing the duplicative quality assurance systems, nationally and locally, which have arisen as a result of ELC expansion with a view to streamlining, increasing consistency, standardising data capture and reporting which reflect childminder settings;

- the Scottish Government should commission SCMA to work with statutory stakeholders to develop standardised documentation and templates to help reduce bureaucracy and support the participation of professional childminders in delivering funded ELC (by, for example making quality assurance and self-evaluation more childminding-specific and helping childminders to evidence their practice);

- the Scottish Government should financially support the scaling up of the ongoing childminder recruitment pilot in remote and rural areas and it's extension nationally (including into urban areas).

Within this submission to the F&PA Committee we would also add the following specific recommendation:

- it is essential that we look beyond sustainable rates to also include sustainable levels of hours for childminders and that all local authorities must be required to include childminders in ELC delivery at a level of hours which supports childminders' business sustainability.

The Scottish Government has also recently received two research reports undertaken by Ipsos/MORI – the first reporting parents' perceptions of childminding in improving children's and family outcomes and the second on our declining workforce trends – both also containing a series of recommendations for change including the need for Scottish Government to prioritise and take forward work to positively promote the many benefits of childminding, to promote childminding as a career and to tackle the levels of bureaucracy and other issues which have contributed to our workforce decline[xl, xxx].

After five years of activity to support ELC expansion, the problems caused by the implementation of '1140 by 2020' and the disproportionate effect this has had on childminding are well-defined and understood. There is a need for recognition from all of the responsibility to prioritise additional support for childminding nationally and locally; the Scottish Government has received a series of constructive evidence-based recommendations to redress these issues and there is a need for an urgent step change in action to prevent the further decline of childminding as a unique form of childcare and family support.

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[xxxi] COVID-19, Restrictions on Blended Placements and the Impact on the Childminding Workforce, Children, Families & Parental Choice. Briefing Paper, SCMA, July 2020
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[xxxvi] Putting Learners at the Centre: Towards a Future Vision for Scottish Education, Report by Prof Ken Muir, March 2022
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[xl] Perceptions of the impact of childminding services on child, parent and family outcomes, Ipsos/MORI (on behalf of Scottish Government), September 2021

Annexe C

Funding for ELC expansion - information request on behalf of the Finance and Public Administration Committee

Local authorities are funded to deliver ELC 1140 expansion through a multi-year funding package agreed in April 2018.

- A multi-year revenue and capital funding package for the expansion of early learning and childcare was agreed by Scottish Ministers and COSLA Leaders on Friday 27 April 2018.
- The letter **at Annex D** was sent to local authorities on 1 May 2018
- The funding was based on local authorities' estimates of the cost of the expansion adjusted to reflect inflation and NRS 2014 population forecasts.
- The NRS 2014 population projections represented the best information available at local authority level at the time the templates were produced. NRS 2016-based projections were published on 28 March 2018 however this was too late for them to be reflected in the returns from local authorities (LAs).
- The estimated costs from local authorities were quality assured through the SG/COSLA jointly chaired ELC Finance Working Group (FWG).
- The FWG includes representatives of SOLACE, ADES Resources and CIPFA Directors of Finance
- The FWG recommended a formula based distribution and this was supported by the Settlement and Distribution Group (SDG) (a joint group consisting of officers from the Scottish Government, COSLA and councils).
- COSLA Leaders instead agreed to funding being distributed on the basis of financial templates submitted by councils to the Scottish Government in March 2018 outlining the costs of their expansion plans. The Scottish Government adjusted these to include inflation and reflect NRS population forecasts.

As a result of the Covid pandemic, local authorities were given additional flexibilities in the use of ELC funding

- The letter **at Annex E** which was sent to LAs on 15 May 2020 sets these out.

Distribution

- The current multi-year agreement was reached through the following process:

- June 2017 **-** ELC Finance Working Group was established to lead work on revenue & capital funding for 1140. FWG agreed the process for gathering the data and the format of finance templates to be issued to LAs
- September 2017 LAs completed finance templates
- January 2018, COSLA Leaders considered recommendations from the SDG on the distribution of ELC expansion funding for 2018/19. Distribution of revenue funding was agreed but for one year only. SDG was not, at that time, able to make a recommendation on capital until further work was done and the total quantum was known for the programme
- March 2018 LAs completed another round of finance templates

- April 2018, COSLA Leaders considered a report that outlined the considerable work done by LAs, SG and COSLA on a multi-year funding package for both revenue and capital for ELC expansion. The report presented options for consideration and decision.
- Leaders agreed the recommendations of the SDG on the allocation of capital funding for Early Learning and Childcare Extension on 1140 Hours, using LA returns (SDG considered that capital requirements are heavily influenced by local market conditions and the balance of in-house provision which requires capital investment and partner provider provision. SDG felt that a funding formula would not be able to reflect this)
- Leaders voted against the SDG's recommendation (to use a formula basis using the principled client group approach) and agreed that for revenue funding, Local Authority returns were to be used as the basis for funding distribution.
- April 27th 2018 Agreement was reached
- 1 May 2018 Minister for Childcare and Early Years made a statement to Parliament and Multi-year letter was issued
- Some councils had a reduction applied to their financial estimates through the distribution process, which used NRS population data rather than councils' own population forecasts.
- Where population changes have not been as forecast this has resulted in challenges, while for those whose population has declined there has been a net benefit.

<u>On 25 June 2021 COSLA Leaders agreed that from 2022-23 a single standard formula should be used to distribute funding between LAs.</u>

- This new formula will be used for both the funding under the MYA and also the GRG pre-expansion ELC funding.

- The new formula is based on:

    - 75% client numbers
    - 20 % deprivation (including £18 million for Equity and Excellence Leads)
    - 5% rurality

<u>Funding beyond the current agreement</u>

- Agreement was reached with COSLA through the FWG that 2022-23 should be treated as an interim year pending a review of the quantum of funding from 2023-24 onwards.
- Ministers confirmed that ELC funding would continue to be ring-fenced for 2022-23.

- The paper **at Annex F** to the FWG in July 2021 provides further detail
- Following the review of assumptions in autumn 2021, £39m headroom was identified in the ELC Specific Revenue Grant, largely as a result of there being fewer children eligible for the entitlement now than was projected in 2018.

- £15m of this was retained and £15m removed from allocations to fund other priorities across the education portfolio.
- The remaining £8.9 million of headroom from the ELC specific revenue grant has been retained for the Deferral Pilot Programme.
- SG is currently working with the FWG to design a new basis for agreeing quantum from 2023-24.

Reporting by local authorities

- There have been three rounds of financial data collection from LAs on ELC spend.
- The paper **at Annex G** sets out the findings from the first round and was presented to the FWG in October 2019:
- As a result of the Covid pandemic it was decided to pause the next financial data collection exercise until autumn 2020. The paper **at Annex H** was presented to the FWG in February 2021 and sets out the findings from that exercise:
- A new set of financial templates were issued to LAs in Dec 2021 for return in January 2022. The data from these templates will be used to inform the modelling of funding from 2023-24.

Annexe D

Children and Families Directorate
Creating Positive Futures Division

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Local Authority Chief Executives
Local Authority Directors of Finance
Local Authority Directors of Education

Copy to:
Jane O'Donnell, COSLA
Vicki Bibby, COSLA
Lesley Gibb, ADES Early Years Network
Craig Clement, ADES Resources Network

1 May 2018

Dear Colleague

EARLY LEARNING AND CHILDCARE – MULTI-YEAR REVENUE AND CAPITAL ALLOCATIONS

Following agreement of a multi-year funding package for the expansion of early learning and childcare (ELC) by Scottish Ministers and COSLA Leaders, I am writing to confirm local authority multi-year revenue and capital allocations. Allocations for 2019-20 onwards remain subject to parliamentary approval of the respective Scottish Budget(s).

The agreement is based upon refreshed finance templates submitted by local authorities in March 2018, as reviewed by the ELC Finance Working Group and subject to adjustments agreed by Scottish Ministers and COSLA Leaders.

The distribution methodologies underpinning these allocations were agreed by COSLA Leaders on Friday 27 April.

This funding is allocated as a specific grant to ensure that it is protected for investment in early learning and childcare. Authorities will be required to report to the Scottish Government on how this funding has been applied. The intention is for this to be light touch, integrated with an agreed annual review of revenue funding, and we will consult with COSLA and the ELC Finance Working Group on these arrangements.

Revenue allocations

We will provide local authorities with total recurring revenue funding of £567 million per annum by 2021-22 to deliver the expansion in entitlement to funded ELC to 1140 hours from August 2020.

This figure has been calculated as the total local government estimate, as reflected in March 2018 finance templates, uprated for inflation less an adjustment in respect of NRS 2014 population projections. Authority-level allocations have been calculated in the same way, with the population adjustment based on the cost-impact of moving to NRS 2014 projections and takes account of underlying assumptions on uptake and unit cost.

Authority-level allocations for 2019-20 to 2021-22 inclusive are detailed at **Annex A**.

The Settlement and Distribution Group (SDG) will consider the distribution methodology for allocations for 2022-23 onwards in due course.

Allocations for 2018-19 remain as per my letter of 22 February 2018, and are reproduced at **Annex B** for ease of reference.

You will be aware that we have so far distributed £12 million of the £18 million of funding set aside to implement the additional graduate commitment in 2018-19. Euan Carmichael wrote to Directors of Education yesterday (30 April 2018) to confirm that we will use June returns from local authorities to finalise 2018-19 additional graduate funding allocations. Any of the remaining balance of £6 million that is not required for delivery of this commitment in 2018-19 will be allocated across authorities using the formula-based methodology agreed for ELC expansion funding this financial year.

Annual review

The revenue funding package will be subject to an annual review to provide assurance to Scottish Government and COSLA Leaders that the funding package reflects the costs of delivery and uptake, taking account of both total population and 2 year-old uptake.

The ELC Finance Working Group will agree proportionate annual review arrangements and more information will be provided to authorities in due course.

Capital allocations

We will provide local authorities with £476 million of capital funding to support the expansion, over four financial years from 2017-18 to 2020-21 inclusive. This figure has been calculated as the total local government estimate, as reflected in March 2018 finance templates, less an adjustment following the application of agreed capital funding principles to proposed new build projects (comprising standard area and cost reference rates and land purchase). Funding will be distributed to authorities on the same basis.

Authority-level allocations for 2017-18 to 2020-21 inclusive are detailed at **Annex C**.

Delivery support

The ELC Delivery Team is available to support local authorities with the refinement of their plans following this funding confirmation. The team can be contacted directly (for contact details please see monthly update papers) or via the central mailbox ELCDeliverySupport@gov.scot.

I hope that this information is helpful to you, and allows you now to press ahead with full implementation of the 1140 hours commitment. Could I also extend my thanks, on behalf of the Scottish Government, to you and your colleagues for the hard work and diligence that has gone into this process.

If you have any questions, please direct them to Alison Cumming, ELC Programme Director on 0131 244 0540 or alison.cumming@gov.scot.

JOE GRIFFIN

Annex A – Local authority revenue allocations for early learning and childcare 2019-20 to 2021-22

	2019-20	2020-21	2021-22
Aberdeen City	£14,045,000	£23,241,000	£25,924,000
Aberdeenshire	£16,141,000	£26,708,000	£29,792,000
Angus	£5,690,000	£9,416,000	£10,503,000
Argyll & Bute	£5,087,000	£8,417,000	£9,389,000
Clackmannanshire	£2,733,000	£4,523,000	£5,045,000
Dumfries & Galloway	£6,598,000	£10,918,000	£12,179,000
Dundee City	£9,173,000	£15,178,000	£16,931,000
East Ayrshire	£7,364,000	£12,186,000	£13,593,000
East Dunbartonshire	£6,032,000	£9,981,000	£11,134,000
East Lothian	£6,804,000	£11,259,000	£12,559,000
East Renfrewshire	£3,718,000	£6,152,000	£6,862,000
Edinburgh, City of	£26,019,000	£43,054,000	£48,025,000
Na-h Eilean Siar	£1,653,000	£2,735,000	£3,051,000
Falkirk	£10,363,000	£17,147,000	£19,127,000
Fife	£19,943,000	£33,000,000	£36,810,000
Glasgow City	£32,219,000	£53,313,000	£59,469,000
Highland	£14,340,000	£23,729,000	£26,469,000
Inverclyde	£4,885,000	£8,084,000	£9,017,000
Midlothian	£7,327,000	£12,124,000	£13,524,000
Moray	£5,847,000	£9,675,000	£10,792,000
North Ayrshire	£7,882,000	£13,043,000	£14,549,000
North Lanarkshire	£20,550,000	£34,005,000	£37,931,000
Orkney Islands	£1,273,000	£2,106,000	£2,349,000
Perth & Kinross	£7,509,000	£12,425,000	£13,860,000
Renfrewshire	£12,205,000	£20,196,000	£22,528,000
Scottish Borders	£6,827,000	£11,298,000	£12,602,000
Shetland Islands	£1,701,000	£2,815,000	£3,140,000
South Ayrshire	£5,253,000	£8,691,000	£9,695,000
South Lanarkshire	£17,460,000	£28,891,000	£32,227,000
Stirling	£6,399,000	£10,590,000	£11,813,000
West Dunbartonshire	£5,268,000	£8,717,000	£9,723,000
West Lothian	£8,692,000	£14,383,000	£16,044,000
Scotland	**£307,000,000**	**£508,000,000**	**£566,656,000**

ANNEX B – DETAILS OF 2018-19 REVENUE ALLOCATIONS

	ELC expansion - capacity and capability building				Lunches		Additional graduates	Total		
	3&4 year olds		2 year olds							
	New	Recurring	New	Recurring	New	Recurring	New	New	Recurring	Total
	1	2	3	4	5	6	7	8	9	10
Aberdeen City	1,102,744	709,687	88,700	57,848	61,704	119,552	165,517	1,418,665	887,086	2,305,751
Aberdeenshire	1,816,600	1,169,099	78,594	51,257	54,674	105,932	165,517	2,115,386	1,326,288	3,441,674
Angus	665,571	428,338	40,196	26,215	27,962	54,177	82,759	816,488	508,730	1,325,218
Argyll & Bute	525,799	338,385	24,519	15,990	17,056	33,047	82,759	650,132	387,422	1,037,555
Clackmannanshire	323,174	207,984	32,292	21,060	22,464	43,524	193,103	571,034	272,567	843,601
Dumfries & Galloway	921,206	592,855	58,657	38,255	40,805	79,059	275,862	1,296,530	710,169	2,006,699
Dundee City	835,796	537,888	86,616	56,488	60,254	116,743	579,310	1,561,976	711,120	2,273,096
East Ayrshire	659,519	424,443	64,621	42,144	44,954	87,098	413,793	1,182,887	553,686	1,736,573
East Dunbartonshire	590,122	379,782	20,318	13,251	14,135	27,386	55,172	679,748	420,419	1,100,166
East Lothian	609,878	392,496	40,100	26,152	27,896	54,048	82,759	760,632	472,695	1,233,327
East Renfrewshire	566,822	364,786	16,624	10,842	11,564	22,406	27,586	622,596	398,034	1,020,630
Edinburgh, City of	2,613,761	1,682,124	154,948	101,053	107,790	208,842	551,724	3,428,223	1,992,019	5,420,242
Eilean Siar	195,974	126,122	5,717	3,729	3,977	7,706	27,586	233,255	137,557	370,811
Falkirk	900,127	579,289	71,122	46,384	49,476	95,860	220,690	1,241,414	721,533	1,962,947
Fife	2,015,534	1,297,126	170,389	111,123	118,531	229,655	772,414	3,076,868	1,637,904	4,714,772
Glasgow City	3,076,742	1,980,081	371,360	242,191	258,337	500,528	3,089,655	6,796,094	2,722,800	9,518,894
Highland	1,588,410	1,022,244	52,394	34,170	36,448	70,618	165,517	1,842,769	1,127,032	2,969,801
Inverclyde	383,453	246,777	42,452	27,686	29,532	57,217	220,690	676,126	331,680	1,007,805
Midlothian	611,904	393,799	44,487	29,013	30,947	59,960	82,759	770,096	482,773	1,252,869

Moray	564,831	363,505	34,006	22,178	23,656	45,834	55,172	677,665	431,516	1,109,181
North Ayrshire	701,055	451,174	94,058	61,342	65,432	126,774	662,069	1,522,614	639,291	2,161,905
North Lanarkshire	1,830,139	1,177,813	184,977	120,637	128,679	249,316	1,103,448	3,247,244	1,547,766	4,795,009
Orkney Islands	151,014	97,187	5,518	3,598	3,838	7,437	27,586	187,956	108,222	296,178
Perth & Kinross	777,714	500,509	41,098	26,803	28,590	55,393	55,172	902,575	582,705	1,485,280
Renfrewshire	1,011,060	650,682	77,855	50,775	54,160	104,935	717,241	1,860,316	806,392	2,666,708
Scottish Borders	727,941	468,477	39,258	25,603	27,310	52,913	82,759	877,268	546,993	1,424,261
Shetland Islands	202,997	130,641	7,281	4,749	5,065	9,814	27,586	242,930	145,204	388,134
South Ayrshire	581,005	373,914	44,527	29,040	30,976	60,015	331,034	987,542	462,969	1,450,511
South Lanarkshire	1,624,990	1,045,785	134,015	87,401	93,228	180,628	717,241	2,569,473	1,313,815	3,883,288
Stirling	528,004	339,804	28,704	18,720	19,968	38,688	137,931	714,607	397,212	1,111,819
West Dunbartonshire	543,014	349,464	58,006	37,830	40,352	78,183	303,448	944,821	465,477	1,410,298
West Lothian	1,053,103	677,739	86,593	56,474	60,239	116,712	524,138	1,724,072	850,925	2,574,997
Scotland	**30,300,000**	**19,500,000**	**2,300,000**	**1,500,000**	**1,600,000**	**3,100,000**	**12,000,000**	**46,200,000**	**24,100,000**	**70,300,000**

Annex C – Local authority capital allocations for early learning and childcare 2017-18 to 2020-21 (£ million)

	2017/18	2018/19	2019/20	2020/21	Total
Aberdeen City	1.040	7.400	8.600	6.000	23.040
Aberdeenshire	1.770	8.500	10.000	6.900	27.170
Angus	0.640	2.700	3.200	2.200	8.740
Argyll & Bute	0.490	2.100	2.500	1.700	6.790
Clackmannanshire	0.280	1.600	1.800	1.300	4.980
Dumfries & Galloway	0.910	2.800	3.200	2.200	9.110
Dundee City	0.810	3.300	3.900	2.700	10.710
East Ayrshire	0.910	6.900	8.100	5.700	21.610
East Dunbartonshire	0.560	2.300	2.700	2.000	7.560
East Lothian	0.620	4.800	5.600	3.900	14.920
East Renfrewshire	0.570	3.900	4.600	3.200	12.270
Edinburgh, City of	2.580	12.400	14.500	10.000	39.480
Eilean Siar	0.240	1.000	1.200	0.800	3.240
Falkirk	1.250	5.000	5.800	4.000	16.050
Fife	2.280	8.800	10.200	7.100	28.380
Glasgow City	3.330	13.700	16.000	11.100	44.130
Highland	1.690	10.400	12.100	8.400	32.590
Inverclyde	0.380	1.900	2.200	1.500	5.980
Midlothian	0.530	5.400	6.300	4.300	16.530
Moray	0.640	2.400	2.800	1.900	7.740
North Ayrshire	0.740	3.600	4.200	2.900	11.440
North Lanarkshire	0.650	6.600	7.700	5.400	20.350
Orkney Islands	0.140	0.700	0.800	0.600	2.240
Perth & Kinross	0.890	4.800	5.600	3.800	15.090
Renfrewshire	0.910	4.400	5.100	3.600	14.010
Scottish Borders	0.690	2.400	2.800	1.800	7.690
Shetland Islands	0.190	1.100	1.300	0.900	3.490
South Ayrshire	0.560	5.000	5.800	4.000	15.360
South Lanarkshire	1.740	5.900	6.900	4.700	19.240
Stirling	0.300	2.300	2.600	1.800	7.000
West Dunbartonshire	0.580	1.800	2.100	1.400	5.880
West Lothian	1.090	4.100	4.800	3.300	13.290
Scotland	**30.000**	**150.000**	**175.000**	**121.100**	**476.100**

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To:
Local Authority Directors of Finance
Local Authority Directors of Education

Copied to:
Local Authority Chief Executives
CoSLA Acting Chief Officer, Local Government Finance
CoSLA Chief Officer, Children and Families

15 May 2020

Dear colleagues,

FLEXIBILITY IN LOCAL AUTHORITY USE OF EDUCATION AND EARLY LEARNING AND CHILDCARE FUNDING TO SUPPORT PANDEMIC RESPONSE

Covid-19 has put us all in an unprecedented, challenging situation. The Deputy First Minister recognised in his statement to Parliament on 19 March that every aspect of our national life has been affected by this crisis. In recognition of the financial and other resource implications of maintaining critical provision for children and families at this time, the Deputy First Minister also set out that he was content to:

- Relax current guidance on Pupil Equity Funding in order that headteachers can support our most vulnerable children;
- Apply flexibility to schools and Local Authorities in receipt of Challenge Authority and Schools' Programme funding;
- Relax grant conditions in respect of funding for Regional Improvement Collaboratives, allowing resource linked to this initiative to be repurposed to the Covid-19 response; and,
- Allow Local Authorities to deploy early learning and childcare funding flexibly to deliver critical provision for children and families.

This letter provides further information about the extent and nature of these flexibilities for education and early learning and childcare grant funding streams to support learning, critical childcare provision and children and families during the emergency response period. By 'critical childcare provision', we mean childcare or equivalent arrangements provided by Local Authorities in either Local Authority settings or private, third sector, independent or childminding settings in response to the needs of keyworkers and vulnerable children as defined in Coronavirus (COVID-19): school and early learning closures – guidance about key workers and vulnerable children, published 31 March 2020.

The Covid-19 Education Recovery Group, supported by the ELC Finance Working Group, will consider the funding arrangements necessary to support the recovery phase and make recommendations to CoSLA Leaders and the Scottish Ministers.

The Scottish Government fully supports Local Authorities in the critical work you are undertaking, and greatly appreciates the enormous efforts underway across Scotland to support our families, communities and businesses.

We recognise the fast pace of change facing all of us in this critical and challenging operating environment and we are committed to responding in partnership. We are working closely with our partners in Local Government to arrange the best support we can provide collectively for our local communities across Scotland and this further flexibility on Education and Early Learning and Childcare expansion grants builds on the measures we have already announced on Social Care funding support, Non-Domestic Rates to help support councils' income streams, and the £350 million Communities support funding – some of which will go directly to Local Authorities to support their own resilience through the Hardship Fund, Food Funds and Council Tax Reduction Scheme top ups. Additionally, on 18 April, the UK Government announced further funding of £1.6 billion for Local Authorities in England, with consequentials for Scotland of £155 million. The Cabinet Secretary for Finance confirmed on 5 May that this additional funding will be made available in full to local authorities. The funding committed for Local Government is designed to help Councils provide support across a wide range of services affected by Covid-19.

We will continue to work with COSLA to secure the additional resources from HM Treasury needed to provide the additional financial support and flexibility that local government requires in response to the Covid-19 crisis.

Principles supporting flexible use of education and early learning and childcare funding streams

In exercising the flexibility available from these funding streams, Local Authorities are asked to take into account the following overarching principles:

i. That funding can be redeployed to best support the education and care of children and young people during the response to the coronavirus pandemic;

ii. That Local Authorities must continue to provide targeted support for the most vulnerable children and families;

iii. That Local Authorities must provide critical childcare and learning for the children of key workers;

iv. That where Local Authorities make a critical childcare offer to key worker families and vulnerable families, this should be free at the point of access during the emergency response period;

v. That Local Authorities should pay sustainable rates to funded providers in the private or voluntary sectors, including childminders, for the delivery of critical childcare on behalf of the authority, to ensure that these providers are able to deliver services that are free at the point of access during the emergency response period;

vi. That the principle of equity in education must remain a key factor in Local Authorities' responses to Covid-19;

vii. That reporting requirements across the identified funding streams will be adjusted to reflect the exceptional circumstances, with specific arrangements for each agreed bilaterally between the Scottish Government and local government; these will be proportionate and placed within the context of the wider collection of data from local government;

viii. That both the Scottish Government and Local Government recognise the pandemic response means that previous priorities and commitments made under these grants will need to be reviewed and reset once the immediate emergency response is complete, and commit to working collaboratively. The recently established Covid-19 Education Recovery Group and ELC Joint Delivery Board will be key to this.

In using these funding streams flexibly, Local Authorities should be able to act to set up (or further develop) alternative arrangements for the delivery of critical childcare, provision of food, digital access, connectivity or devices, education and support for the children and families of key workers and education and support for vulnerable children and families for the duration of early learning and childcare setting and school closures. This list of potential uses of the funding is not exhaustive and decision-making on need will be made at Local Authority/school level, taking account of current commitments across funding streams.

In addition to these high-level principles, there are a number of specific considerations that will determine the flexibility that can be exercised for each of the specific funding streams. These are set out below.

Early Learning and Childcare

The ELC financial position for each Local Authority will vary depending on the extent of existing commissioned places; and the 1,140 contractual commitments already in place. Overall, however, the suspension of the statutory duty is intended to support Local Authorities in prioritising the provision of critical childcare. Additional flexibility in the ELC expansion grant in 2020-21 can, where available, be redeployed to support Local Authorities' responses to Covid-19 and provision of support for the children of key workers and our most vulnerable children. The key points Local Authorities are asked to consider in exercising this flexibility are:

i. The ring-fenced early learning and childcare expansion revenue grant will continue at the committed level for 2020-21;

ii. Local Authorities are required to honour the agreement already reached between Scottish Government and CoSLA to continue funding commissioned places in private, third and childminding sector settings for the duration of the closure, with a view to securing the long term viability of the childcare sector and realisation of our shared ambition to deliver 1,140, as discussed in CoSLA's 24 March commissioning guidance and the Scottish Government's guidance note to Directors of Finance of 6 April.

iii. Where Local Authorities are purchasing critical childcare provision from funded providers, funding for this should take into consideration the costs of delivering critical childcare safely, in line with public health guidance, and in line with the process set out in the letter from Alison Cumming to Local Authorities on 6 April.

iv. Local Authorities should pay sustainable rates to funded providers in the private or voluntary sectors, including childminders, for the delivery of critical childcare on behalf of the authority, to ensure that these providers are also able to deliver services that are free at the point of access during the emergency response period.

v. Local Authorities are encouraged to use the £508 million of ELC expansion funding for 2020-21 and any underspends recorded against ring-fenced ELC revenue grant funding in previous years (and other funding streams, where appropriate) flexibly to secure the emergency provision they need locally. This will include the children of key workers and vulnerable children within our communities.

vi. The Scottish Government and COSLA remain committed to resuming our joint work to deliver 1,140 and hope to see increased provision available in 2020-21 across Scotland subject to the shape of overall recovery arrangements. We are, however, asking Local Authorities to prioritise the allocation of their resources to support the provision of critical childcare during the current response period. We recognise that Local Authorities will need to work through the financial implications of the pandemic response and that the prioritisation of critical childcare will impact on authorities' ability to progress 1,140 expansion plans in this financial year.

Reporting arrangements on ELC expenditure will continue to be agreed through the jointly chaired ELC Finance Working Group. The ELC Finance Working Group will consider these current extraordinary circumstances in jointly developing a proportionate reporting process for 2020-21, and a process for assessing the financial impacts of the pandemic response on ELC funding. Additionally, the ELC Finance Working Group will work through the financial implications of critical childcare during the pandemic response on the multi-year funding package.

The Attainment Scotland Fund
This includes the Challenge Authorities Programme, the Schools' Programme, Pupil Equity Funding, and Care Experienced Children and Young People funding.

A key risk as a result of Covid-19 is that the poverty-related attainment gap grows as direct face-to-face school based learning and teaching is reduced and the Attainment Scotland Fund will be a key factor in mitigating this risk. Therefore this funding and the focus on supporting children and young people from the most deprived backgrounds remains as important as ever.

In exercising the flexibility referred to above, Local Authorities and schools are asked to consider the following key points in relation to the Attainment Scotland Fund:

i. That funding from the Attainment Scotland Fund can be redeployed to best support the education, health and wellbeing and care of children and young people during the response to the coronavirus pandemic;

ii. That this redeployment must remain consistent with the principle of equity in education;

iii. That a key factor in terms of applying flexibility to the use of Attainment Scotland Funding is that where plans for this funding are managed by the Local Authority, changes can be made at Local Authority level without the need to engage with the Scottish Government and existing change request governance arrangements in advance of making changes to plans;

iv. In making changes to plans, Local Authorities and headteachers should be mindful that long-standing plans may be in place for much of this funding and that a significant portion of it will be assigned to salaried staff or to meeting contractual costs for other services;

v. Noting that, in line with bullet iv above, elements of this funding may be committed and recognising the practical challenges at this current time, decisions that alter the planned use of Pupil Equity Funding or Schools' Programme funding should be made in partnership with the relevant headteachers;

vi. Existing reporting arrangements remain in place for each of these workstreams and these will be kept under review and adjusted where necessary to take into account the potential impact of school closures and the pandemic more broadly (e.g. a change or non-delivery of contracted services).

We will, in due course, expect that plans will be adjusted to support pupils as they transition back into school-based learning and Scottish Government and Education Scotland colleagues will work in partnership with schools and Local Authorities to support that process.

Education Scotland Attainment Advisors will remain available to advise Local Authorities and headteachers where necessary.

Regional Improvement Collaboratives

For Regional Improvement Collaboratives, the balance of Scottish Government funding which have been provided is held and administered by a single Local Authority on behalf of the member authorities in each collaborative. RIC leads should explore how un-committed regional funding can be used for region-wide support for distance and home learning for pupils and staff during the "virtual" term 4 of this school year. We ask that RIC leads revise their plans for term 4 to prioritise support for schools to engage the majority of children learning through distance learning.

We are also writing to each RIC Lead directly to provide further information on the immediate implications for the joint work that was in hand prior to Covid-19 for extending current RIC plans and reviewing regional resourcing in light of the now paused RIC review.

Thank you again for the vital work you and your teams are doing to support our families, communities and businesses, and for your constructive approach to working in partnership. Please continue to share with us your thoughts and suggestions as to how we can further improve our collective response to the pandemic.

Yours sincerely

ALISON CUMMING AND GRAEME LOGAN
Interim Director, Early Learning and Childcare and Director of Learning

FWG 6 July 2021

Early Learning & Childcare

1140 expansion funding 2022-23

Purpose

1. This paper updates the FWG on work to establish the quantum of ELC 1140 expansion funding for 2022-23, as well as on ring-fencing of the funding.

Background

2. At its meeting on 2nd February 2021, the FWG discussed a paper that outlined a number of possible routes to establishing a quantum for 2022-23 and which emphasised the need for a pragmatic approach in order to reach agreement by summer 2021.

3. After consideration, the FWG recommended that the current quantum be used as the basis for an interim funding agreement for 2022-23 after reviewing the 2021-22 quantum for changes to the assumptions in the original costings.

Progress to date

4. SG analysts have begun the review of the 2021-22 quantum and have identified changes in some of the assumptions used in the original costings, for example with regard to population and inflation forecasts.

5. Due to the Parliamentary election, SG officials have only recently had the opportunity to discuss ELC funding with new ministers. Ministers have asked that the work on reviewing the 2022-23 quantum be discussed with local government colleagues over the summer and that further advice be provided to them following those discussions.

6. The FWG had asked that 2022-23 quantum be agreed by summer 2021 however this timescale may be challenging. There is a need to align work on ELC funding with wider work on the SG Spending Review, and ELC officials are working to confirm those timescales.

7. SG officials and COSLA officers will continue to work together to progress this work as early as possible and will provide an update to the next FWG.

Ring-fencing

8. The FWG had also asked for clarification regarding whether ring-fencing would continue for 2022-23, recognising that this impacts on the transitional arrangements for the new distribution formula.

9. Scottish Ministers have now confirmed that the ring-fencing of ELC 1140 expansion funding will continue into 2022-23.

Recommendations

10. It is recommended that the group note the content of the report

ELC Finance Working Group
Wednesday 31 October 2019
Agenda Item 3

Collection of financial data

Purpose

1. To ask members of the ELC Finance Working Group (FWG) to approve the approach and timescales for the collection of data from local authorities on actual and planned revenue and capital spending on Early Learning & Childcare.

Background

2. On 27 April 2018 COSLA leaders agreed a multi-year funding package to local authorities covering the period 2019-20 to 2021-22. This included capital and revenue funding and covers both the implementation period of the 1140 expansion and the first full financial year after the implementation date of August 2020.

3. The SG Director of Early Learning and Childcare wrote to local authorities on 1 May 2018 and in that letter advised that Authorities would be required to report to the Scottish Government on how this funding had been applied. The reporting of financial data is required for the following purposes:
   - To evidence that specific grant funding has been used for the purpose it was allocated
   - To inform the review of future funding
   - To complement the progress data collected by the Improvement Service

4. An initial round of financial data collection was undertaken with councils in June 2019 using a template approved by the FWG. A review of the returns highlighted issues with the quality of the data returned particularly with regard to incomplete or missing returns and problems reconciling expenditure to the funding allocated and to existing reporting e.g. POBE. On balance it was concluded the data was not sufficiently robust to be published.

5. The next finance data template was due to have been issued alongside the Improvement Service's progress data returns for completion by 11 November. Given the lessons learned from the last round of financial data collection it was decided that similar issues with the quality of data were likely to be encountered if the same approach were taken and that the approach should be reviewed with the FWG before issuing the return.

Revised Template

6. A revised template is attached for review and approval by the FWG. The main changes from the last template are as follows:
   - Additional protection and embedded formulae have been introduced to reduce errors in the completion of returns
   - A customised return for each council will be sent out, pre-populated with that authority's funding to assist councils to reconcile to specific grant funding

- Councils will be asked to return ELC spend data separated into 1140 expansion and other ELC spend. The total of these two should allow sense checking of the data with other financial reporting such as the POBE and LFR.
- Councils will be asked to confirm that the return has been reviewed by their section 95 officer to ensure that the data has been quality assured before submission.

Timescales

7. A decision is required as to the timescales for the testing of the revised template and issuing to and return by councils.
8. The next set of progress data is due to be returned to the Improvement Service by 11 November. It would be useful to have the financial data as soon as possible to review alongside that data however it is important that councils are given sufficient time to complete the return.
9. It would seem prudent to test the return with a small number of councils prior to issuing to identify any potential issues which need to be addressed.
10. The FWG is asked to advise as to a reasonable approach and timescale for the testing, issuing and submission of returns.

Next steps

11. The FWG is asked to review the revised template for financial data collection
12. The FWG is also asked to agree timescales and approach for the next round of financial data collection.

ELC Financial Data Review

Paper for the ELC Finance Working Group – 02 February 2021

Purpose

This paper updates the Finance Working Group (FWG) on the revised analysis of financial data collected from local authorities on 2018-19/2019-20 actual spend and 2020-21 forecast spend on Early Learning & Childcare (ELC).

Summary

- The analysis presented is based on 17 local authority returns.
- Quality assurance found a number of discrepancies in several returns.
- The data included in the analysis shows a reduction in the pace of 1140 expansion.
- ELC funding has been re-directed both within ELC and towards other areas of expenditure due to the COVID-19 pandemic, but it is difficult to assess the extent to which this has happened.
- The proportion of expenditure on partner providers has increased from 17% in 2018-19 to 23% in 2021-21.

Background

As agreed with the FWG, Scottish Government undertook two data collection exercises to collect financial data on 2018-19/2019-20 actual spend and on 2020-21 forecast spend. Local authorities (LAs) were asked to complete returns, providing revenue and capital spending data on 1140 expansion and other ELC services. For 2020-21, they were also asked to provide forecast spend on Covid-related activities.

It should be noted that these figures are not Financial Statistics and therefore not as robust as the Provisional Outturn and Budget Estimate (POBE) or Local Financial Returns (LFRs), which follow Local Government Reporting Standards.

An initial analysis of data from 28 Local Authorities was presented to the FWG on 28 October 2020. Subsequent review of the data at an individual LA level found a number of discrepancies in the returns. This may reflect a requirement for greater clarity in the guidance for completing the returns. Where possible, the data has been revised by Scottish Government analysts to provide an accurate account of LAs positions; where not, the data from these LAs has been excluded from this analysis.

For each LA, where a discrepancy has been identified in one revenue expenditure return, we have excluded data on all revenue expenditure from that LA in our analysis in order to maintain consistency across different years.

Data issues

31 Local Authorities submitted a full set of returns. Of these:

- 28 were included in our initial revenue expenditure analysis presented to FWG on 28th October.

- All 31 returns were included in our initial capital expenditure analysis presented to FWG in October. Capital analysis has not been included in this paper as a more up to date analysis has been provided by the Scottish Future Trust to this meeting.

- A further 11 returns have been excluded in this revised revenue expenditure analysis. The data included in this paper is therefore based on returns from the remaining 17 LAs.

There were a number of reasons why returns have not been included in this further analysis. These include:

- Specific grant funding appears to have been erroneously included under Income in the return.

- It was not possible in some cases to reconcile expenditure reported with funding provided, without further investigation.

- Expenditure that had been carried forward did not reconcile across the three years of the returns.

- LAs highlighted in their returns that the POBE figures which they had submitted and which were used for comparison had subsequently been found to include errors.

- It was not possible to reconcile Capital from Current Revenue (CFCR) with planned capital expenditure.

- Explanations provided for differences with POBE/ funding figures were not consistent with the figures provided.

REVISED - 1140 Expansion Revenue Expenditure

The SG's Delivery Assurance Team have continued to engage in stocktake meetings with LAs which have provided useful background to spending decisions at an individual council level.

Chart 1 highlights the spending by the 17 LAs on the expansion to 1140 as a proportion of the total ELC expenditure reported in their finance returns.

As can be expected, however, there is a notable variance across councils. Differences reflect the extent to which councils have already rolled out 1140, pressures elsewhere and the extent of financial tools at their disposal, such as ELC budget carry forwards and the use of reserves.

Across the 17 LAs included in this revised analysis, we find that this has indeed been the pattern during the past three years. Expenditure on 1140 expansion as a proportion of total ELC expenditure varies by LA, with some spending as much as 66% of total ELC expenditure on delivery of 1140 and others only 36% in 2020-21, possibly reflecting their respective progress towards the full entitlement.

Chart 1

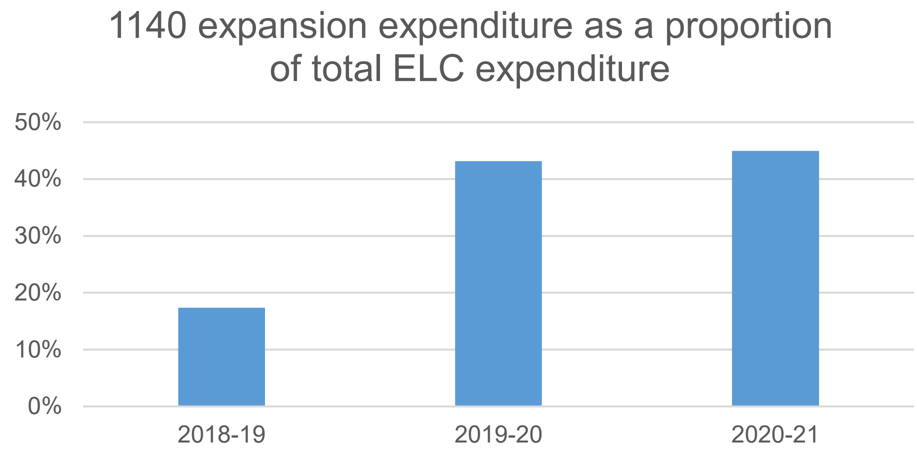
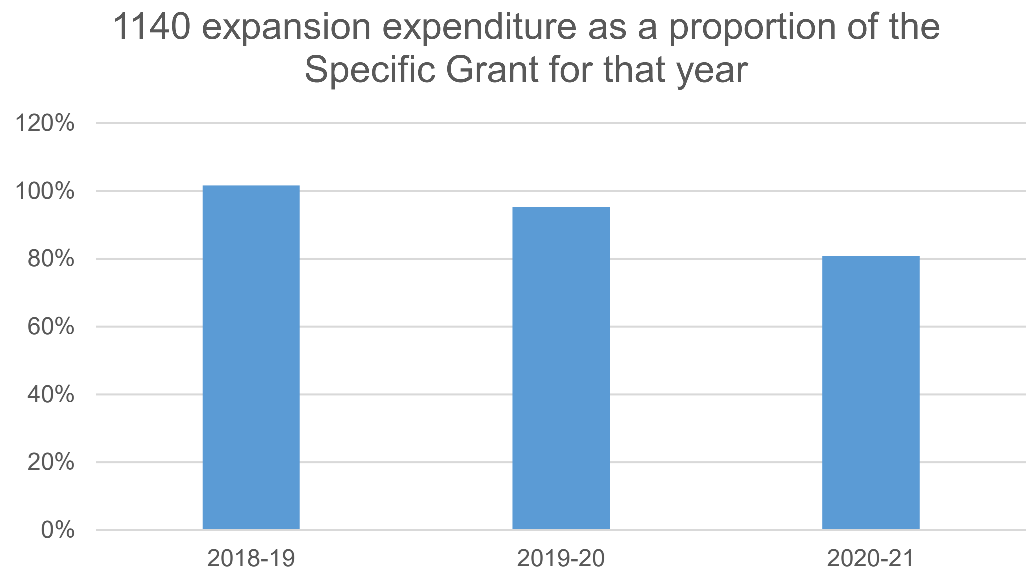


Chart 2 shows expenditure on the 1140 expansion as a proportion of the Specific Grant for each year covered, with expenditure on the 1140 expansion decreasing as a proportion of the Specific Grant from 100% in 2018-19 to planned expenditure 2020-21 of just 80%. The reduction in the pace of expansion is more pronounced when we compare 1140 expenditure against the specific grant for the increased provision of funded hours. Of the 17 LAs included in the analysis, however, 4 have reported planned expenditure on 1140 in 2020-21 to match that of the specific grant profile. The change at a national level, therefore, is the result of other LAs making downwards revisions to their expenditure plans. Of these 13 LAs, 10 made downward revisions to their 1140 expenditure plans of 10% or more relative to the Specific Grant. Further details are provided below under *COVID-19 revenue expenditure.*

Chart 2

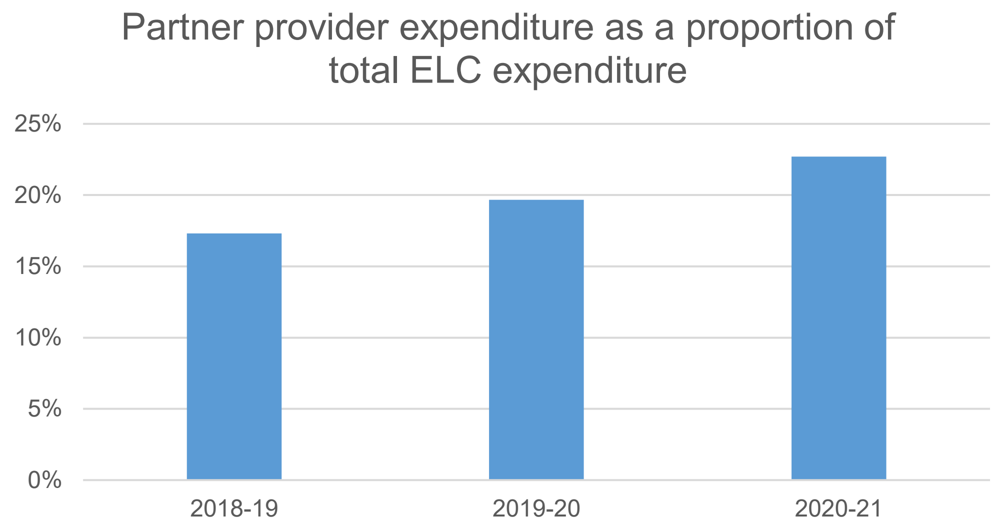


REVISED - Partner Provider Revenue Expenditure

Funded ELC can be provided by LA settings as well as by private and voluntary settings such as nurseries and childminders.

We find that, across these 17 LAs, the proportion of expenditure on such partner providers has increased from 2018-19 to 2020-21, from 17% to 23% (see Chart 3). However, there is considerable variance across LAs - in 2020-21. It ranged from 7% of all expenditure to 43% in an area known for its focus on the private and voluntary sector. LAs have different delivery models – for example, some more remote areas might not sustain a substantial private sector and most provision will be made available in LA settings.

Chart 3



REVISED COVID-19 Revenue Expenditure

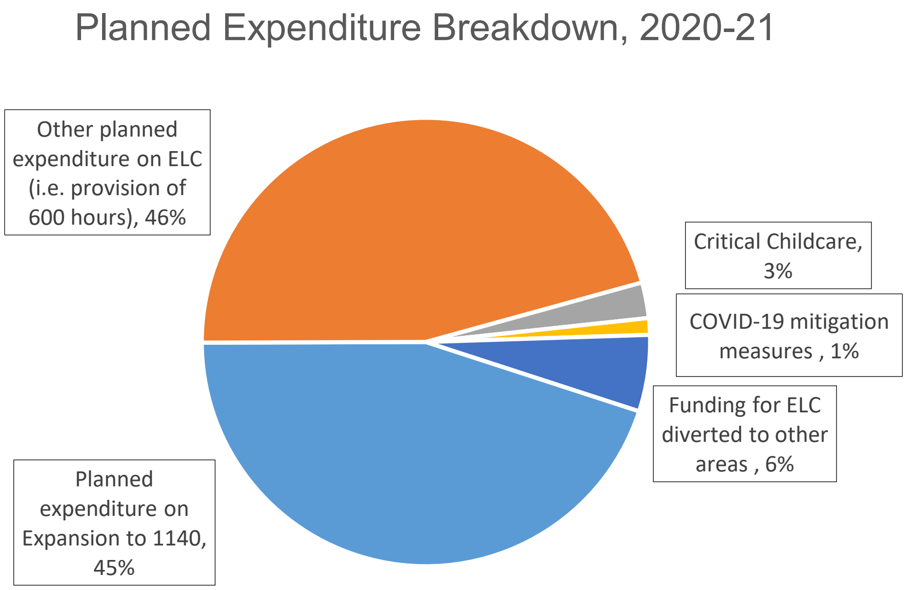
Due to the COVID-19 pandemic, ELC funding has been re-directed both within ELC expenditure – to critical childcare and COVID-19 mitigation measures – as well as towards other areas of expenditure. This position may have changed in the intervening period.

Chart 4 shows that, while the profile of expenditure is similar between the provision of 600 hours and 1140 hours, LAs also report forecast spending on Critical Childcare (3% of total expenditure) and COVID-19 mitigation measures (1%) during 2020-21.

LAs have taken different approaches – 4 have planned no expenditure on critical childcare. Of the remaining LAs the proportion of planned ELC expenditure apportioned to critical childcare ranges between approximately 1% and 7%. The same goes for mitigation measures, with some councils planning to spend as much as 10% in this area.

Furthermore, according to the returns included in this analysis, 6% of the total planned ELC expenditure in these LAs is to be transferred in 2020-21 to other, non-ELC, areas as a result of COVID-19. Many LAs are not planning any re-direction of funds, but some are planning to spend up to 19% on non-ELC activities.

Chart 4

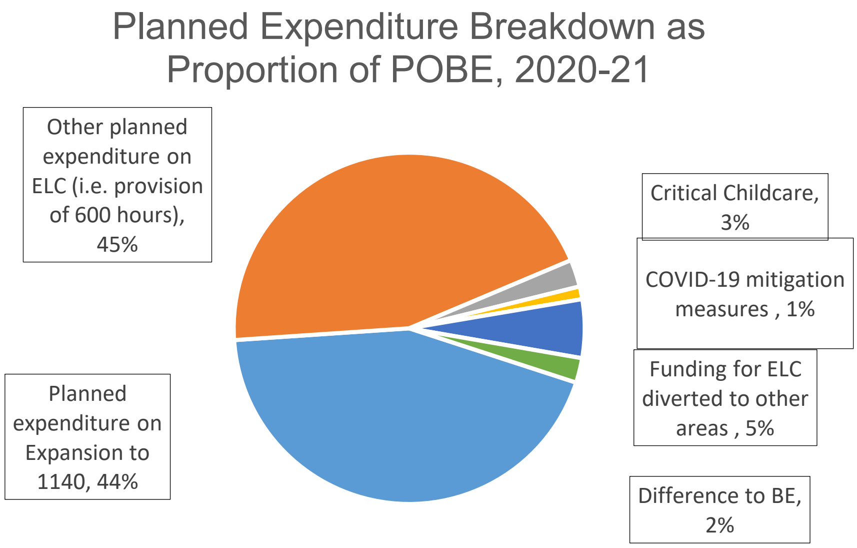


COVID-19 Revenue Expenditure – accounting for differences with the Budget Estimate for 2020-21

It is difficult to assess the extent to which ELC funding has been re-directed. We compared total 2020-21 forecast revenue expenditure from the returns with the forecast previously provided in the POBE. Of the 17 LAs, 8 provided returns that indicated planned expenditure lower than forecast in the POBE, without accounting for this revision. One LA revised total expenditure down by 14%, without indicating where the planned ELC expenditure has been re-directed. Other LAs have increased their planned expenditure by up to 3% relative to the Budget Estimate. Overall ELC expenditure, including the re-directed funding, is 2% less than estimated in the POBE across these 17 local authorities.

Chart 5 shows ELC expenditure breakdown, as in Chart 4, but presented as a proportion of the Provisional Outturn Budget Estimate for 2020-21. This indicates a slightly larger proportion of planned ELC expenditure having been diverted to other areas as compared with the total planned ELC expenditure reported in the financial returns (7% compared to 6%).

Chart 5



Other key findings, 2020-21

- Planned expenditure on staff in LA settings as a proportion of total planned expenditure: 59%. The highest proportion was 81%, the lowest 38%.
- Planned Capital Funded from Current Revenue as a proportion of total planned expenditure: 1% The highest proportion was 6%, the lowest 0%.
- Capital Funded from Current Revenue as a proportion of planned capital expenditure for that year: 5%. The highest proportion was 28%, the lowest 0%.
- Planned expenditure on Lunch as a proportion of total planned expenditure: 4%. The highest proportion was 6%, the lowest 0%.

- Carried forward expenditure (net) as a proportion of total planned expenditure: 0%. The highest proportion was 5%, the lowest was 6%.

Recommendation

The FWG is asked to note the contents of this report.

Finance Working Group
Early Learning and Childcare Funding Analysis Update
11th May 2022

1. Background

Funding levels for the expansion of funded Early Learning and Childcare (ELC) from 600 to 1140 hours were agreed for 2017-18 to 2021-22 with a multi-year annual agreement between Scottish Ministers and COSLA reached in April 2018. Total funding for ELC is provided through both the General Revenue Grant (GRG) and a Specific Revenue Grant (SRG). Funding for 2022-23 was based on funding levels for 2021-22 with adjustments made to take account of changing circumstances including: more recent data on population, inflationary changes, and the impact of COVID on delivery. Calculations for the funding required for 2023-24 to 2026-27 will be based on information requested from each Local Authority in data collection templates issued in December 2021, along with wider information on population and inflation.

The templates sent to Local Authorities requested information for income and expenditure (actual or estimated expenditure) relating to ELC for three financial years - 2020-21, 2021-22 and 2022-23. Expenditure figures were requested for ELC provided as part of the statutory 1140 provision, other statutory ELC provision, non-statutory provision (any Local Authority discretionary spending on ELC). Expenditure figures were requested to be reported as they would be in the Local Government Finance Returns (LFR) for comparison purposes. However, more categories of expenditure were included in these templates than in the LFR templates, in order to allow more detailed quality assurance.

Between January and March 2022, Scottish Government analysts received completed templates (some accompanied by additional information documents) from 31 Local Authorities. After extensive quality assurance and further correspondence with some Local Authorities, this data was used alongside wider sector and economic information to develop the modelling for funded early learning and childcare from 2023-24 to 2026-27.

This paper sets out: the findings of the data collection exercise; the evidence and assumptions on the number of hours of ELC funding that will be required and a summary of the quality assurance and analytical work undertaken by SG analysts

2. Overview of findings from data collection exercise

This section gives an overview of the high-level findings of the Local Authority data collection exercise. As one Local Authority did not return the requested data, an adjustment has been made to uprate the total figures by the population share of the missing Local Authority to ensure that the Scotland figures reflect all of Scotland.

Chart One shows the number of hours delivered (or expected to be delivered) across Scotland in each of the three years which the data collection covered – as well as the split between partner provider and Local Authority provision. In total 103 million hours were delivered in 2020-21, and Local Authorities expect this to rise to 134 million by 2022-23. On average, Local Authorities expect around 30% of hours to be delivered by partner providers.

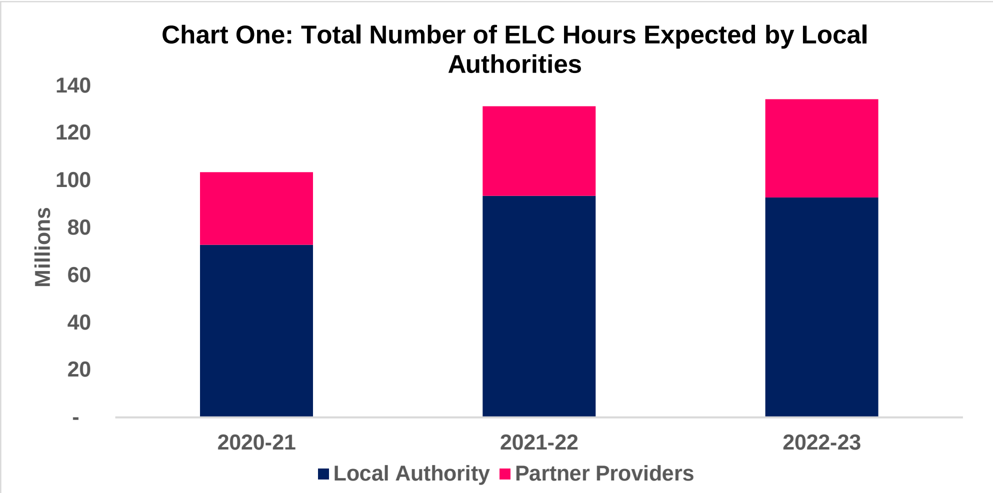


Chart Two shows the expected make up of children registered for ELC by age group. The proportion of two years olds and five year olds are expected to increase by two percentage points each over the period.

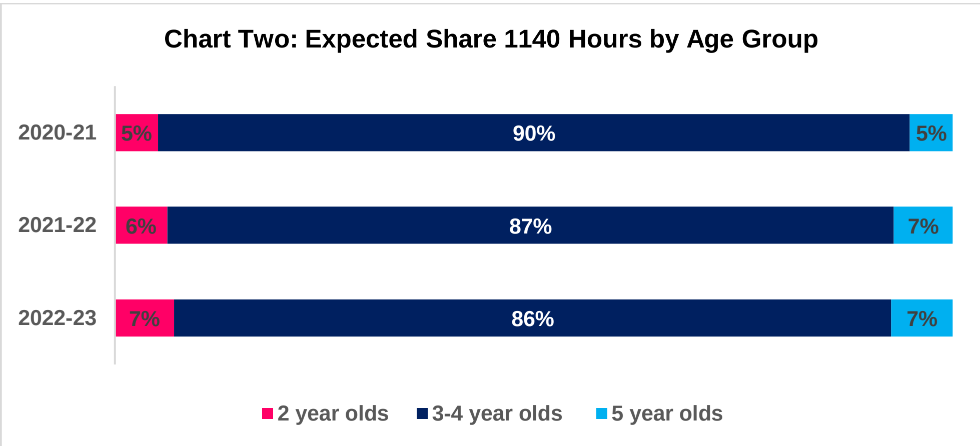


Chart Three shows the total expenditure incurred (or expected) on delivery of 1140 (this is for the full 1140 hours – so includes spend under the General Revenue Grant (GRG) and the Specific Revenue Grant (SRG). This shows 1140 only (rather than all pre-primary expenditure, which also includes other statutory and non-statutory pre-primary expenditure) however checks against the Local Financial Return (LFR) publication for 2020-21 showed that the data reported in the ELC data collection did align very closely with the data reported in LFR.

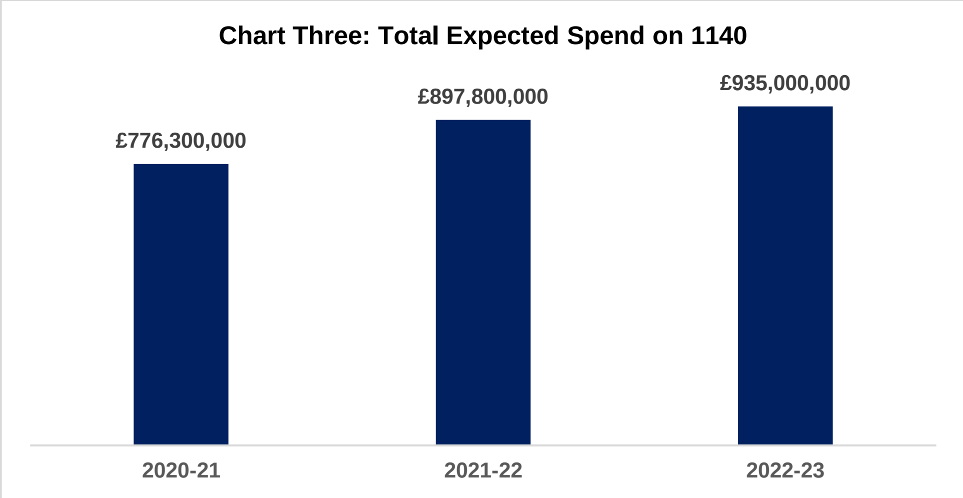
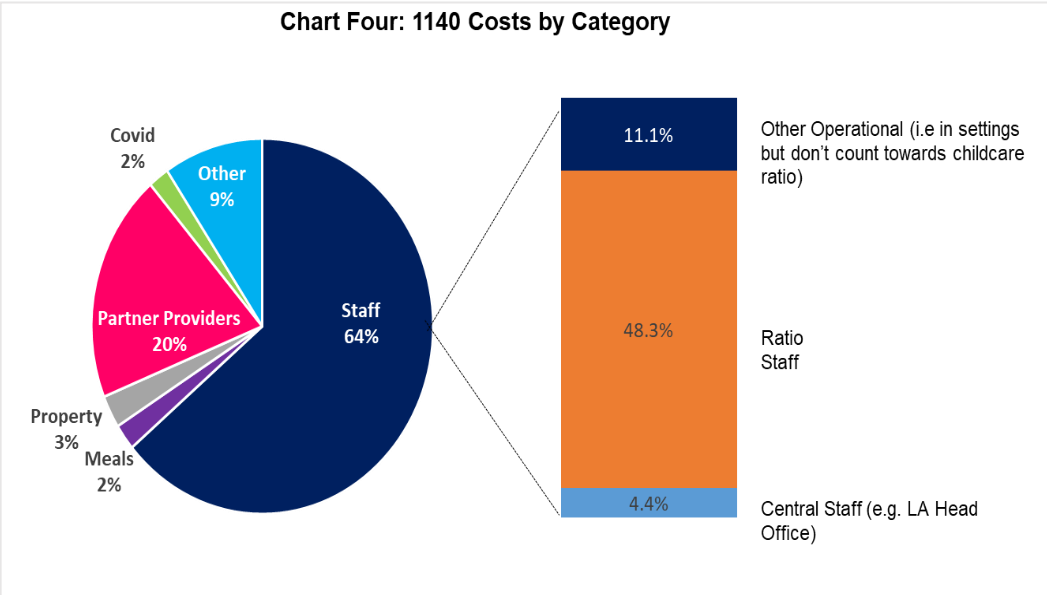


Chart Four shows the breakdown of overall ELC 1140 costs by category. The chart shows the data for 2020-21, however this breakdown has been calculated for all years and remains within one percentage point of the figures below in all years. The chart shows that 64% of overall costs are staff costs, and the additional section of the chart shows how this 64% can be broken down into staff types.



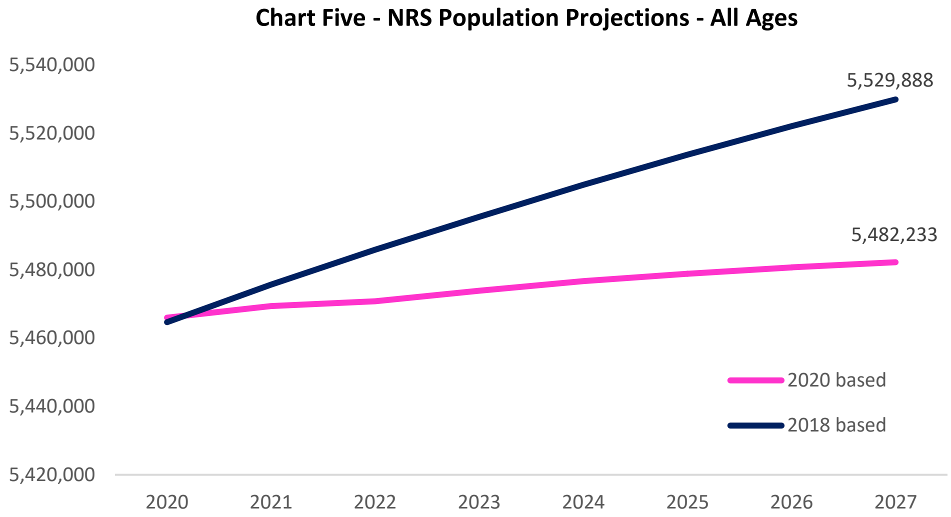
3. Calculating hours required - Eligibility and Uptake

3.1 Population projections

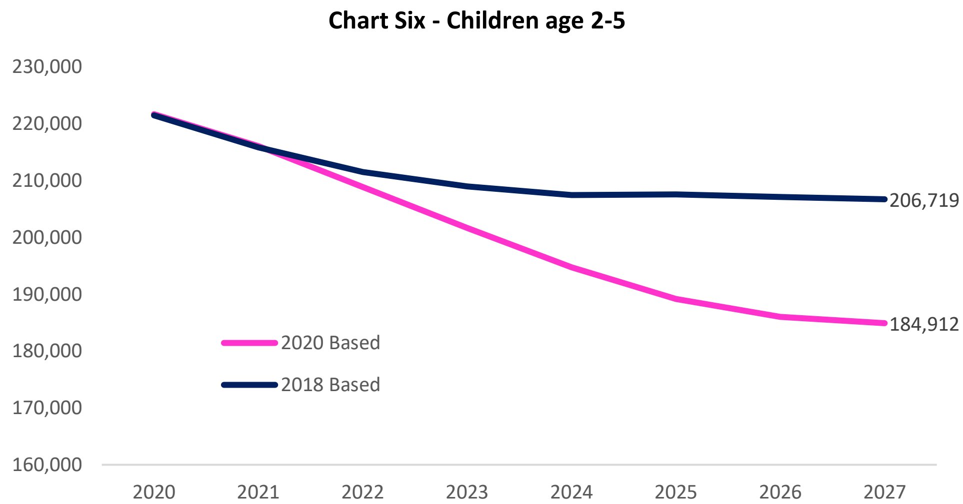
The number of ELC age children in Scotland is clearly a key determinant in the funding which Local Authorities require to deliver funded ELC. We seek to use the most up-to-date population information available in determining the required level of funding.

National Records of Scotland published their most recent (2020-based) population projections in January 2022. These projections are lower than the previous (2018-based) projections. The difference is mainly due to lower fertility rates which has been documented in the Scottish Government’s recent population strategy.

Chart Five shows the NRS population projections for all ages in Scotland from 2020 to 2027. The overall population of Scotland is still expected to grow between 2020 and 2027, but at a lower rate than previously projected.



While the overall population is expected to grow, both the 2018-based and 2020-based population projections show that the population of ELC age children is expected to fall over the same period. Chart Six shows that this age group (children age 2-5 inclusive) is now expected to fall by 8% between 2023 and 2027, while the 2018-based projections showed an expected decrease of just 1% over the same period. This sharper decline results in a new projected population of 2-5 year olds of 184,912 in 2027 – 10.5% lower than the 206,719 that were expected under the 2018-based projections. For comparison, this is also around 18% lower than the 2014-based projected population of 225,758 2-5 year olds in 2021 that was used to inform the 2018 Multi-Year Annual Agreement on ELC expansion funding.



As the 2020-based population projections are the most up-to-date available, we have used these when determining the number of children eligible for ELC.

3.2 Eligibility assumptions

3.2.1 Two and three year olds

When considering eligibility for funded ELC, there are four groups: two year olds who are eligible; all three year olds; all four year olds; and five year olds who are eligible to defer their start at primary school. The overall number of eligible children varies throughout the financial year, because the three year olds (and eligible two year olds) become eligible to begin funded ELC at the start of the school term following their third (or second) birthday. Throughout the financial year the proportions of eligibility are as follows:

Months (and proportion of the financial year)	Eligibility	Proportion of children eligible
April to mid- August (38% of the year)	All children with a birthday between March – February	100%
Mid-August to December (38% of the year)	Children born March - August	50% (i.e. six months of birth dates)
January to March (25% of the year)	Children born March - December	84% (i.e. nine months of birth dates)

So by weighting eligibility throughout the year, the calculation is as follows:

$$(0.38 \times 1 \times \text{population}) + (0.38 \times 0.5 \times \text{population}) + (0.25 \times 0.84 \times \text{population})$$

This translates to 77% of three year olds (and eligible two year olds) being eligible across the full financial year. In 2023 there are predicted to be 14,500 eligible two year olds, and 49,332 three year olds in Scotland. So this would result in 11,213 eligible two year olds across the financial year 2023-24 and 38,150 three year olds.

3.2.2 Five year olds

Children who have not had their fifth birthday by the first day of the autumn school term (in mid-august) are able to defer their start at primary school by a year if they wish to do so. This applies to children born from the second half of August until the end of February. Therefore, 54% of children are eligible to defer their start at primary school. From August 2023, all of these children will also be eligible for automatic access to continued funded ELC.

Using the NRS projections for the number of five year olds in Scotland in 2023, 54% of five year olds translates to 28,831 five year olds who will be eligible for funded ELC in 2023-24.

3.3 Uptake assumptions

3.3.1 Uptake of places

Two year olds -The ELC Census shows that there has been an increase in the number of eligible two year olds registered for funded ELC from approximately 41% in 2019, to 45% in 2021. Progress has also been made in data sharing with UK Government, which is hoped will increase awareness and understanding of eligibility for two year olds and lead to an. increase in uptake of two year old places. We have, therefore, assumed two year old uptake of 60% of the eligible cohort in 2023/24, 65% in 2024/25, 70% in 2025/26 and 75% in 2026/27.

Three and four year olds - The ELC census from 2021 lists approximately 97% of three and 98% four year olds as having registered for an ELC place. While the proportion of children registering for places is high, we know that the Census figures will include an element of double counting (as any child registered in more than one setting is counted at each setting). Therefore, we consider 97% and 98% to be a fair estimate of the proportion of three and four year olds, respectively, that will register for funded Early Learning and Childcare.

Five year olds – from August 2023, all five year olds who are eligible to defer their start at primary school will also be automatically entitled to funded ELC. We expect that this will increase the level of uptake of funded ELC by five year olds. Data from the deferral pilot Local Authorities suggests that 30% of eligible five year olds will register for funded ELC.

3.3.2 Uptake of hours

All eligible children are entitled to access 1140 hours, but they are not all registered for their full entitlement. Data from the most recent Improvement Service ELC collection, shows that the majority (88%) of children registered for ELC were registered for the full 1140, and that 97% were registered for at least 600 hours.

The Improvement Service collect information on the number of children registered for ELC by hours bands (i.e. <600; 600-<900; 900-,1140; 1140). From this we can calculate a weighted average number of hours children in each age band are registered for. In the most recent Improvement Service data (from February 2022), these were as follows:

Age	Average Hours
2	1,059
3 & 4	1,106
5	1,101

For two year olds this weighted average is slightly higher than in the August 2021 Improvement Service (IS) collection (which was at 1,050 hours), however for three and four and for five year olds these figures are slightly lower than in the August

2021 IS collection (when they were 1,109 and 1,114). However, as we expect use of ELC to continue to grow slightly, we have assumed that these figures will grow modestly (by 1% per year) to a maximum of 1,140 hours.

3.4 Hours required

Combining the data on eligible children (from section 3.2) with the uptake of places and uptake of hours information, and with the assumptions set out in sections 3.3.1 and 3.3.2, we come to the following key figures:

Eligible population				
	2023/24	**2024/25**	**2025/26**	**2026/27**
2 year olds	11,213	10,977	10,909	10,953
3 year olds	38,150	36,526	35,775	35,556
4 year olds	51,735	49,533	47,431	46,462
5 (Jan & Feb birthdays)	8,657	8,393	8,037	7,697
5 (Aug-Dec birthdays)	20,174	19,560	18,729	17,939

Average number of hours per child				
	2023/24	**2024/25**	**2025/26**	**2026/27**
2 year olds	1,070	1,080	1,091	1,102
3 year olds	1,117	1,128	1,140	1,140
4 year olds	1,117	1,128	1,140	1,140
5 (Jan & Feb birthdays)	1,112	1,123	1,134	1,140
5 (Aug-Dec birthdays)	1,112	1,123	1,134	1,140

Proportion registering for ELC				
	2023/24	**2024/25**	**2025/26**	**2026/27**
2 year olds	60%	65%	70%	75%
3 year olds	97%	97%	97%	97%
4 year olds	98%	98%	98%	98%
5 (Jan & Feb birthdays)	50%	50%	50%	50%
5 (Aug-Dec birthdays)	15%	15%	15%	15%

Combining the figures in the above tables, the total number of hours of ELC that are estimated to be required in Scotland are as follows:

2023-24	2024-25	2025-26	2026-27
113 m	**110 m**	**109 m**	**108 m**

4. Processing data and analysis

4.1 Quality assurance

Once data was submitted by Local Authorities, SG analysts began undertaking quality assurance on this data. This was a detailed process that included the following components:

- Basic checks on the profile of spend were undertaken and outlying data queried with relevant Local Authorities. This considered, for example, the projected increase in costs (and component costs) compared to the projected increase in hours, and the costs reported for partner provider provision compared to the data returned in the 2021 financial health check data collection.
- Calculating percentage of spend on key areas (staff, partner providers, meals etc.) to identify any significant outliers. Any outlying data was then checked against areas known to cause variation in costs (e.g. rurality, deprivation, proportion of partner provision etc.), explanation provided by Local Authorities in notes submitted alongside data returns and in wider data sources (such as the Care Inspectorate and Improvement Service). Any significant outlying data that could not be clearly explained by the aforementioned information was queried with the relevant Local Authority.
- Implied unit costs for elements of provision (e.g. meals or partner provider costs) that were substantially higher or lower than the average were investigated taking a similar approach to the above; and then queried with Local Authorities where needed. In many cases Local Authorities were able to provide further explanation or correct mistakes in the data which they had provided.
- Care Inspectorate data on the number of staff in settings was used to estimate staff costs per FTE, this was then compared to the reported staff costs data.
- Explanatory notes provided by Local Authorities were used to make adjustments to the data used in developing the model. For example, where Local Authorities had explained that part of a cost incurred due to ELC was not reported in the return because this was usually included in the Primary (rather than Pre-Primary) section of the LFR, this cost was added to their return – in order to ensure that the full costs of delivering ELC was captured.

4.2 Adjustments for sustainable rates for private, third and childminding sector funded providers

The Funding Follows the Child Operating Guidance sets out that the sustainable hourly rate set by local authorities to be paid to funded providers in the private and third sectors, including childminders, to deliver the funded entitlement, should meet the following:

- The rate will support delivery of a high quality ELC experience for all children;
- It will be a rate that reflects the cost of delivery, including the delivery of national policy objectives;
- The rate will allow for investment in the setting – staff, resources and physical environment; and,
- It will enable payment of the Real Living Wage (RLW) for those childcare workers delivering the funded entitlement.

The Improvement Service has commissioned Ipsos Mori Scotland to undertake a piece of research to establish the costs faced by ELC providers in the private and voluntary sector. The results of this work are not yet available, so we have not been able to include the findings in this analysis. However, we recognise that it is vital that the ELC expansion quantum provides sufficient funding to ensure sustainable levels of funding can be provided to the private and voluntary sector organisations providing funded ELC.

In order to account for sustainable funding, we have made upwards adjustments to the partner provider costs reported by Local Authorities in their data returns. We began by using the figures for the 2016 Ipsos Mori Scotland report into the costs faced by partner providers. Analysis previously produced from the 2016 Ipsos MORI survey estimated that a rate of £5.31 per hour would allow 90% of funded providers in the private and third sector to cover their costs, including payment of the RLW (it was estimated that this rate would cover a RLW of up to £9 per hour, which was significantly above the RLW rate in 2016) and maintenance of wage differentials. However, this estimated rate did not include an adjustment for profit/return on investment for these providers. It is also important to highlight that this was an initial estimate used to inform Scottish Government cost estimates of the expansion.

We have then uprated the £5.31 unit cost by inflation in order to establish what that figure would be in current prices. We have then calculated the difference between the total costs reported by Local Authorities for partner provision, and what these costs would have been if all payments had reflected the current prices of the sustainable funding suggested by the 2016 Ipsos Mori work. The difference was 15% - so a 15% uplift was applied to the partner provider costs reported in the data collection exercise.

4.3 Age adjusted unit costs

The unit costs of providing ELC vary substantially by age group (2 year olds and under vs 3 to 5 year olds), due to the different childcare ratio required for these age groups. Therefore, different average unit costs must be calculated for these two age groups. After the quality assurance work and uplifts for sustainable funding had been applied, age adjusted unit costs were calculated by establishing a weighting for the two age groups (based on the number of children able to be cared for by one adult under the childcare ratios) and then applied to overall funding as follows:

$$2\ year\ old\ ELC \approx \frac{2yo\ Hours}{Total\ Hours} * (Total\ Spend - Ratio\ Staff\ Spend) + (Ratio\ Staff\ Spend * 2yo\ Weight)$$

4.4 Inflation uplifts

An important consideration for the overall quantum required for ELC expansion is the levels of inflation expected on the costs faced by Local Authorities and other providers. Having already applied an uplift to ensure sustainable funding for partner providers, the two remaining areas of uplift that we have considered are: the expected increases in staff costs, and general inflation. All of the figures used for uprating expected expenditure are published. We have used the most recent inflation projections published by the Office for Budget Responsibility (OBR) in their March 2022 budget reports[1].

4.4.1 Staffing costs inflation

Funding is provided to enable ELC providers to pay real living wage (RLW) to their staff. Local authority pay agreements exceed RLW, so specific changes to the RLW rate are most relevant to partner providers. However, we recognise that it is important for funding to provide for wage costs rising in order to avoid real term falls in operational staff wages. We have, therefore, included upwards adjustments to allow for increases in wage rates in coming years – using expected increases in the RLW rate as a proxy for overall wage cost inflation. Projected RLW rates are not published, so we have considered published figures on expected increases to the national living wage (NLW) and to the Consumer Prices Index (CPI). The CPI is relevant to RLW because the RLW goes beyond NLW and seeks to provide a consistent standard of living. We have looked at the annual increase in both NLW and CPI expected in each year out to 2027. For each of these years we have chosen whichever annual increase is higher and applied this percentage uplift to ELC staff costs (i.e. in 2022-23 the NLW is projected to increase by 6% but CPI is projected to increase by 8%, so we have uplifted ELC staff costs by 8% for 2022-23).

We have applied these uplifts to the proportion of costs that account for operational ELC staff costs. We have applied this uplift equally across the full costs (i.e. this is applied for partner provider provision as well as Local Authority costs). This means that 71% of all costs are inflated for wage rate increases[2] (59% of Local Authority costs, as these are for ratio and other operational staff, and 59% of the 20% of total costs which come from partner providers (i.e. 12% of all costs) – assuming that partner providers have the same proportion of staff costs as Local Authorities).

4.4.2 General inflation

For expenditure that is not used to pay operational staff, there will still be an increase in costs over time due to general inflation pressures. While we used CPI in the RLW uplifting, this is not the general measure of inflation used for uprating costs. CPI reflects the costs faced by consumers (so is therefore the most relevant measure for the RLW adjustments) but Gross Domestic Product Deflators look across the economy more widely and more closely reflect the costs faced by firms and governments as opposed to consumers. We have, therefore, used the GDP deflator figures projected by the OBR to uprate the remaining 29% of costs.

4.5 Equity and excellence leads

There is currently funding (£18 million per year) in place to provide additional members of staff with graduate level qualifications. These staff are not tied to a settings' childcare ratios and play a key role in contributing towards the closing of the poverty related attainment gap.

[1] https://obr.uk/efo/economic-and-fiscal-outlook-march-2022/ CPI and GDP Deflator year-on-year growth projections are published in Table 1.7
[2] Using expected increases to RLW as a proxy for overall wage inflation

Discussions about how to allocate Equity and Excellence Leads (EELs) funding (i.e. whether to maintain the original distribution method or to mainstream the EELs funding into the overall formula) are still ongoing, however it is proposed that the method to determine the overall amount of funding remain the same as in the 2018 agreement. In the 2018 agreement, the total number of posts to be funded was one post for each setting located in an area of deprivation[3] (plus one additional post for each Local Authority area with no settings in an area of deprivation). Under the proposal for determining the new funding level, this same approach would be used to determine the number of posts required – however it would be updated using the SIMD 2020 and latest Care Inspectorate Data.

Data on spend specifically on EELs was not collected as part of the data collection – so spend on employing EELs is included in the ‘other operational staff’ expenditures lines. It in order to avoid double counting but to ensure that funding for all EELs posts is provided, it is proposed that the difference between the number of EELs posts required (based on latest SIMD and Care Inspectorate data) and the number of EELs posts filled in the 2021 (as this is the year covered by the most detailed data from the ELC data collection) is calculated[4]. The costs of filling these additional posts will then be added to the costs of employing the EELs posts which are currently filled. The overall EELs costs will also be inflated using the GDP deflators.

5. Conclusion

The FWG is asked to consider the assumptions and approach set out in this paper and confirm that they are content for these to be used as the basis for calculating ELC funding from 2023-24.

[3] An area of deprivation in this case is defined as the 20% most deprived datazones in the Scottish Index of Multiple Deprivation.
[4] Data on the number of EELs FTEs in place in 2021 is available from the ELC Census.

Early Learning and Childcare Directorate
Alison Cumming, Director

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Scottish Government
Riaghaltas na h-Alba
gov.scot

26 May 2022

Dear Colleague,

EARLY LEARNING AND CHILDCARE – SPECIFIC REVENUE GRANT ALLOCATIONS FOR 2022-23

1. Delivering high quality early learning and childcare (ELC) and education for our children remains an absolute priority for the Scottish Government and we are very grateful for the work undertaken by local authorities and the wider ELC sector to make such a success of the 1140 expansion programme to date. I know that the sector continues to work extremely hard to embed the new offer and strengthen partnership working. We are very grateful to staff for their dedication, particularly in dealing with the challenges of the pandemic.

2. Following the publication of the draft Scottish Budget on Thursday 9 December 2021, and the subsequent passage of the 2022-23 Scottish Budget Bill, I am writing to confirm the Early Learning and Childcare (ELC) Specific Revenue Grant allocations for 2022-23. This letter follows on from the 'Multi-Year Revenue and Capital Allocations' letter dated 1 May 2018 and the 'Flexibility in Local Authority Use of Education and Early Learning and Childcare Funding to Support Pandemic Response' letter dated 15 May 2020. This letter sets out the joint priorities that we have agreed with CoSLA and defines how we will monitor impact for this coming year.

3. We are transitioning into a new stage in the delivery of the 1140 expansion programme, moving beyond the multi-year funding agreement and into a steadier state of embedding and improving services. As previously agreed, 2022-23 represents an interim year for ELC funding. The ELC Specific Revenue Grant will remain ring-fenced in the next financial year while we work together to agree the annual quantum for 2023-24 onwards, taking into account changing costs and population figures.

4. As part of that process we want to work collaboratively on the development of a shared outcomes and measurement framework for funded ELC for future years. This would principally aim to: create a shared understanding of the outcomes being achieved for funded ELC; articulate these within the context of the wider National Outcomes set out

within the Scottish Government's National Performance Framework; and, provide evidence to support service delivery both nationally and locally, ensuring best use of public funds and supporting local and national accountability.

5. The ELC Finance Working Group has been crucial in work so far to consider future funding models for ELC and will continue be a central part of discussions.

Revenue allocations

6. In 2022-23 the Scottish Government will provide £530.96 million of funding to Local Authorities through the ELC Specific Revenue Grant, this includes an allocation of £8.9 million for the 10 Local Authorities participating in the 2022-23 Deferral Pilot Programme. This ring-fenced funding is in addition to the £475 million core ELC funding provided through the General Revenue Grant (GRG), bringing total Scottish Government investment in ELC services to £1.006 billion.

7. The number of eligible children is one of the primary determinants of the level of ELC funding and work through the Finance Working Group to review the 2021-22 funding settlement and number of eligible children prompted the Scottish Government's decision to re-base the 2022-23 settlement. Calculations based on recent population estimates show that there are fewer children eligible for funded ELC now than was originally anticipated when the multi-year funding agreement was reached in 2018. The data shows there are 7.5% or 8,500 fewer 3 and 4 year olds eligible for the universal offer than was projected in 2018. We will continue to work together to understand how the modelled changes in eligible population at national and local authority level feed through and are reflected in changes 'on the ground', through evidence provided by local authorities.

8. The settlement took account of the changing eligible population, as well as including uplifts to meet inflationary pressures and the direct costs of responding to COVID. The revised data and modelling by Scottish Government estimated that there was capacity of at least £30 million within the ELC budget after taking account of inflation and COVID costs, although the final settlement retains £15 million of this to support progression of the priority areas outlined below.

9. The 2022-23 allocation also begins to implement the new needs-based distribution methodology agreed by Scottish Ministers and CoSLA Leaders. This is designed to ensure the allocation of resources to local authorities more accurately reflects changes and local variation in the ELC population and measures of deprivation and rurality. The first phase of this methodology is applied from April 2022 and, as with any other change, we will continue to engage with CoSLA and Local Authority partners to ensure the subsequent phases can be implemented in a sustainable manner.

10. The Scottish Government is clear that the total ELC settlement provides sufficient funding to local authorities to continue to deliver high quality 1140 provision in line with the interim National Standard guidance and capacity to implement the priorities for the programme in 2022-23 that are set out in **Annex A**, recognising that local circumstances vary across the country and that COVID has impacted Scotland's regions in different ways. Authority-level allocations for 2022-23 and funding allocated for the deferral pilots are detailed at **Annex B**.

Reporting

11. Local authorities should continue to deliver high quality funded ELC in line with their statutory duties and which supports good outcomes for children and families. On the three policy priorities set out at Annex A, Scottish Government will seek the following from Local Government with regards to reporting the activities that contribute to these priority aims and activities funded through the flexibility set out in that Annex:
    a. Confirmation from each local authority that any funding used in this regard meets the guidelines set out; and,
    b. Collaboration on the development of an appropriate outcomes measurement framework that incorporates relevant data and intelligence.

Delivery support

12. We are aware that, as with every funding decision, the impacts of the funding settlement will vary across local authorities and the way in which each council meets the priorities outlined here will vary depending on their specific needs and circumstances.

13. The Scottish Government's Early Learning and Childcare Team are available to answer questions about the content of this letter and provide support around specific queries related to ELC delivery. The SG team can be contacted directly via the central mailbox ELCDeliverySupport@gov.scot

ALISON CUMMING
Director, Early Learning & Childcare

ANNEX A - PRIORITIES AND OUTCOMES FOR 2022-23

1. The primary objective of the Specific Grant funding remains to provide high quality early learning and childcare experiences to children eligible for 1140 hours, in accordance with Funding Follows the Child and the associated National Standard. The Scottish Government will shortly publish guidance for 2022-23 on implementation of the National Standard.

2. Funding Follows the Child is the long-term policy framework that supports the delivery of funded ELC, and has been agreed by both the Scottish Government and CoSLA. Reflecting the impact of the pandemic, providers are currently subject to Interim Guidance, which was published in March 2021. The guidance provides for a number of flexibilities where the impact of the pandemic may have prevented services or authorities from being able to demonstrate delivery against aspects of the National Standard.

3. Interim Guidance will remain in place for 2022/23 with minor changes and we will work towards full implementation of Funding Follows the Child and the National Standard in August 2023, with a further review point in late 2022. The Scottish Government and CoSLA will review progress with local authorities and the sector again in late 2022 and publish updated guidance in spring 2023 confirming requirements from August 2023.

4. The Scottish Government and CoSLA have agreed that in addition to providing funded ELC in line with their statutory duties and Funding Follows the Child, Councils may use the Specific Grant flexibly to ensure that the policy goals of the expansion are achieved, as set below.

5. In identifying joint priorities for 2022-23 we have agreed that these objectives should:
    - **Be deliverable;** the measures should be achievable and represent actions that Local Authorities and ELC settings across the country are able to carry out
    - **Be measurable**; we will be able to define metrics and light-touch reporting mechanisms to monitor and assess impact
    - **Recognise local variation**; the measures will take into account varying local circumstances across the country to ensure that measures taken align with evidenced local need.

6. The following three specific policy priorities for 2022-23 have been jointly identified to meet these objectives.

A. Increasing uptake of targeted ELC

7. Uptake of universal funded ELC is high, with the 2021 ELC Census showing 84,574 children aged 3-5 accessing funded ELC. Data collected from local authorities by the Improvement Service and published in February 2022 shows that 88% of children are accessing their full 1140 entitlement. Local Authorities' efforts to increase uptake of universal ELC and to develop local 1140 offers that meet local needs are recognised and appreciated.

8. While some local authorities have met or exceeded their projected uptake for the eligible 2 year old cohort, nationally, this has not been as high as projected at the time of the previous multi-year agreement. As published in the 2021 ELC Census in December 2021[1], there were 6,474 registrations for funded ELC for 2 year olds, representing an

[1] Chapter 5: Early Learning and Childcare - Summary Statistics For Schools In Scotland 2021 - gov.scot (www.gov.scot)

increase to 13% of the total population of two-year olds from 9% in 2020. Delivery progress reports indicate the percentage of 2 year olds accessing funded ELC who were taking up the full funded entitlement of 1140 hours has also increased and was 5.5% higher in February 2022[2] than in August 2021.[3]

9. We therefore:
   i. Ask that Local Authorities do further work with eligible families, parents and carers to maximise uptake through a range of local and nationally agreed actions, including consideration of the use of discretionary powers to provide access to families in need of particular support.
   ii. Recognise that provision of hours of funded ELC may not be the most appropriate support for all children and families, particularly for families who experience the most disadvantage and have been disproportionately impacted during the pandemic. Where there are other approaches that support children and families to realise the high level benefits of the expansion (improved child development, increased family wellbeing, more opportunities for parents to work or study), funding may be used flexibly to deliver these.
   iii. Commit to measuring progress against this priority through monitoring levels of uptake in the Scottish Government Early Learning and Childcare Census, with the aim of raising uptake across all eligible groups.

B. Mitigating the impact of COVID

10. We know that COVID has had significant impacts, particularly for some young children and their families. Early indicators suggest that there have been impacts on young children’s development in a number of areas: speech and language, communication, problem solving and social skills, and on family resilience, parental mental health, parent child relationships, and families’ social support. Over the course of the pandemic, significant development concerns have arisen around speech and language in particular.

11. Children’s early language, speech and communication skills make an important contribution to their learning, wellbeing and lifelong learning, and this issue will therefore be a priority for collective action. In addition, survey evidence shows that a significant proportion of children and families have experienced bereavement of a close relative or family friend.[4] Early childhood interventions, including high quality ELC, can and will help to mitigate these impacts and support recovery for children and families.

12. We therefore agree that:
   A. Local Authorities may use funding flexibly to develop and implement interventions to mitigate the impact of COVID on children receiving funded ELC, particularly for those most adversely affected;
   B. Scottish and Local Government officials will work together to identify where Quality Improvement can be used to support ELC practitioners working in both Local Authority and funded providers, and share practice on interventions that seek to address COVID impacts.
   C. The impacts of COVID identified, for which funding may be used flexibly to support children eligible for funded ELC could include (but are not be limited to):
      - Supporting speech, language and communication interventions

[2] Early Learning and Childcare Expansion Delivery Progress Report, February 2022
[3] Early Learning and Childcare Expansion Delivery Progress Report, September 2021
[4] COVID-19 Early Years Resilience and Impact Survey (CEYRIS) report - 25 January 2022

- Supporting practitioners to identify and understand the impacts the pandemic has had on the mental and physical health of the children using ELC services.
- Supporting parents to identify, understand and respond to these impacts.
- Supporting children and families on addressing bereavement
- Supporting children's personal, social and emotional development.
- Supporting family learning and play
- Supporting infant/parental mental health and linking to support on other issues.
- Supporting efforts to address child poverty through collaboration with or signposting of employability and financial support services.

C. Ensuring sustainable rates

13. The average rate paid by local authorities to providers in the private and third sector to deliver an hour of funded ELC to 3-5 year olds has increased from £3.68 per hour in 2017-18 to £5.44 per hour in 2021-22, an increase of 48 per cent. In August 2021 the Scottish Government published the 2021-22 Sustainable Rates data collection report. The report showed that more than half of local authorities (19 out of the 30 who had confirmed rates for 2021-22 at the time of the report) did not increase their hourly rate for services delivering funded ELC in 2021-22. In some areas, this is due to a multi-year rate setting approach developed in partnership with providers before the pandemic. In others, local authorities have struggled to collect the robust data required to inform the setting of sustainable rates in their area.

14. Whilst the 2021-22 Sustainable Rates report highlights that many councils have worked closely with providers to agree rates in line with the principles of the Sustainable Rates Guidance (published in April 2019), it also highlights that in some areas, rates have not matched expectations of sustainability and inflationary pressures. This is reflected in the findings from the Financial Sustainability Health Check and ongoing representation from the sector. Alongside this, both the Scottish Government and Local Government recognise that inflationary pressures have been increasing significantly and that due to COVID, there has been a significant impact on the cost of ELC provision for both local authority and partner providers.

We therefore agree that:

A. The Scottish Government provided one-off financial support in 2021-22 to enable local authorities to commission a cost data collection exercise. This will provide each local authority with a dataset about funded ELC costs from which they can work with local partners to set local sustainable rates for 2022-23.
B. The Scottish Government will fund the Improvement Service to deliver a programme of peer support through its ELC Expansion Grant in 2022-23 focussed on strengthening rate-setting processes and maximising the impact of the cost collection exercise. Councils will engage with this process to share learning and work together to strengthen rate-setting processes across Scotland in this financial year.
C. Scottish Government will revise the Sustainable Rates guidance published in 2018 to support the strengthening of rate-setting processes, building on the experience and feedback of providers and of councils.
D. Councils will work with partners, on the basis of the available evidence and within the funding envelope available for ELC, to uplift rates for 2022-23 to ensure that they reflect the costs of delivery (including inflationary increases), provide scope for reinvestment (reflecting a measure of profit in a private sector setting or surplus in a third sector organisation) and enable delivery of the Real Living Wage commitment. The level of change in rates in 2022-23 will reflect evidence about local needs and

circumstances, and will be determined through robust and transparent processes that are supported by local engagement. Rates must be affordable for local authorities within their overall ELC budget.

15. The Scottish Government's financial support for the cost collection exercise was a one-off commitment in the 2021-22 financial year. The cost data collection exercise is owned and run by local authorities, with the purpose of supporting local rate setting in partnership with providers. The exercise is not intended to produce a national rate. Local authorities are, of course, free to fund a similar exercise in future years should they choose to.

ANNEX B – LOCAL AUTHORITY ALLOCATIONS FOR EARLY LEARNING AND CHILDCARE 2022 - 2023

Local Authority	Specific Revenue Grant £m	ELC Deferral Pilots £m
Aberdeen City	20.54	1.2
Aberdeenshire	27.89	
Angus	10.52	0.7
Argyll & Bute	7.96	0.3
Clackmannanshire	5.13	0.3
Dumfries & Galloway	13.21	
Dundee City	14.67	
East Ayrshire	13.12	
East Dunbartonshire	9.87	
East Lothian	10.95	
East Renfrewshire	8.00	
Edinburgh, City of	41.31	
Eilean Siar	2.80	
Falkirk	16.05	0.8
Fife	35.45	1.6
Glasgow City	59.69	2.8
Highland	23.91	
Inverclyde	7.60	
Midlothian	11.41	
Moray	9.36	
North Ayrshire	13.09	
North Lanarkshire	34.84	
Orkney	2.21	
Perth & Kinross	13.59	
Renfrewshire	18.72	
Scottish Borders	11.50	0.5
Shetland	2.76	0.2
South Ayrshire	9.79	
South Lanarkshire	30.43	
Stirling	9.42	0.5
West Dunbartonshire	9.07	
West Lothian	17.22	
TOTAL	**522.06**	**8.9**

Annexe K

SCOTTISH FUTURES TRUST

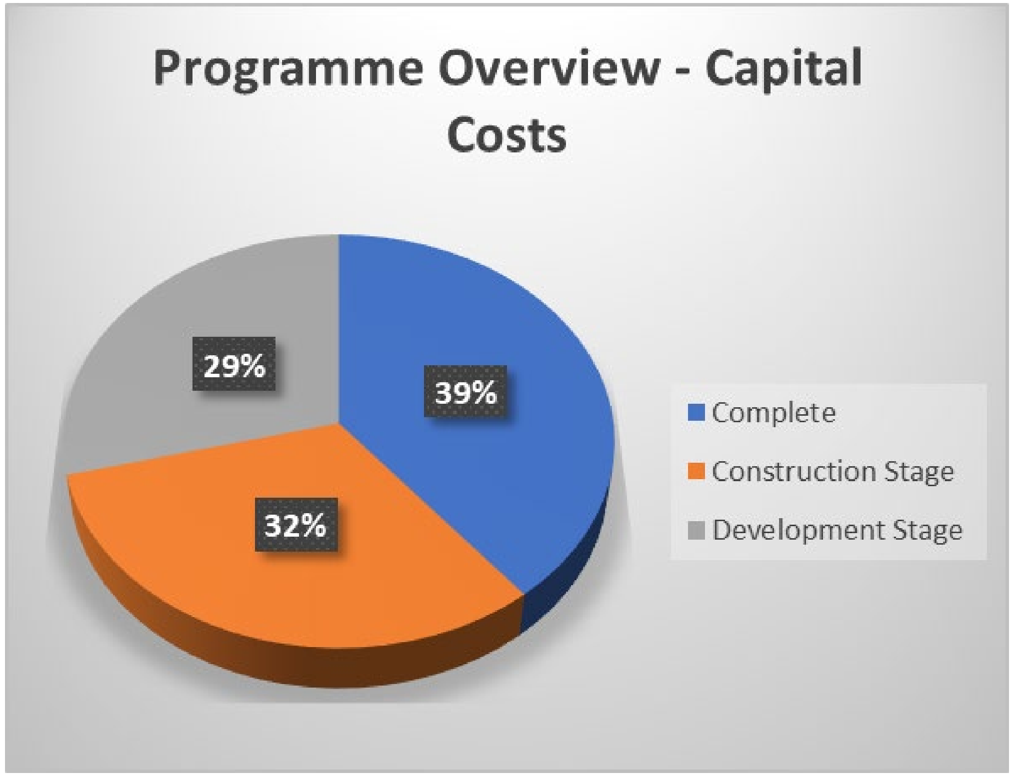
ELC Finance Working Group

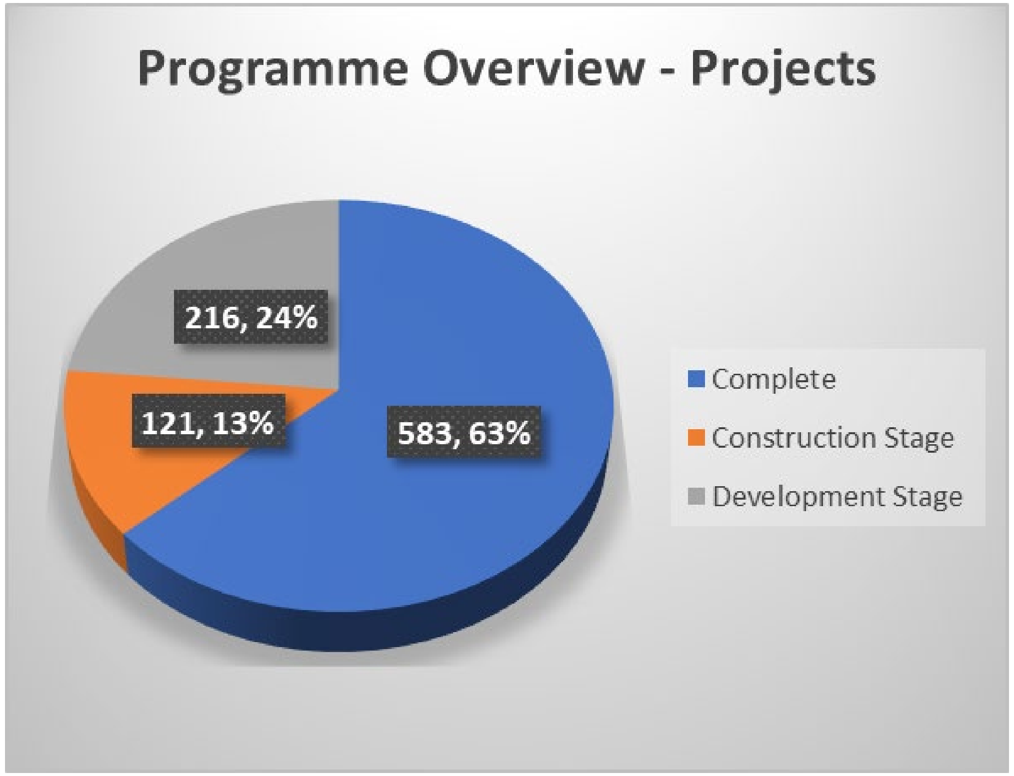
ELC Capital Programme Update

2 February 2021

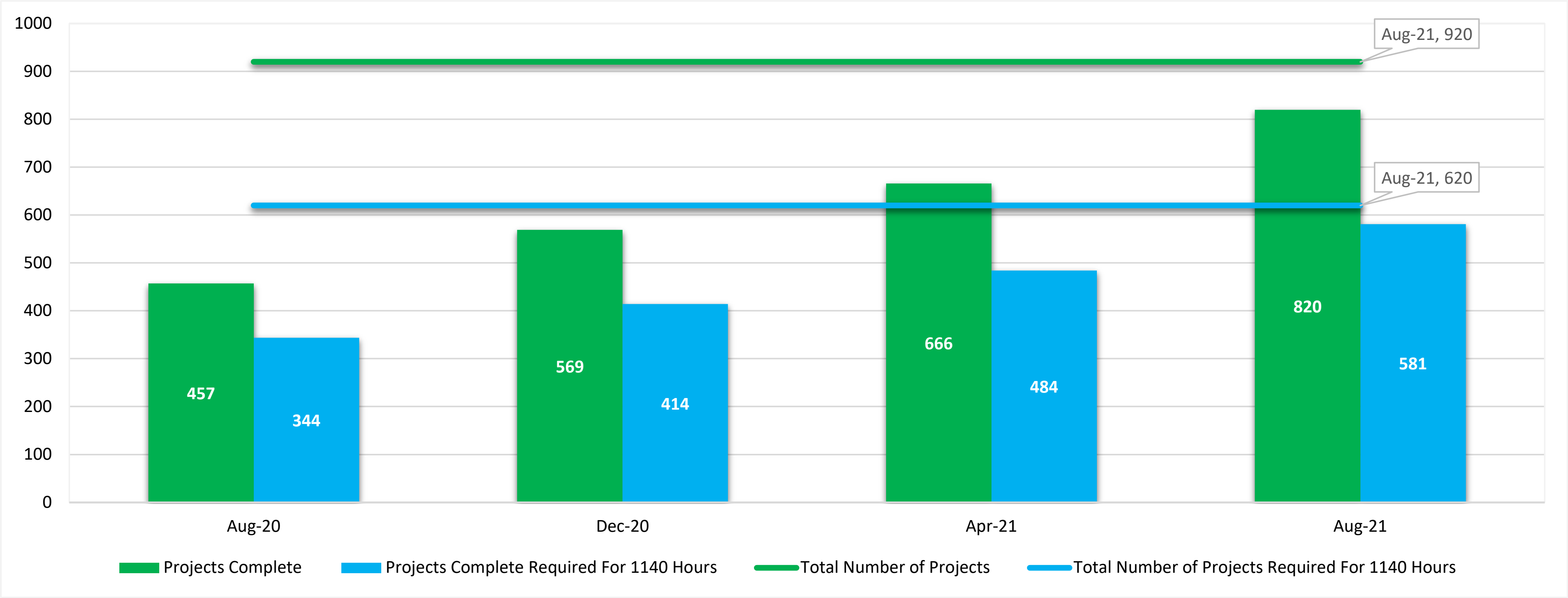
Overview

1. Capital programme progress update
2. Impact of COVID-19 of infrastructure projects
   - i. Programme impacts of COVID-19
   - ii. Financial impacts of COVID-19
     - Comparison of pre COVID-19 and current position – LA data returns
     - Review of a sample set of ELC construction projects
     - Comparison of allocation vs spend
     - Sector review and feedback for projects in development
   - iii. LA feedback
3. Summary





Progress Update



Progress Update

Programme impact of COVID-19

- 187 projects (7,040 spaces) valued at £197m were in construction as of March 2020 lockdown.
- 333 projects (8,307 spaces) were yet to start construction at lockdown.
- Delays across all projects in construction and in development and the average delay on sites following lockdown was around 6 months but with wide variations.
- Productivity has been improving on sites with some sites employing weekend working and longer working hours.
- School holiday refurbishment projects have been rescheduled from August 2020 to Easter 2021 and August 2021.
- Local authorities have been reprofiling capital and revenue expenditure within programmes to absorb some of these impacts.

Comparison of pre COVID-19 and current position – LA data returns

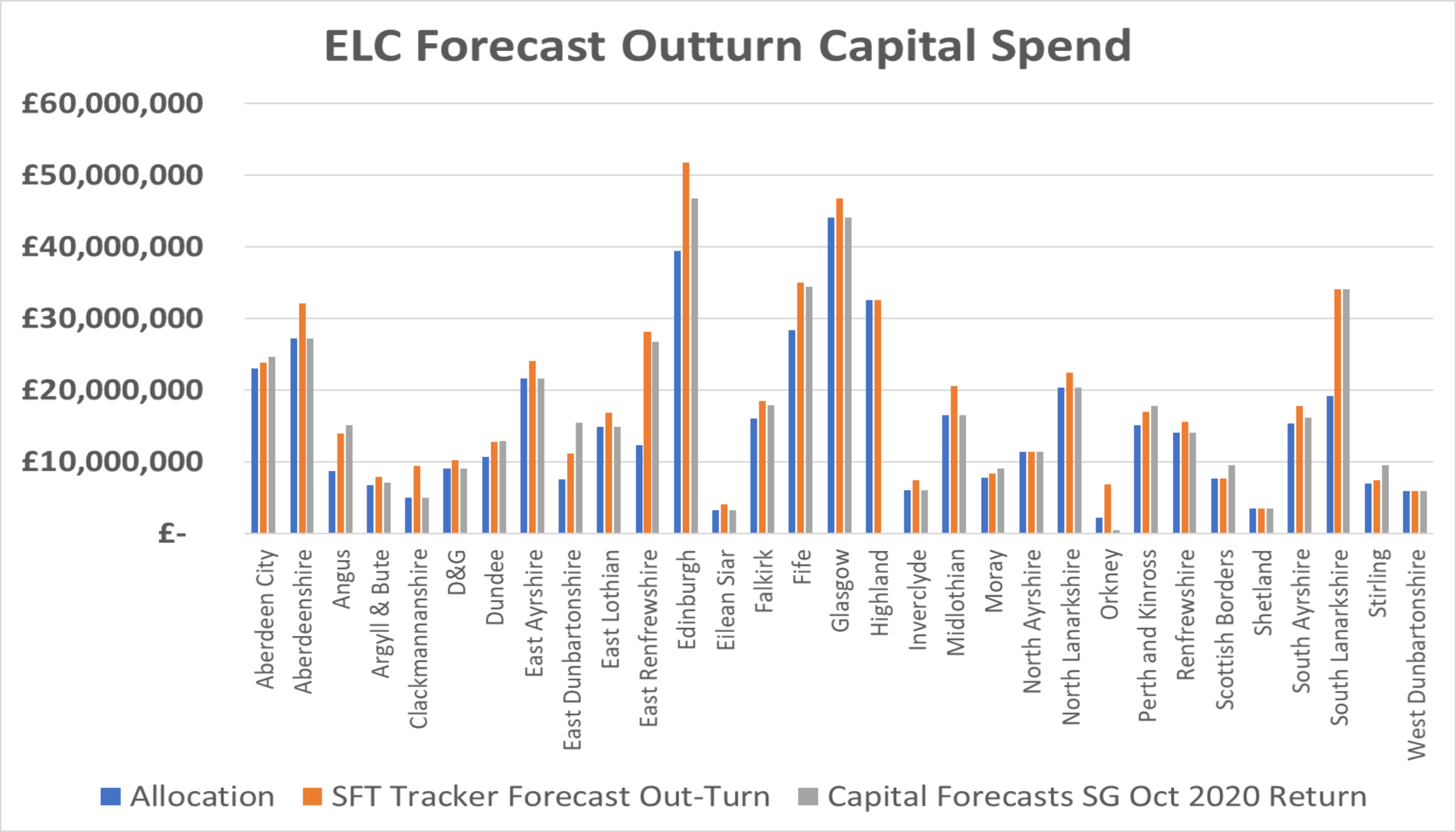
- Data comparing **total capital estimate** movement between February 2020 (pre-lockdown) to August 2020 and January 2021
- This data includes non-COVID-19 costs across 548 projects
- Circa 8.5% movement between Feb 20 and August 20 and a further 1.5% movement between August 20 and January 21

	Capital Cost Estimates Difference Between Feb 20 - Aug 20	Capital Cost Estimates Difference Between Feb 20 - Jan 21	Capital Cost Estimates Difference Between Aug 20 - Jan 21
In Development	£17,849,906	£18,763,588	£883,873
In Construction	£16,415,683	£19,217,754	£2,802,071

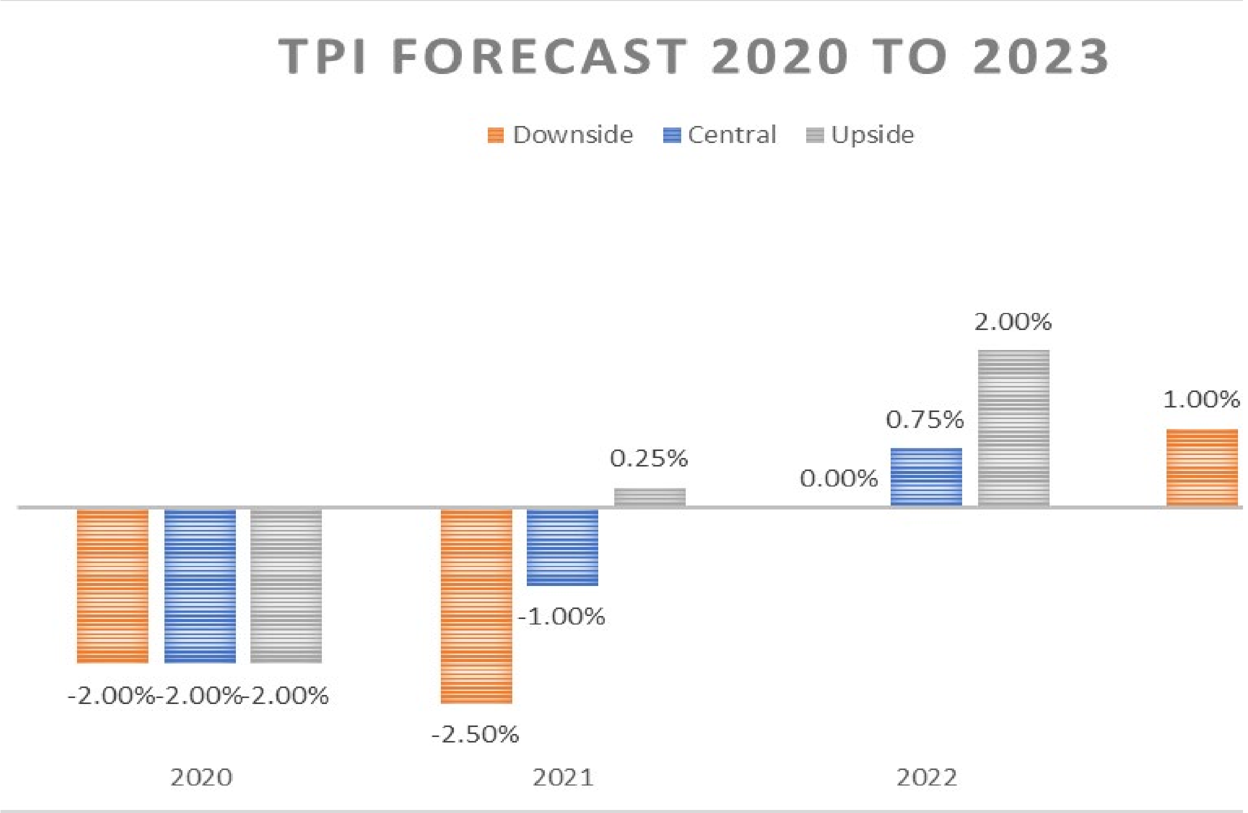
Financial impact of COVID-19 - Sample project review

- Current average assessed COVID-19 **claims** for the 23 projects is 5% as of January 2021.
- The % increase through claims is in the range of 2 - 8% and the project capital cost range of £1.2 - £3.9m.
- The % increase in claims is expected to come further down following further negotiations between LA teams and main contractors.
- The final accounts position on projects completed post lockdown are continuing to be being reviewed and negotiated.
- LA clients taking varying contractual stances but the expected % cost is likely to significantly less than the claims position.
- An initial analysis of claims impact across stages of construction:
    - Projects with at least two thirds of programme remaining - 2.4% COVID-19 claims increase (sub-structure/ superstructure stage)
    - Projects in the middle third of construction programme - 7.3% COVID-19 claims increase (superstructure/ finishings stage)
    - Projects with less than a third of programme remaining - 3.5% COVID-19 claims increase (finishings/ external works stage)

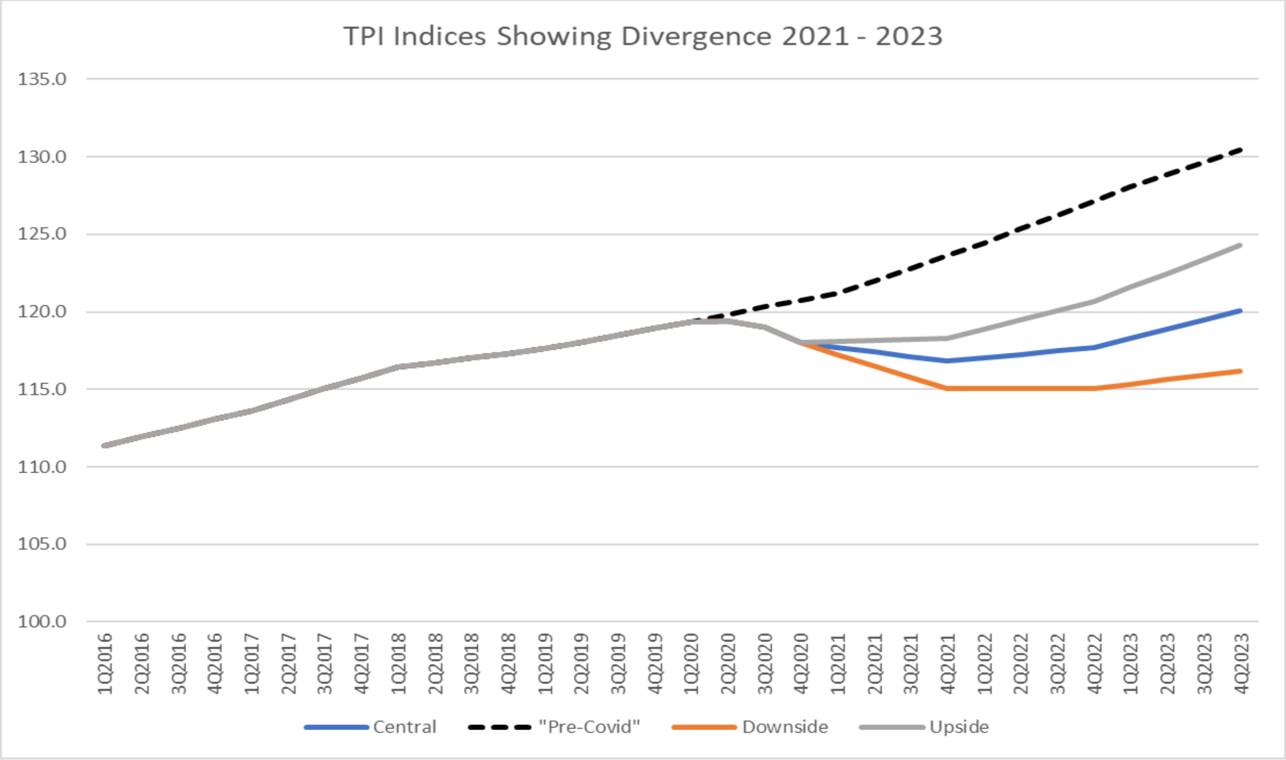
Financial impact of COVID-19 - Infrastructure data returns



Financial impact of COVID-19 - Sector review and forecasts



Financial impact of COVID-19 - Sector review and forecasts



Financial impact of COVID-19 and Brexit – Sector Feedback

- Longer term impact of lockdown on financial reserves
- Certainty of pipeline
- Competition for resources
- Brexit impact on materials and labour
- Specific challenges for ELC programme due to scale and type of projects
- Specific feedback from suppliers within the programme

Impact of COVID-19 - LA feedback

- Varied rates of productivity across construction sites
- Varying degrees of impact on local supply chains and availability of materials
- Varying costs impacts of impact on projects in development or at tender stage
- Ongoing review of the financial impacts of lockdown on project costs and programme affordability
- Continued uncertainty around full impacts of COVID-19 and Brexit
- Balancing additional costs from COVID-19 through re-profiling capital programmes or making alternative service delivery choices.

Summary

1. No settled position as yet on the impact of COVD19 as final accounts are continuing to be negotiated on a number of completed projects.
2. A range of impacts could be between 2- 8% on projects in construction based on current data from a sample set of construction projects.
3. Approach to settling claims vary widely including COVID-19 costs sometimes shared between LA and contractor.
4. BCIS TPI analysis shows a relatively flat trend in prices for most of 2021. Indices are significantly below the levels expected pre-COVID – around a 7% fall but the nature of ELC projects could complicates that position.
5. The impact of Brexit has not feel fully felt yet but some predicted shortage in materials and labour.
6. Local authorities are managing within funding allocation reprofiling capital programmes or using CFCR mechanism.
7. Important to understand if there are exceptions where specific projects that could compromise service delivery and need specific support.