

Education, Children and Young People Committee

25th Meeting, 2022 (Session 6), Wednesday 26 October 2022

Early Learning and Childcare (ELC)

Introduction

At its meeting on 22 June 2022, the Committee agreed to hold an evidence session on ELC and the implementation of 1140 hours as part of its pre-budget scrutiny.

Committee meeting

At this meeting, the Committee will take evidence from—

- Carrie Lindsay, Executive Director of Education and Children's Services, Fife Council
- Stewart Westwater, Quality Improvement Officer - Early Years, Fife Council
- Wendy Brownlie, Head of Education: Performance and Improvement, Argyll and Bute Council
- Margot Black, Early Years Manager, Children and Young People, Scottish Borders Council
- Kirsty Maxwell, Finance Business Partner (Education & Lifelong Learning, Finance and Corporate Governance)., Scottish Borders Council

Supporting information

A SPICe briefing, prepared for this session, is included in [Annexe A](#) of this paper. This briefing provides information on the issues being considered at this evidence session including—

- **The Strategic Plan**
- **Evaluation and Outcomes**
- **ELC Funding**
- **Private and Voluntary Independent Sector**
- **Eligibility and Deferrals**
- **Workforce**
- **Quality Assurance**
- **Flexibility**
- **Rurality**

Submissions have been received from the Scottish Government Early Learning and Childcare Directorate and COSLA. These are provided at [Annexe B](#).

Education, Children and Young People Committee Clerking Team

21 October 2022

Annexe A

The logo for SPICe (The Information Centre) is a purple rounded rectangle. The text 'SPICe' is in white, with 'SPIC' in a larger font and 'e' in a smaller font. To the right of 'SPICe', the text 'The Information Centre' is in white, and 'An t-Ionad Fiosrachaidh' is in a smaller white font below it.

The Information Centre
An t-Ionad Fiosrachaidh

Education, Children and Young People Committee

Early Learning and Childcare

26 October 2022

Introduction

The Committee undertook a one-off session on the expansion of funded Early Learning and Childcare [on 25 May 2022](#). At that time, the Committee received a number of submissions which remain relevant. [Links to the submissions and correspondence can be found on the Committee's website.](#)

In June, the Finance and Public Administration Committee undertook [post-legislative scrutiny of the 2013 Financial Memorandum of the Children and Young People \(Scotland\) Bill](#). The Children and Young People (Scotland) Act 2014 expanded funded ELC to 600 hours and powers under that Act were also used to extend the statutory entitlement to 1,140 hours. [The FPAC issued a letter to the Deputy First Minister following this work on 4 October 2022.](#)

This session is part of the Committee's pre-budget scrutiny and the Committee will be taking evidence from a number of representatives of individual local authorities. The [Finance and Public Administration Committee issued guidance](#) to subject committees on this year's budget process in June. This guidance stated—

“The budget process, as recommended by the Budget Process Review Group (BPRG) in its 2017 report, is centred around four core objectives:

- to have greater influence on the formulation of the Scottish Government's budget proposals,
- to improve transparency and raise public understanding and awareness of the budget,
- to respond effectively to new fiscal and wider policy challenges, and
- to lead to better outputs and outcomes as measured against benchmarks and stated objectives.”

The guidance suggests a “strategic year-round approach to budget scrutiny, allowing parliamentary committees to build up an evidence base over time on the impact of spending in their portfolio areas”.

Strategic Plan

On 6 October, the Scottish Government published [Best Start: Strategic early learning and school age childcare plan for Scotland, 2022-26](#). This plan sets out how the Government intends to “embed the benefits of our transformational investment in 1140 hours of high quality funded early learning and childcare”. It also sets out the Government’s approach to expanding the childcare offer over the next four years.

This strategic plan reiterates the aims expected from the ELC expansion and now identifies these as outcomes for the broader childcare policy. These are:

- Children’s development improves and the poverty-related outcomes gap narrows
- Family wellbeing improves
- Parents’ and carers’ opportunities to take up or sustain work, training and study increase

It also set out four strategic priorities in this area to the end of the current Parliament. These are set out below.

Realising the benefits of the expansion to 1140 hours of funded Early Learning and Childcare for children and families.

Actions under this priority include:

- Maximising uptake of Early Learning and Childcare among two-year olds (discussed further in a later section)
- A focus on quality, including in outdoor learning, food, supporting children with ASN

Progressing the expansion of our childcare offer, including building a future system of school age childcare and a new early learning and childcare offer for one and two year olds.

This refers to work on delivering commitments to

- expand free early learning and childcare to one and two year olds, starting in this Parliament with children who the Government considers will benefit most; and
- building a system of school age childcare by the end of this Parliament, providing care before and after school, all year round.

Ensuring that the delivery of our priorities is supported by a sustainable, diverse, and thriving sector and profession.

Actions under this priority include work on:

- Supporting the sustainability of the childcare sector, including: the continuation of the Nursery Rates Relief Scheme, developing a business support offer for all parts of the childcare sector, and supporting the setting of sustainable rates for the PVI sector.
- Supporting the diversity of the sector, in terms of the offer to parents.

Ensuring that our ambitions are underpinned by fair funding and outcomes frameworks, robust data, and organisations that work together to regulate services and support quality improvement.

Actions under this priority include:

- In the context of projected falls in the number of children, working with local government to develop proposals for a long-term financial agreement that covers all funded ELC services and is focused on delivering shared priorities and outcomes.
- Streamlining and simplifying the approach to the inspection of Early Learning and Childcare and school age childcare services.
- Ensuring ELC provision is linked to other initiatives to tackle child poverty within communities.

Evaluation and Outcomes

The Strategic Childcare Plan said—

“It is critical that we properly evaluate a major new policy like the expansion of funded ELC to understand what is working, whether the policy is making a difference and where any challenges remain.”

The Scottish Government published its [Evaluation Strategy](#) of the expansion programme on 6 October 2022. This strategy was delayed due to the pandemic. The strategy seeks to determine whether the three main aims or outcomes above are achieved and to “assess the longer term economic costs and benefits” and to set out the data required support the effectiveness of the policy.

The evaluation also sets out intermediate outcomes and a “theory of change” which is intended to show the progress from outputs to the overarching outcomes of the policy. The strategy describes its approach—

“The evaluation approach set out here is primarily an outcomes evaluation. It does not consider the efficacy of the ELC expansion against other policy options or the counterfactual of “do nothing”. ... ELC is only one contributing factor to the desired high-level outcomes, and it will not be possible to say the expansion has ‘caused’ specific high-level outcomes. The use of a before and after evaluation study design with different cohorts of children, alongside a theory of change where links between the expansion and the intermediate

outcomes can more easily be made, will, however, allow an assessment of whether and how expanded ELC contributes to improved outcomes.”

The Scottish Government commissioned a study, the Scottish Study of Early Learning and Childcare (SSELc), to provide information on funded ELC and the associated outcomes. The SSELc will measure the impact of the policy on long-term outcomes for children and parents by comparing two groups of children: baseline samples of children receiving 600 hours of funded ELC and children receiving 1,140 hours of funded ELC in 2022-23. A [report of the SSELc published in December 2020](#) was intended to set out a baseline for assessing the impact of expanded ELC provision.

The Evaluation Strategy also set out how the Scottish Government will seek to “compare the value of the outcomes of a policy to the overall costs of that policy”. This economic evaluation is separate to the overall evaluation of the policy and does not appear to have been contracted yet.

An interim SSELc report is expected in early 2024. A final evaluation report is expected in late 2025.

[Audit Scotland’s submission to the FPA Committee](#) reflected its findings in a 2018 report reflecting on the expansion to 600 hours—

“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.”

Published financial local authority data on pre-primary education financial data does not, for example, provide disaggregated data on the funding of local authority settings and PVI settings. Alison Cumming, Director of Early Learning and Childcare, at the [Scottish Government told the FPA Committee in June](#)—

“The finance working group has sought to see how we can improve things—initially through bespoke data collection. That involves agreeing a different method of reporting, which captures all those costs but with a long-term view. Certainly, my preference, which would need the agreement of the finance working group, is that, once we have the presentation correct, we would build the learning into the LFR [local government finance returns] so that we have in one place that clear line of sight on the total costs of delivering early learning and childcare.” (OR 28 June 2022, Col 4)

Local authorities collect data on the progress of pupils throughout the course of their school career. How and whether this data is used at a local level to assess the relative quality of ELC settings to improve children’s outcomes and help close the poverty-related attainment gap is unclear. The Strategy stated—

“Ahead of 2025 we are committed to working with our partners in the sector to develop an outcomes and measurement framework for funded ELC – jointly owned by Scottish Government and local government – which will provide evidence to support service delivery both nationally and locally, offer greater transparency and assurance, and help ensure value for money.” (p23)

ELC Funding

August 2021 marked the introduction of the statutory duty on local authorities to secure 1,140 hours of ELC for 3 and 4 year-olds and eligible 2 year olds. The introduction of the statutory duty was delayed by 12 months due to the pandemic. The expansion was phased in over several years and different local authorities were in different stages of their expansion at the point the pandemic intervened in 2020.

The expansion of funded ELC from 600 to 1140 hours will have continuing costs of over £500m per year (the total spend on ELC is around £1bn). In 2018, COSLA and the Scottish Government agreed a multi-year capital and revenue funding settlement to the end of 2021-22. At this time, the statutory expansion was planned for August 2020. Scottish Government ringfenced revenue funding for the expanded hours of funded ELC fell in cash terms by £15m between 2021-22 and 2022-23.

There is a distinction in how the 600 hours of funded ELC and the additional 540 hours are funded. Ringfenced money is provided to local authorities for 540 hours, the other 600 hours are funded through the local authorities' core budgets. [COSLA's submission in May 2022](#) set this out and also the roles of local authorities and partner providers in a diagram; this diagram is reproduced in Annexe 1 to this paper.

COSLA's submission stated—

“The Scottish Budget 2022/23 represented a 4% reduction in the Specific Revenue Grant funding available to Local Authorities to fund the expansion to 1140 hours of Early Learning and Childcare, in summary this included:

- The reduction in the ELC specific grant of £15m for 22/23
- The top slicing of a further £9m from ELC specific grant to support pilot work for deferred entry into Primary 1”

The [Scottish Government's submission](#) stated that the reduced funding reflected changing demographics with “75% or 8,500 fewer 3 and 4 year olds eligible for the universal offer than was projected in 2018”. The Scottish Government continued—

“In 2022-23 the Scottish Government is also beginning to phase in the new needs-based distribution methodology agreed by Scottish Ministers and CoSLA Leaders for the 1140 expansion funding. 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 distribution of the Multi-Year Agreement – ie the ringfenced funds to support the expansion up to 2021-22– was based on local government financial returns estimating what would be required to deliver the expansion. On 25 June 2021,

COSLA Leaders agreed that from 2022-23 a single standard formula should be used to distribute funding between local authorities. This formula was used for both the ringfenced funding and also the ELC element of local authorities General Resource Grant. The 2022-23 formula is based on: 75% client numbers; 20% deprivation (including £18 million for Equity and Excellence Leads); and 5% rurality. An agreement was reached with COSLA through the ELC Finance Working Group that 2022-23 should be treated as an interim year pending a review of the totality of ELC funding from 2023-24 onwards. A further data collection was undertaken from local authorities in December 2021 for return in January 2022. The data from these returns has been used to inform the modelling of funding from 2023-24.

COSLA's submission argues that the Government's approach did not take sufficient account of fixed costs of delivery. The NDNA's submission stated—

“There is deep concern over rising costs such as inflation, energy costs, increases to the real living wage and national insurance. In our survey, we asked what the expected increase in staffing budgets would be this year once the statutory minimum wage increase, the real living wage and other staffing considerations put into place.”

Resource Spending Review

The Scottish Government published its [Resource Spending Review](#) (RSR) on 31 May 2022. Figures presented in the RSR are not final and are subject to the annual budget process – the RSR says that the “funding envelopes set out here are indicative of what we can reasonably expect over the spending review years”. (p7) The data was presented at level 2 in the budget – that is, one level below the Cabinet Secretary portfolio.

The table below sets out the Education and Skills Portfolio Spending Plans.

Level 2*	2022-23	2023-24	2024-25	2025-26	2026-27
Learning	532	548	548	568	813
Children and Families	194	195	195	195	195
Early learning and childcare	57	57	57	57	307
Higher education and student support	349	349	349	349	349
SFC	1,502	1,501	1,501	1,501	1,501
Advanced Learning and Science	23	23	23	23	37
Skills and Training	271	270	270	270	270
Total	2,927	2,943	2,943	2,963	3,472

The increases under the Learning line are planned to cover a number of Scottish Government commitments, including those relating to the teacher workforce, school infrastructure, digital devices, and expansion of free school meals.

The increase in the Level 2 budget for Early learning and childcare in 2026-27 is to support implementation of commitments relating to school-age childcare, early learning and childcare for 1 and 2 year olds, and the provision of breakfasts.

Given the role of local authorities in supporting education in their local areas, members may wish to note the indicative funding for local government set out in the RSR.

Extract from Table 3: Social Justice, Housing and Local Government
Portfolio Spending Plans

Level 2*	2022-23	2023-24	2024-25	2025-26	2026-27
	£m	£m	£m	£m	£m
Local Government	10,616	10,616	10,616	10,616	10,716

The level 2 'Local Government' budget line includes the General Revenue Grant (including the additional £120m announced during the passage of the Budget), NDRI and Specific Resource Grants. It does not include revenue from within other portfolios. This would likely represent a real-terms fall in spending.

Private and Voluntary Independent Sector

Local authorities are responsible for securing the funded ELC for families. Local authorities have a dual role of being an ELC provider and a commissioner of ELC services from private voluntary and independent ("PVI") nurseries and childminders.

The Improvement Services has been publishing delivery progress reports on the programme of expansion to 1,140 hours. Its [latest, which was based on data from April 2022](#), stated "30% of provision was being accessed in private settings, compared to 69% in local authority settings, with the remainder being accessed with childminders."

The PVI sector and childminders are crucial in delivering the entitlement to funded ELC.

Funding Follows the Child Approach

The policy intention is that parents/carers would have a high degree of choice in where and how their children would access funded ELC.

The delivery of the expansion is underpinned by the "Funding Follows the Child" approach and the "National Standard". The Funding Follows the Child approach will be "provider neutral". Families should be able to choose their preferred ELC setting, subject to availability, that setting meeting the National Standard, agreeing the rate

with the local authority, and providing the place inline with the local ELC delivery plan.

The National Standard is intended to ensure that the ELC provided in any setting is of a high quality, with suitably trained staff and that staff are paid at least a real living wage. [Operating guidance for the Funding Follows the Child approach states:](#)

“The Funding Follows the Child approach places choice in parents' and carers' hands allowing them to access their child's funded entitlement from any setting – in the public, private or third sector, including from a childminder – who meets the National Standard, has a place available and is willing to enter into a contract with their local authority.”

Sustainable rates

The Scottish Government published [guidance for local authorities to set sustainable rates in August 2019](#)¹. The guidance does not set out a particular rate local authorities ought to pay. Rather it sets out approaches local authorities may wish to take in determining the local rate. This guidance stated—

“Ensuring a sustainable rate in the current economic climate is challenging. For private and third sector providers, this means an adequate return on investment and being able to recruit and retain staff. For local authorities, it means that the service reflects high quality ELC provision and affordability.”

The guidance set out a number of points local authorities may wish to consider to ensure process in setting local PVI rates is effective:

- Engage with providers to create and maintain dialogue, including any concerns or queries about the process;
- Be transparent and share information on numbers and costs without compromising commercial sensitivity;
- Maintain an audit trail for all stakeholders to document how decisions about sustainable rates have been made (including where cost inclusions and omissions have been made);
- Where possible, reflect actual, up to date costs;
- Use a common way of calculating costs; and,
- Review the process with other groups, or local authorities, to understand best practice in services that have similar considerations.

In 2022, COSLA and the Improvement Service commissioned Ipsos MORI to undertake a national cost collection exercise to support the setting of sustainable rates at a local authority level. This has been concluded and the results shared with local authorities. The intention is that this data would be used alongside the local authority's understanding of the local ELC market conditions and ongoing

¹ [Further guidance was issued to LAs in May 2022](#) on setting the rates from August 2022.

consultation with their local ELC providers. The results of the work have not been published at a national level. COSLA's submission in May stated—

“In line with the guidance for setting sustainable rates, local authorities will be as transparent as possible on outputs from the survey, provided outputs have the appropriate level of statistical confidence and such that any guarantee of confidentiality for respondents is not jeopardised.”

A May 2022 letter from the Scottish Government to local authorities confirming the 2022-23 allocations said—

“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.”

The letter indicated that the Government expected that—

“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 within their overall ELC budget local engagement. Rates must be affordable for local authorities.”

Jane Brumpton from Early Years Scotland [told the FPA Committee in June](#) that her PVI members sometimes found communication with the local authority difficult. She said—

“It is very difficult for some members to speak to the right person or to have their voices heard and be able to jointly discuss what the local needs are and what their cost basis is. Some members are saying that they feel as if the process is done to them and that they do not necessarily have a voice in it.”
(OR 21 June 2022, Col 38)

In 2021, the Government published a [financial sustainability health check](#) focused on the PVI childcare sector (including out of school care) and was in the context of the impact of the pandemic as well as the funded ELC expansion. In terms of sustainability, the Health Check found that during the period from the start of the pandemic to May 2021 there was a loss of confidence in the sector, although less so for those services providing funded ELC.

Along with the Health Check, the Scottish Government published [information from local authorities on the rates](#) they had set for PVI and childminding sectors to deliver funded ELC. 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. The table of rates is reproduced in Annexe 3 to this paper. The Government is currently collected data on rates for partner providers from local authorities and expects to have completed this by the end of the year.²

The Government also published details of LAs' approach to setting these rates, how free meals were being funded, and how LAs had supported partner-providers during the pandemic. The Scottish Government's submission to the Committee in May stated—

“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. This compares to an average rate of £4.50 an hour in Wales and £4.88 an hour in England in 2021-22.”

Jonathan Broadbery from the NDNA noted that there are policy differences between Scotland and other nations in the UK. He said the “policy in Scotland also has extra requirements that benefit parents but make it more difficult for providers”, for example not having the option to “cover costs, such as for consumables, directly with parents.” (OR 25 May 2022) The NDNA's submission included an “Underfunding Report”. This stated—

“Our snap-poll, taking views from 76 nurseries, shows that underfunding is an ongoing issue for many in the sector as they continue to face uncertainty around reduced income and ever-increasing operating costs. This is pushing more ELC providers into the unsustainable position of operating at a loss.”

The Government's recently published Strategic Plan said—

“We will also work with local government to review the approach to setting rates in 2022-23 to identify where this can be improved further to ensure that rates reflect the costs of delivering funded ELC and payment of the real Living Wage to staff. This review will inform what further action may need to be taken ahead of the next financial year, within available resources, and the wider approach to rate setting over the rest of this Parliament. This will include consideration of any required updates to the supporting sustainable rates guidance.”

The Scottish Government published [Our commitment to childminding: report](#) in January 2021. This stated—

² Personal correspondence with SG officials.

“We want to see collaborative efforts across all partners to support parental choice by highlighting the benefits of childminding settings, ensuring that parents and carers have the information they need to make an informed decision about the right setting for their child from birth (where appropriate) to school age.”

The myriad roles of local authorities to lead and plan the expansion locally, commission, promote and provide ELC was described by the SCMA in its submission as a “conflict of interests”. It said—

“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”

Local ELC Delivery Plans

[Section 50 of the Children and Young People \(Scotland\) Act 2014](#) provides for a duty on local authorities to consult and plan on delivery of early learning and childcare at least every two years. Such plans must set out how the local authority intends to deliver or secure funded ELC. This process must take place at least once every 2 years. Section 50 has been in force since 1 August 2014.

[2021 statutory guidance](#) on ELC delivery stated—

“Examples of what the consultation on the delivery of early learning and childcare could seek views on are:

- the type and mix of settings available in the area;
- the pattern of delivery (e.g. whole day, half day, blended placements etc.);
- the number of weeks in the year provision is available;
- the desire for Gaelic medium provision.
- the desire for cross-boundary placements;
- the extra support children / families need to access their entitlement;
- the location of provision.”

In terms of publishing the information, the guidance stated—

“In publishing their plans and communicating locally about the early learning and childcare entitlement, education authorities should consider how they can make this information readily accessible for parents within their local area.”

As noted above, one of the aspects of the funding follows the child approach is that places are offered which are inline with the local plan.

Fife

SPICe was unable to locate a local ELC Delivery plan for Fife Council. An ELC delivery plan is not mentioned within Fife's [Children's Services Plan](#) or Early Learning and Childcare Admissions Policy. There was an Early Years Strategy 2015 – 2018, the focus of that document wider than the delivery of funded ELC.

Argyll and Bute

Argyll and Bute's website indicates that it carries out [an annual consultation with parents and carers to find out their views on the existing ELC provision and what their aspirations are for the future of ELC provision in Argyll and Bute](#).

Argyll and Bute's Education Strategic Plan 2022-2024 covers some of its ELC provision, but this does not appear to be the plan setting out how ELC would be delivered envisaged under the 2014 Act. Nor does it reference such a plan.

Scottish Borders

Scottish Borders regularly publishes Integrated Children and Young People's Plans. While these plans do not appear to be the plan setting out how ELC would be delivered envisaged under the 2014 Act, previous Integrated Children and Young People's Plans have referenced an Early Years Strategy, but SPICe was unable to locate a copy.

That SPICe was unable to locate evidence of a local ELC delivery plans or associated consultations does not necessarily mean they do not exist. Each local authority would have produced expansion plans on how it would phase in and deliver the expanded ELC hours, however that would likely have been undertaken more than two years' ago. Unfortunately, the timing of preparing this paper did not allow for time for SPICe to contact the local authorities attending the meeting to explore this further.

Eligibility and deferrals

There is a duty on local authorities to secure funded ELC for eligible children in their area.

All children are eligible for funded ELC after their third birthday. Exactly how soon after the child's third birthday depends on when their birthday falls. The table below sets this out.

Birthday	When the child can start funded early learning and childcare
Between 1 March and 31 August	August (autumn term)
Between 1 September and 31 December	January (spring term)
Between 1 January and last day February	March or April (summer term)

<https://www.mygov.scot/childcare-costs-help/when-funded-early-learning-and-childcare-can-start>

Local authorities may offer funded ELC before these start dates.

The [eligibility for funded ELC for 2 year-olds](#) is on three grounds: passported benefits, when the child is care-experienced, or if the parent has experience of care. Once a 2-year old is eligible for ELC, they remain so, even if the parents/carers cease to be eligible for the passporting benefits.

The most recent data on uptake of ELC places is set out in the [Improvement Service's ELC Delivery Report](#). This said—

“The number of 3 to 5-year-olds reported to be receiving funded ELC in April 2022 was 113,944 children. Of these, 98% (111,108 children) were reported to be accessing more than 600 funded hours, and 87% (99,173 children) were reported to be accessing 1140 funded hours. There has been a year-on-year increase in the numbers of 3- to 5-year-old children accessing funded ELC by 2% (up from 111,864 in April 2021). Variability continues to be seen at a local level, with some local authorities noting uptake of the expanded hours in a greater proportion of their 3- to 5-year-old children in funded ELC than others.”

In terms of 2-year-olds, the IS reported—

“The number of 2-year-olds reported to be receiving funded ELC in April 2022 was 7,157 children. Of these, 93% (6,672 children) were reported to be accessing more than 600 funded hours, and 80% (5,750 children) were reported to be accessing 1140 funded hours. Although the proportions of those children accessing funded ELC who are accessing expanded hours (both categories of over 600 and the full 1140) remain lower for the 2-year-old population than they are for the 3- to 5-year-old population, these proportions have been increasing throughout the academic year since the statutory duty came into effect.”

A key issue with the take up of eligible two year-olds has been that local authorities have been unable to identify the eligible families. The [UK Government has laid regulations to enable information sharing between HMRC, the DWP and Scottish local authorities](#). This will support local authorities to identify and contact households with two-year olds eligible for the funded early learning and childcare, in order that it can be made available to them. At the time of writing these regulations had not yet been approved by the UK Parliament. The Strategic Plan stated—

“Once this information becomes available to local authorities we will work with them to maximise uptake of our existing two year old offer through an improvement programme that will be rolled out by summer 2023.”

In 2017, the Scottish Government published research on the [drivers and barriers to uptake of early learning and childcare among two year olds](#). This made recommendations on better sharing of data. It recommended greater promotion through other means such as health visitors and other parents/carers. It highlighted

“the need for positive, non-stigmatising language in the promotion of free ELC: avoiding terms such as 'vulnerable' or 'disadvantaged’”.

The Scottish Government's [Child Poverty Delivery Plan](#) indicated that the Government would be undertaking a review of eligibility “that will identify the best approach to expanding access to funded childcare for more of the priority groups”.

Deferrals

Normally, the eligibility will cease when the child begins school. There are complications around children whose parents/carers choose to defer entry into primary school. Currently, a local authority has a duty to provide funded ELC for a child in the deferred year if their birthday is in January or February. For children who turn five after the school commencement date in August to the end of December, parents can still defer their entry to P1 for a year, but local authorities may decide whether to secure funded ELC during the deferred year.

The law here is due to change from August 2023 so that any child whose parents defer entry will be eligible for funded ELC in their deferred year. The Scottish Government is working with pilot local authorities to phase in this new approach.

The implementation plan can be found here:

<https://www.gov.scot/publications/funded-early-learning-and-childcare-places-joint-implementation-plan/>

Five local authorities piloted the approach in 2021-22. Pilot authorities are:

- Angus
- Argyll and Bute
- Falkirk
- Scottish Borders
- Shetland Islands

Five additional authorities were selected to receive funding to implement this policy from August 2022. These were—

- Aberdeen City
- Clackmannanshire
- Fife
- Glasgow City
- Stirling.

This implementation plan states—

“The Scottish Government will provide pilot local authorities with funding for the additional cost of early implementation of this obligation in the year 2021-22, in addition to the allocation under the last year of the ELC Multi Year Funding Agreement. The future cost of full implementation of the obligation across Scotland will be taken account of in the ongoing revenue funding from April 2022.”

Grant funding of £8.9 million was provided to 10 pilot local authorities to cover expected costs over 2022-23. As noted above, COSLA’s submission in May described this as being “top-sliced” from the ringfenced monies to support the expanded hours of funded ELC. SPICe understands that the funding arrangement for deferrals in 2023-24 is being considered as part of the wider ELC funding package and will be discussed with COSLA.

Workforce

The expansion of funded ELC required an expansion of the ELC workforce. This formed part of the expansion planning at a local and national level.

The Scottish Government has a [national recruitment campaign](#) to attract people to a career in ELC. It has also worked with the Scottish Funding Council and Skills Development Scotland to create additional capacity in the college and work-based learning sectors to train the additional staff required. The Scottish Government is currently developing a new Childcare Workforce Strategy.

In 2017, SDS published a [Skills Investment Plan for ELC](#). This set out key challenges and priorities including—

- Making the ELC sector a more attractive prospect for potential employees
- Recruitment and retention of a high quality, diversified and committed workforce
- Diversify the workforce and address gender imbalance within the sector
- Expansion of childminders as partner providers
- Supporting the education and training of those entering the sector and the existing workforce
- Supporting the “essential skills and specialist provision” required, such as literacy, numeracy and communication, including for Gaelic medium provision
- Leadership skills
- Evidence based skills planning

The [Scottish Government and COSLA commissioned and published research on the sector in 2019](#). This found—

“The current [daycare of children] workforce profile is predominantly young, white and female, and are mainly working full-time. This lack of workforce

diversity has a number of negative impacts, but in workforce planning terms, it limits the pool of potential recruits to support replacement and expansion demand.

“The main reason why people leave the [daycare of children] and childminding Services relates to income, although third and independent sector employees are the most likely groups to leave for this reason. This creates problems for these employers, who struggle to compete with the pay and working conditions offered by the public sector. Also, given the higher proportion of female [daycare of children] workers and childminders, it is unsurprising that the second most significant reason for leaving the workforce is linked to caring responsibilities.”

The movement from the PVI sector to local authority settings was covered in submissions to the Committee in May. The NDNA said that there is “currently a crisis in the ELC workforce” caused by the expansion in LA employment and the pandemic. Early Years Scotland stated—

“There are also significant issues with regards to the difference in wages and terms and conditions between LA ELC settings and PVI settings. There is an ongoing increase of staff leaving the PVI sector into LA, because the pay is better, and it’s deemed to be a more secure working environment in terms of T’s and C’s and trade union representation. There is no doubt that this is also having an impact on the quality of the care and learning provided by the sector, as experienced, hard-working staff feel they have no choice but to leave a setting which they are happy in, but which does not provide the financial security they need.”

The National Standard also requires providers to pay the real Living Wage to all childcare workers delivering the funded entitlement and commit to operating Fair Work Practices. Matthew Sweeney from COSLA explained to the Committee that local authority workers’ pay is subject to national bargaining. He said—

“I have heard loud and clear—and the point has been made again—that the sector is really interested in the conversation about pay equity. If that is to happen, it will take a significant amount of additional investment from the Scottish Government, if that is the sort of space that it is looking to move towards.” ([OR 25 May 2022, Col 34](#))

Recently, the hourly rate for the [real Living Wage increased](#) by around 10%.

Professional development

The 2017 Quality Action Plan included a number of actions to support induction and professional development at a national level. This included delivering a [national induction resource](#) and online programme of CPLD (e.g. see <https://www.gov.scot/publications/training-modules-for-all-elc-practitioners/>).

Local authorities are responsible for the CPLD of their own staff and may provide centralised support for the local PVI settings as part of the agreement with those settings to provide funded hours.

Quality Assurance

The Scottish Government's submission in May set out how it expects the National Standard be central to ensuring that funded ELC is of a high quality and underpins the policy design. It said—

“This ‘provider neutral’ approach is underpinned by a National Standard that all services – regardless of whether they are in the public, private or third sector, or childminders – have to meet in order to be able to deliver funded ELC ...

“The National Standard criteria focus on what children and their families should expect from their ELC experience, regardless of where they access their funded entitlement.”

[Section 3 of the Standards in Scotland's Schools etc. Act 2000](#) provides for a duty on local authorities to “endeavour to secure improvement in the quality of school [and ELC] education”. This includes ELC where the local authority has an arrangement with another provider. Operating guidance on the National Standard sets out a local authority's role in ensuring that the National Standard is met. It states—

“With the exception of scrutiny quality evaluations from the Care Inspectorate and Education Scotland, local authorities will also be responsible for assessing and monitoring compliance with the National Standard in all funded providers, including those provided by local authorities, as part of their contract management arrangements and in their role as guarantors of quality.”

Care Inspectorate measures against its [quality framework for day care of children, childminders and school-aged childcare](#), and Education Scotland uses '[How Good is our ELC?](#)'.

In January 2020, Education Scotland published the refreshed national practice guidance '[Realising the Ambition: Being Me](#)', which is intended to support settings to implement play-based and child centred learning and outdoor educational experiences.

Under the Public Services Reform (Scotland) Act 2010, HMIE and the Care Inspectorate are under a duty to ‘cooperate and coordinate’ their inspection activity. Following the Muir Review, the Scottish Government is [currently consulting](#) on the inspection of early learning and childcare and school age childcare services in Scotland.

Flexibility

Funded ELC is intended to be flexible and focused on meeting the needs of the child and their family.

The [Improvement Service's February report](#) on the progress delivering 1,140 hours stated—

“Not all capital projects were required to deliver 1140 hours from August. 587 of the 913 capital projects were identified by local authorities as being

required for August; the remaining projects being linked to increased flexibility, forecast growth and longer-term learning estate development projects.”

A lack of flexibility of options was highlighted by Connect which provided the Committee [findings of a survey of 112 parents](#) it undertook in late 2021. Connect stated—

“In some areas, the range and type of provision is not very varied or flexible in terms of meeting parents’ and children’s needs. From comments made by respondents, parental choice seems to be limited or non-existent. Connect would like to see more in-depth research to investigate to what extent the Scottish Government ambition of parental choice in early learning and childcare has been realised. Some models offered result in many funded hours being unused because they make no practical sense for families.”

Connect also reported that some families were finding difficulties in accessing part-time funded places. It said, “there is a conflict between inbuilt centre costs and allowing families flexibility” to take fewer hours.

The Care Inspectorate publishes statistics on Early Learning and Childcare. The table below shows the percentage of nurseries by type and the length of sessions offered.

2021 Nursery provider		Whole-day only	Whole-day or part-day	Part-day only	<i>shorter/flexible sessions</i>
Local authority	1,585	33.0%	60.6%	6.4%	22.1%
Private	755	8.6%	90.3%	1.1%	27.2%
Voluntary/not for profit	216	14.4%	79.2%	6.5%	28.2%
Total Nursery	2,556	24.2%	71.0%	4.8%	24.1%

The total percentages of the different sessions does not add up to 100% as services can offer shorter/flexible sessions in addition to another offer. The percentage of local authority nurseries routinely offering only whole-day sessions is around a third, which is a larger percentage than the other sectors. More broadly, [the Care Inspectorate reports](#) shows trends of fewer nurseries only offering part days, and more offering a mix in the past 8 years. The number of nurseries offering only whole days has increased from 6.4% in 2019 to 24.2% in 2021. (p30)

The Care Inspectorate also provides details [in supplementary tables](#) of when different types of settings are open. Taking the childcare sector as a whole, around 11% of childminders offer sessions in the late evenings, and around 6% offer weekend sessions. For nurseries, the equivalent figures are 0.4% and 0.2% in term-time and 0.3% and 0.1% in school holidays. In terms of those providing ELC, an estimated 10 private nurseries provide slots in the late evening and it is estimated

that fewer than 5 local authorities do so. According to these data, no local authority nurseries are available at the weekend and fewer than five PVI nurseries do so.

The Follows the Child Approach describes local authorities as being “primary guarantors of quality and key enablers of flexibility and choice – ensuring that there is a range of options for families in their area”.

Rurality

As noted above, the current distribution model of funding takes some account of rurality. The Challenges of Rural ELC provision were explored in research commissioned by the Scottish Government and published in March 2021. The [research also looked at innovative models and the needs of agricultural families](#).

The research concluded—

“This research indicates the range of challenges faced by rural childcare providers, many of which are connected to longstanding issues in rural areas, from employment to transport and broadband. Providers spoke about struggling to make settings financially sustainable due to lower numbers of children, but also indicated how important it is that rural families have access to a range of childcare services to meet their requirements.”

Ned Sharratt, Senior Researcher (Education, Culture), SPICe Research

23 September 2022

Note: Committee briefing papers are provided by SPICe for the use of Scottish Parliament committees and clerking staff. They provide focused information or respond to specific questions or areas of interest to committees and are not intended to offer comprehensive coverage of a subject area.

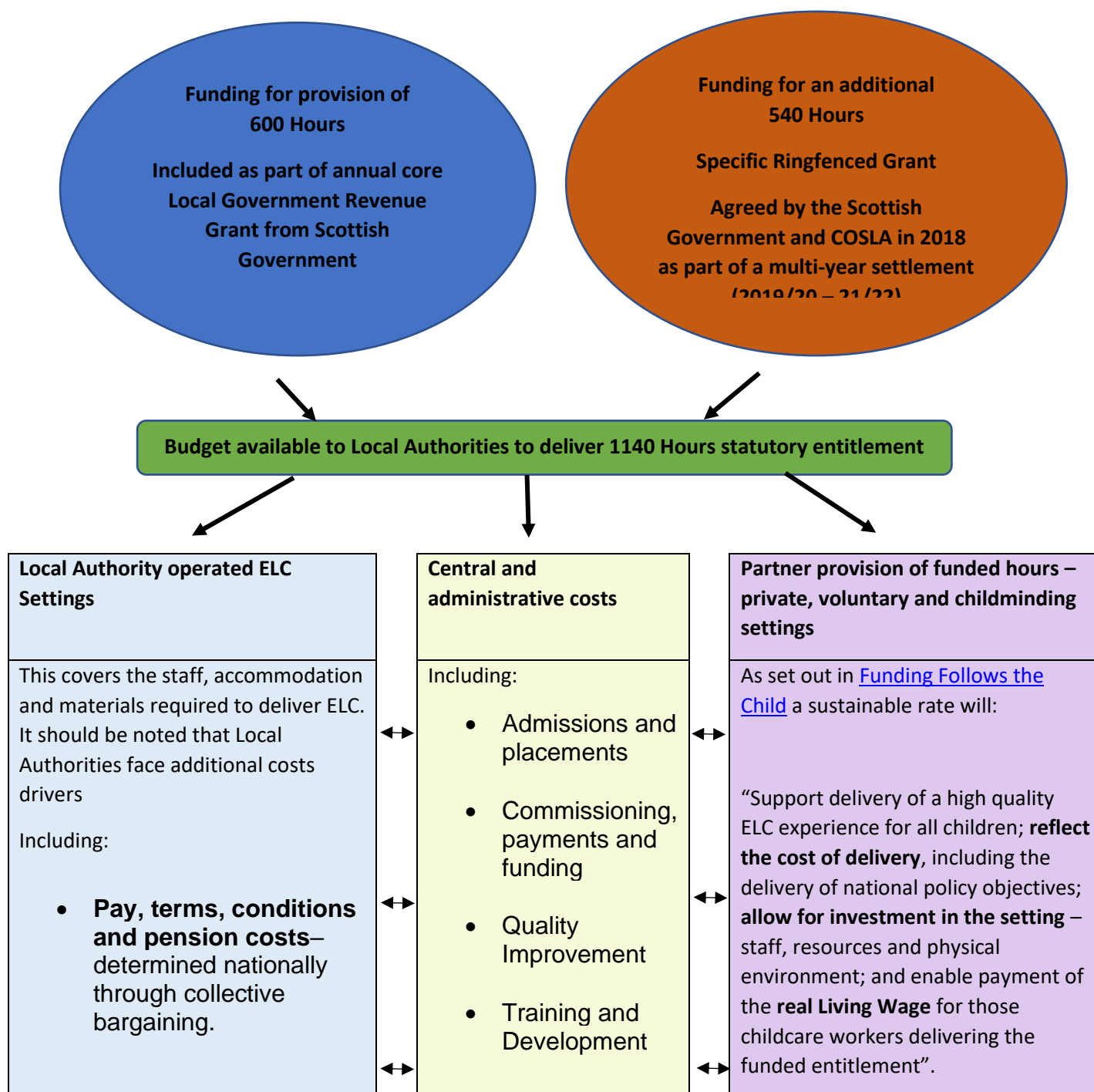
The Scottish Parliament, Edinburgh, EH99 1SP www.parliament.scot

Annexe 1

COSLA's "quick guide to ELC Funding"

The diagram below and the introductory text are reproduced from a submission from COSLA to the Committee from May 2022.

This short paper is aimed at providing a very brief overview of the funding of statutory early learning and childcare delivered in line with the Children and Young People Act 2014 (as amended). For further information on the model of childcare delivery, please refer to [Funding Follows the Child and the National Standard for Early Learning and Childcare](#).



<ul style="list-style-type: none"> • Delivering in areas that are not viable for the private sector – particularly remote/rural areas and in our most deprived communities • Market failure and acting as the provider of last resort. • Supporting adjustments to meet additional support needs 		<p>Local authorities set sustainable rates in line with guidance that was developed by Scotland Excel on behalf of the Scottish Government and agreed by COSLA.</p>
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Annexe 2

The National Standard

The criteria for the National Standard are set out below. It should be noted that there is currently [interim guidance for Funding Follows the Child and the National Standard](#) to reflect the impact of the pandemic on inspection and the sustainability of the sector.

Criteria 1 - Staffing, leadership and management

Criteria for All Settings (excluding Childminders):

- Sub-criteria 1.1 - Care Inspectorate quality evaluations are good or better on themes that relate to quality of staffing, management and leadership.
- Sub-criteria 1.2 - All support workers, practitioners and lead practitioners/managers working in the setting and included in the adult: child ratios must have either obtained the benchmark qualification for their role or, if they are still within their first 5 years of registering with the SSSC, have started to work towards this.
- Sub-criteria 1.3 - Sustainable staffing structures are in place which meet the recommended adult: child ratios.
- Sub-criteria 1.4 - All SSSC registered staff in the setting are achieving a minimum of 12 hours per year of Continuous Professional Learning.
- Sub-criteria 1.5 - Staff new to delivering the funded entitlement within the last year are familiar with the content of the most up-to-date version of the national induction resource.

Criteria for Childminding Businesses:

- Sub-criteria 1.1- Care Inspectorate quality evaluations are good or better on themes that relate to quality of staffing, management and leadership.
- Sub-criteria 1.2 - From the implementation of the full roll-out of 1140 hours, childminders delivering the funded entitlement must have either obtained the benchmark qualification for ELC practitioners or, if they are still within their first 5 years of delivering the funded hours, be working towards achieving this qualification.
- Sub-criteria 1.3 - The staffing structure in the setting is adequate to meet the recommended adult: child ratios.
- Sub-criteria 1.4 - All childminders delivering the funded entitlement are achieving a minimum of 12 hours per year of Continuous Professional Learning.
- Sub-criteria 1.5 - All childminders newly registered to deliver ELC within the last year have undertaken appropriate induction.

Criteria 2 - Development of children's cognitive skills, health and wellbeing

- Sub-criteria 2.1 - Care Inspectorate quality evaluations are good or better on the theme relating to quality of care and support.
- Sub-criteria 2.2 - The setting must have a framework to support children's learning that is informed by national guidance and is appropriate to support individual children's development and learning focussed on active learning through play.

Criteria 3 - Physical Environment

- Sub-criteria 3.1 - Care Inspectorate quality evaluations are good or better on the theme relating to quality of environment.
- Sub-criteria 3.2 - Children have daily access to outdoor play and they regularly experience outdoor play in a natural environment as part of their funded ELC offer.

Criteria 4 – Self-Evaluation and Improvement

- Sub-criteria 4.1 - The setting uses relevant national self-evaluation frameworks to self-evaluate and systematically identify strengths and areas for improvement.
- Sub-criteria 4.2 - The setting has a clear plan, developed in line with self-evaluation evidence, evidence from Education Scotland and Care Inspectorate scrutiny activities, research and national practice guidance, to continuously improve the quality of provision and outcomes for children and families.

Criteria 5 - Parent and carer engagement and involvement in the life of the setting

- Sub-criteria 5.1 - There is open and regular communication with parents and carers about the work of the setting and families are meaningfully involved in influencing change.
- Sub-criteria 5.2 - Parents and carers are supported to engage in their child's learning and development.

Criteria 6 - Inclusion

- Sub-criteria 6.1 - The setting must comply with the duties under the Equality Act 2010.
- Sub-criteria 6.2 - The setting will be willing to provide appropriate support, including making any reasonable changes to the care and learning environment, to ensure that children's additional support needs do not provide a barrier to them accessing a full range of experiences and meets their individual needs.

Criteria 7 - Business Sustainability

- Settings wishing to deliver the funded entitlement must be able to demonstrate that they are financially viable providers.

Criteria 8 - Fair Work Practices, including Payment of the Living Wage

- Settings, including childminders where workers are regularly employed to provide direct care to children, who agree to deliver the funded entitlement will, in accordance with the supporting guidance on Transition Options, pay the real Living Wage to all childcare workers delivering the funded entitlement and commit to adopting and demonstrating Fair Work practices in their setting. In committing to Fair Work practices, settings must take into account:
 - a fair and equal pay policy across their setting, (including a commitment to supporting the real Living Wage);
 - ELC managers/lead practitioners/employers (in the case of childminders who employ staff) have clear managerial responsibilities to nurture talent and help individuals fulfil their potential;
 - promoting equality of opportunity and developing a workforce which reflects the population of Scotland in terms of characteristics such as age, gender, religion or belief, race, sexual orientation and disability;
 - security of employment and hours of work, avoiding exploitative employment practices such as unfair zero hours contracts, or pregnancy and maternity discrimination;
 - consideration of patterns of working (including, for example, part-time working and/or term-time working) and support for family friendly working and wider work life balance; and
 - support progressive workforce engagement, including trade union membership or alternative arrangements, to give staff an effective voice, for example, through regular staff meetings, where possible.

Criteria 9 - Payment Processes

- Settings delivering the funded entitlement must ensure that access to the funded hours are free at the point of access to the child and that parents and carers are not subject to any fees in relation to the funded hours. The setting must ensure that:
 - parents and carers are not asked to make any upfront payment, including a deposit or any other payment, in respect of the funded hours, therefore ensuring that the child's funded entitlement is free at the point of access;
 - no top-up fees are charged to parents and carers relating to the funded hours;
 - parents and carers are not required to purchase additional hours beyond the funded hours in order to access their child's funded entitlement at the setting;

- additional charges to parents and carers relating to the funded hours should be optional, and limited to, for example, snacks, costs of outings or extracurricular activities such as music classes; and
- where parents and carers choose to purchase further hours in addition to the funded hours, the associated fees and hours must be transparent and clearly set out in any parental communication and invoices.

Criteria 10 - Food

Settings must have a clear and comprehensive policy for the provision of healthy meals and snacks for children. This should be consistent with [Setting the Table](#) and the [Eatwell Guide](#) and should ensure that individual cultural and dietary needs are met. There should be consultation with parents and carers about how other dietary preferences might be accommodated.

Annexe 3**Rate paid to funded providers for an hour of Early Learning and Childcare in 2020-21 and 2021-22**

Extracted from <https://www.gov.scot/publications/overview-local-authority-funding-support-early-learning-childcare-providers/pages/3/>

Council	Year	Rate paid to funded providers for one hour of ELC		Comments
		2 year olds	3 - 5 year olds	
Aberdeen City	2020-21	£6.05	£5.45	
	2021-22	£6.05	£5.45	
Aberdeenshire	2020-21	£6.00	£5.31	Providers receive an enhanced hourly rate of £9.30 or £10.30 per hour, depending on the level of support required, if additional support is agreed for a child in a funded provider setting.
	2021-22	£6.34	£5.59	
Angus	2020-21	£6.50	£5.07	Childminders received £5.41 per hour for eligible 2 year olds and £4.91 per hour for 3-5 year olds in 2020-21. From August 2021 childminders will receive £5.55 per hour for eligible 2 year olds and £5.05 for 3-5 year olds.
	2021-22	£6.68	£5.21	A £0.10 per hour top up to the sustainable rate will be added for snacks.

Argyll and Bute	2020-21	£6.00 (increased to £6.18 on 01/04/2021)	£5.31 (increased to £5.47 on 01/04/2021)	3% uplift applied on 01/04/2021 - for eligible 2 year olds: £6.18, for 3-5 year olds: £5.47. Rates for 2021-22 to be confirmed by the end of October 2021.
	2021-22	TBC	TBC	Where 1-2-1 support identified, additional hourly rate is paid to provider for ASN hours allocated: £13.63 per hour.
Clackmannanshire	2020-21	£5.31	£5.31	In 2021/22 a further payment of £0.50 per hour will be added on for meals.
	2021-22	£5.42	£5.42	
Dumfries and Galloway	2020-21	£6.18	£5.24	An hourly rate of £10.07 is paid to providers for children requiring additional support in 2021-22. This is in addition to the standard hourly rate of £5.26.
	2021-22	£6.20	£5.26	
Dundee City	2020-21	£5.60	£5.31	
	2021-22	£5.60	£5.31	
East Ayrshire	2020-21	£5.50	£5.50	Childminders received £4.50 per hour in 2020-21 and 2021-22.
	2021-22	£5.50	£5.50	
East Dunbartonshire	2020-21	£6.40	£5.31	
	2021-22	£6.40	£5.31	
East Lothian	2020-21	£5.31	£5.31	
	2021-22	£5.31	£5.31	
East Renfrewshire	2020-21	£8.50	£5.31	
	2021-22	£8.50	£5.31	
Edinburgh	2020-21	£5.31	£5.31	

	2021-22	£5.42	£5.42	
Falkirk	2020-21	£5.45	£5.45 - £5.70	In 2020-21 £0.35 per hour was added to the hourly rate to cover meals and snacks. A Covid uplift of £0.25 per hour was added to the rate for 3-5 year olds between August and December 2020; and a £0.10 per hour uplift has applied from January 2021 to date. From August 2021 £0.37 per hour will be added to the hourly rate to cover meals and snacks.
	2021-22	£5.55	£5.55	From August 2021 Childminders will receive £5.05 per hour per child and £1.90 per child per day for meals.
Fife	2020-21	£5.31	£5.31	£0.38 per hour is added to the hourly rate to cover meals.
	2021-22	£5.31	£5.31	
Glasgow City	2020-21	£6.40	£5.40	
	2021-22	£6.40	£5.40	
Highland	2020-21	£6.00	£5.31	Rates from August 2021 to be confirmed.
	2021-22	TBC	TBC	
Inverclyde	2020-21	£5.31	£5.31	
	2021-22	£5.31	£5.31	
Midlothian	2020-21	£6.50	£5.31	£0.40 per hour is added to the hourly rate to cover meals.
	2021-22	£6.50	£5.31	
Moray	2020-21	£5.85	£5.00	
	2021-22	£7.57	£6.30	

North Ayrshire	2020-21		£5.31	£5.31	
	2021-22		£5.31	£5.31	
North Lanarkshire	2020-21		£5.80	£5.55	
	2021-22		£5.80	£5.55	
Orkney Islands	2020-21		£5.00	£5.00	All non-local authority funded ELC entitlement is delivered by childminders.
	2021-22		£5.00	£5.00	
Perth and Kinross	2020-21		£5.50	£5.05	
	2021-22		£5.50	£5.31	
Renfrewshire	2020-21		£8.50	£5.31	
	2021-22		£8.50	£5.31	
Scottish Borders	2020-21		£5.65	£5.31	Additional information is currently being collected from providers and data is being analysed, building on the work carried out by Scotland Excel, to establish a fair and sustainable hourly rate.
	2021-22		£5.65	£5.31	
Shetland Islands	2020-21	£6.60 or £7.02		£5.08 or £5.40	Rates depend on whether the provider is in receipt of 'Building Support Package'.
	2021-22	£6.70 or £7.13		£5.16 or £5.48	
South Ayrshire	2020-21		£5.31	£5.31	
	2021-22		£5.31	£5.31	
South Lanarkshire	2020-21		£8.50	£5.31	£0.50 per hour is added to the hourly rate to cover meals.
	2021-22		£5.90	£5.31	

Stirling	2020-21	£5.00	£5.45	All eligible 2 year olds places are currently with childminders which is reflected in the hourly rate. No eligible 2 year olds places are offered within private or third sector nursery settings. Childminders received £5.00 per hour for 3-5 year olds in 2020-21 and £5.05 in 2021-22.
	2021-22	£5.05	£5.55	Where childminders and nurseries provide their own meal, the additional £0.35 per hour is paid to cover this cost.
West Dunbartonshire	2020-21	£5.31	£5.31	Childminders are also paid £5.31 per hour.
	2021-22	£5.31	£5.31	
West Lothian	2020-21	£6.40	£6.40	Childminders receive £5.90 per hour.
	2021-22	£6.40	£6.40	A top-up of £0.30 per hour is added to the hourly rate paid to funded providers to cover meals and £0.10 per hour to cover snacks.
Western Isles	2020-21	£5.31	£5.31	The Council will survey their partner nurseries this coming term and reassess their rate once all information is in.
	2021-22	£5.31	£5.31	

Annexe B

Education, Children, and Young People Committee**Evidence session on early learning and childcare funding****Written submission from the Scottish Government****19 October 2022**

Ahead of the Committee's evidence session on Early Learning and Childcare (ELC) funding on 26 October 2022, we welcome the opportunity to provide a written submission. We understand that the Committee will hear evidence from local authorities on the following topics:

- budgets for 2021-22 and 2022-23, as well as looking forward to 2023-24;
- how local authorities deliver ELC for families, using core budget alongside ring-fenced funding;
- the different approaches that local authorities take in engaging with their local PVI sector; and
- how local authorities are preparing / planning for further expansion of the policy.

This submission provides further information on these topics. We have also taken this opportunity to provide the Committee with a short update on the progress of the 1140 hours programme, as we have now passed the end of the first full year of implementation, and other policy developments.

Update on 1140 programme and other policy developments**Strategic Childcare Plan**

The Committee will be interested to note that on 6 October 2022, the Scottish Government published '[Best Start: Strategic early learning and school age childcare plan for Scotland, 2022-26](#)'. We laid a copy of the Plan with the Scottish Parliament Information Centre the day before publication (laying number **SG/2022/193**). The publication of the strategic plan fulfils the commitment the Scottish Government made in 'Best Start, Bright Futures', our Tackling Child Poverty Delivery Plan 2022-26, which recognises that high-quality, affordable and accessible childcare is crucial to our national mission to tackle child poverty.

The Plan sets out how we will embed the benefits of our transformational investment in 1140 hours of high quality, funded early learning and childcare (ELC), and the crucial role of our partners in the public, private, third and childminding sectors in supporting this work. It also explains our approach to expanding our childcare offer over the rest of this parliamentary term, including building a future system of school age childcare and a new early learning and childcare offer for one and two year olds, starting with those who need it most. We have also committed to publishing a

delivery framework for school age childcare in Scotland and a strategic framework for Scotland's childcare profession later in 2022.

Alongside our Strategic Plan we published an [evaluation strategy](#) setting out how we will evaluate the impact of the expanded entitlement to 1140 hours of funded ELC. The strategy sets out our overall approach to gathering the evidence we need through existing and new data sources. We will continue to collect and publish the evidence set out in the strategy as it becomes available, with a final report currently planned for 2025.

In the Plan we also announced that the Scottish Government will legislate to continue the [Nursery Rates Relief Scheme](#), which provides 100% relief on Non-Domestic Rates to eligible day nurseries (subject to subsidy control rules), beyond the current end date of 30 June 2023. This will give providers greater certainty around financial planning during a period when many are facing increasing cost pressures.

Funding Follows the Child and the National Standard

As we set out in our written submission to the Committee on 19 May, the Scottish Government puts provider neutrality and parental choice at the heart of the 1140 programme. [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. This 'provider neutral' approach is underpinned by a National Standard that all services – regardless of whether they are in the public, private or third sector, or childminders – have to meet in order to be able to deliver funded ELC.

Flexibility should be driven by local demand from families regarding the nature, and type, of provision that they require - this is built into the 2014 Act as a statutory requirement. These needs - along with a local authority's own circumstances - will determine the balance of provision offered by public, private, and third sector providers.

Funding Follows the Child and the National Standard for ELC providers is currently subject to Interim Guidance to reflect the impacts of the pandemic. In light of the evidence presented at the last ELC Joint Delivery Board, it has been agreed that:

- Interim Guidance will remain in place for 2022/23 (with minor changes); and
- Work will take place towards full implementation of Funding Follows the Child and the National Standard in August 2023, with a further review point before full implementation.

The Scottish Government and CoSLA will review progress with local authorities and the sector again in late 2022/early 2023, with a view to publishing updated guidance in spring 2023 and confirming requirements from August 2023.

Future childcare offers

Our Strategic Plan sets out our approach to progressing the expansion of our childcare offer over the remainder of this Parliamentary term, including building a

future system of school age childcare and a new early learning and childcare offer for one- and two-year-olds, starting with those who need it most.

In relation to school age childcare, we will take a place-based and person-centred approach to testing and building a system of school age childcare including through early adopter projects with target communities to understand what works and how a system should be set up to meet families' needs. Work is already underway in early adopter sites to begin phasing-in of community level systems of school age childcare (SAC). This early phasing will build on learning from our Access to Childcare Fund projects, and input from our co-design panel, to help us test and understand how we can build a system of school age childcare to support a community. On 6 October we announced a £1 million investment to test what a new system will look like in Dundee, Clackmannanshire, Glasgow City and Inverclyde.

We are at an earlier stage of policy development in relation to a new early learning and childcare offer for one- and two-year-olds. The first phase of this programme commenced in 2022-23 and focuses on research, insights, and engagement. We will work collaboratively with families to understand what they want and need from an offer for younger children, particularly those in the most disadvantaged communities. We will map current provision for one- and two-year-olds (both in terms of different service models and geographical coverage) across Scotland, in order to understand where there is existing good practice that could be scaled up as part of any expansion and to understand the impact of current provision on outcomes for children and families. We will also work with academic experts, local authorities and service providers to build our evidence base and learn from existing provision across the UK and other countries. We recognise and value the unique insights and experience those professionals in the public, private, third and childminding sectors can contribute to developing this new offer, many of whom already care for younger children, as well as what we can learn from local authorities who currently offer targeted support.

ELC Budgets

As we noted in our written submission to the Committee on 19 May 2022, a multi-year funding agreement was reached in April 2018 between the Scottish Government and COSLA which has seen annual revenue investment in ELC increase by £567 million against 2016-17 levels. Total Scottish Government funding for ELC has risen to over £1 billion annually in 2022-23.

Capital funding of £476m was also provided as part of the ELC expansion to deliver new and upgraded ELC facilities in Scotland's communities. The deadline for completion of the capital projects was extended to the end of the financial year 2022-23 and with 90% of projects now complete, the Scottish Government continues to engage with local authorities on the completion of the overall programme.

The 2022-23 settlement was developed separately from the multi-year funding agreement, and took account of the changing eligible population, as well as including uplifts to meet inflationary pressures and the direct costs of responding to COVID-19. The settlement reflected data which evidenced that there was 7.5% or 8,500 fewer

three- and four-year-olds eligible for the universal offer at the time, than was projected in 2018.

Funding was retained within the settlement to deliver key priorities for ELC, jointly agreed between SG and COSLA and set out in the ELC grant letter to local authorities. These were: increasing up-take for the targeted component of the offer; the payment of sustainable rates; and COVID recovery.

Analysis considered by the ELC Finance Working Group (FWG) made clear that had the process also taken into consideration updated data on uptake of funded ELC, it is likely that further headroom would have been identified. The review, however, recognised the potential impact of the pandemic and that given the programme was at that time in the first full year of implementation, existing data may not have reflected a settled picture on up-take and that further capacity would not be identified in the 2022-23 budget in this way.

In 2022-23 the Scottish Government, with the support of the ELC Finance Working Group, began to phase in a new needs-based distribution methodology agreed by Scottish Ministers and COSLA Leaders for the 1140 expansion funding. 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. 2022-23 was the first year of a three-year implementation phase which will cover 2023-24 and 2024-25.

The 2022 Resource Spending Review published in May confirms the Scottish Government's intention to work with COSLA and SOLACE to agree a New Deal for local government in Scotland. This reflects a desire on both sides to reset the relationship between the Scottish Government and local government, to balance greater flexibility over local financial arrangements with clearer accountability for delivering national priorities. We will continue to work in close partnership with COSLA and local government colleagues to develop proposals for a long-term financial agreement that covers all funded ELC services and is focused on delivering shared priorities and outcomes.

Work began in May on developing modelling and forecasting for the 2023-24 settlement, supported by the ELC Finance Working Group. The group, made up of officials and officers from Scottish and local government, is focussed on delivering sustainable funding for ELC that reflects the changing population and the underlying economic environment. Analysis underpinning the ELC settlement will consider the impact of inflation on the costs of delivery, trends in up-take and demography, and delivery priorities, as well as the outcome of local government pay negotiations. In line with previous years, decisions about the ELC settlement will be reached in line with Scottish Government Budget timescales and procedures, following close engagement with our partners in local government.

Local authority delivery of ELC using core and ring-fenced funding

The Scottish Government has provided 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, that have been jointly agreed with COSLA.

In 2022-23, the total funding for ELC of £1.006 billion is made up of £475m which is not ring-fenced (and can be used at the discretion of local authorities) and £531m which is ring-fenced for use on funded ELC. The modelling which will contribute to discussions about the 2023-24 funding settlement will take into account total ELC costs. As set out above, the ELC grant letter to local authorities relating to the ring-fenced spend set out three joint priorities for delivery in this financial year, and further detail about each is set out below.

Priority 1: Increasing uptake among eligible two year olds

As set out in our Strategic Plan, we are committed to ensuring that the families of all eligible two year olds know the benefits of the ELC offer and are able to access it if they wish to do so. To allow us to do this, we have continued to work with the UK Government to establish a data sharing agreement that will enable local authorities to target information about the ELC offer to households with an eligible two year old child, as has been the case in England for a number of years. Regulations were laid in the UK Parliament in July 2022, and we expect - subject to UK Parliamentary processes - that this data will be made available to Scottish local authorities before the end of the 2022-23 financial year. Once this information becomes available to local authorities, we will work with them to maximise uptake of our existing two year old offer through an improvement programme that will be rolled out by summer 2023. The ELC grant letter also highlights that local authorities can use ELC funding flexibly 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). This recognises 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.

Priority 2: Mitigating the impact of COVID

Many councils are leading work locally to address the impact of COVID-19 in their communities and within ELC settings, and the grant letter recognises that 1140 funding can be used to support this important work. We are taking forward work on Additional Support for Learning in ELC, building on the ELC Inclusion Fund and reflecting the impact of the COVID-19 pandemic on young children's development, particularly in the area of speech, language and communication. Over the next three years, starting in 2022-23, we will be investing in a new programme of work to support early and targeted intervention in speech and language for children and their families, helping to build confidence and capacity for staff working in ELC settings - and joining up efforts across other key public services, such as health visiting.

Priority 3: Payment of sustainable rates to funded ELC providers

The payment of sustainable rates by local authorities to services in the private, third and childminding sectors - that reflect the cost of delivery and enable the payment of

the real Living Wage to workers delivering funded ELC - is a key aspect of the Funding Follows the Child policy framework which was developed jointly by the Scottish Government and COSLA.

Funding Follows the Child is designed to ensure that parents and carers can access the funded ELC provision that best suits their child's and family's needs, whether in the public, private, third or childminding sector. Any provider that meets the National Standard, has a place available and is willing to enter into contract with the local authority should be able to deliver funded ELC. Local authorities are responsible for setting sustainable rates that reflect the costs of delivery and have a long-standing legal power to discharge their statutory duty through the provision of funded ELC in private, third and childminding settings as well as their own ELC services.

In 2016, our [Financial Review](#) found that 80% of practitioners in funded provider settings were paid below the Living Wage at the time. Through the ELC expansion, we and our local government partners were determined to improve pay and conditions for practitioners delivering funded ELC services. The Scottish Government's funding agreement with COSLA therefore enables local authorities to pay sustainable rates to funded providers that reflect the costs of delivery, including payment of the real Living Wage to workers delivering funded hours. [Detailed technical guidance](#) to support local authorities with rate-setting was published by Scotland Excel in 2019, and strengthened guidance was published by Scottish Government and COSLA in [May 2022](#).

Our hourly rates data collection exercises – undertaken in [summer 2019](#) and [summer 2021](#) – report that the average rate paid by local authorities to providers in the private and third sector to deliver an hour of funded ELC to three to five 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. As a result, Scotland currently has the highest ELC funding rates in the UK, with average rates of £4.50 and £4.88 an hour in Wales and England respectively in 2021-22.

Steps taken so far to strengthen rate-setting processes

In 2021 we undertook a [Financial Sustainability Health Check of the Childcare Sector in Scotland](#). Through this process, we and COSLA recognised that rate-setting processes needed to be strengthened in order to ensure the financial sustainability of funded ELC provision, and we committed to a series of actions during 2021-22. In addition to individual local authorities committing more time and resource to strengthening these processes locally, the Scottish Government has:

- jointly with COSLA, published strengthened guidance on rate-setting in May 2022, which makes clear that rates should reflect the costs of delivery, provide scope for reinvestment and enable delivery of the real Living Wage commitment; and emphasises the importance of transparency and meaningful dialogue with local providers throughout rate-setting processes;
- made available additional support for local authorities during the rate-setting process, through the Scottish Government's grant funding of the Improvement Service;

provided funding to support local government in commissioning an independent national cost collection exercise to ensure local authorities could access up to date information about cost drivers for provision locally and across their region;
ensured regular opportunities for sector representative bodies to share feedback from the sector with the Scottish Government and COSLA; and
raised rate-setting as a key priority in regular joint governance forums and discussed sector concerns bilaterally with individual local authorities when appropriate.

Sustainable rates for 2022-23

The Scottish Government is committed to collecting and monitoring data on the sustainable rates set by local authorities and we have written to local authorities to request information on the rates they have set for 2022-23. We understand that the local government elections in May 2022 and subsequent period of reorganisation and establishment of new local Committee structures have resulted in decisions about funding rates for 2022-23 taking place later than in previous years. In discussion with local government representatives, we set a deadline of 31 October 2022 for data returns and we will publish an overview of local authority funding rates once all data has been returned and verified.

From our regular discussions with childcare sector representatives, we understand that providers continue to have concerns about the sustainability and transparency of funding rates in some areas; and/or the extent to which their experience of local engagement has been meaningful. In our Strategic Childcare Plan, we therefore committed to undertake a review of the overall process for setting rates. This is with the intention of learning lessons to identify where the process can be improved further from both a sector and local authority perspective.

We are currently in the early stages of planning this review, which will include opportunities for sector representatives and local authority colleagues to share feedback and suggestions of further improvement. The review's findings will inform the joint Funding Follows the Child Operating Guidance, which will be updated to reflect any changes agreed between the Scottish Government and COSLA.

Local authority engagement with private, voluntary and childminding sector providers

Meaningful and genuine engagement with funded providers across the private, third and childminding sectors at both national and local level is vital to successful implementation of Funding Follows the Child. Our 2018 Operating Guidance was clear that local authorities should have regular engagement with their providers, not only in relation to sustainable rate-setting.

The [updated guidance on rate-setting published in May 2022](#) further emphasised the importance of creating and maintaining dialogue with providers throughout the rate-setting process, highlighting that the findings from the national cost collection exercise are only a part of the rate-setting process, and authorities need to consider

the outputs alongside local market conditions and ongoing consultation with their local ELC providers.

Sector representatives have raised concerns about different approaches to provider engagement during the 2022-23 rate-setting processes and have shared some of these concerns directly with the COSLA Children and Young People Board. The review of rate-setting processes will provide an opportunity to gather further feedback on this issue, as well as to highlight examples of good practice.

Regular engagement with the childcare sector is a vital part of Scottish Government's approach to policy development and monitoring delivery of the 1140 expansion. We consulted extensively throughout the development of the Funding Follows the Child framework and we continue to engage with provider representatives and individual providers through a range of routes. One of these is the Childcare Sector Working Group, which brings together established representative bodies from the private, voluntary and childminding sectors, along with local government and the Care Inspectorate.

Scottish Government officials also meet with a range of individual providers and nursery chains to discuss their concerns. We are also in the process of establishing a new National Provider Forum which will provide a further opportunity for providers across Scotland to share their views and experience of national policy and implementation. It is vital that Scottish Government and local authorities hear directly from front line delivery, and that dialogue is meaningful and genuine at both local and national level.

Further information

The Scottish Government is happy to provide additional information or supporting data on the above topics or other elements of the 1140 expansion programme that are of interest to the Committee.

Early Learning and Childcare - Submission from COSLA

Delivery of the 1,140 Hours Early Learning and Childcare Expansion

Purpose

1. COSLA is the voice of Local Government in Scotland. We are a cross-party organisation which champions councils' vital work to secure the resources and powers they need. We work on councils' behalf to focus on the challenges and opportunities they face, and to engage positively with governments and others on policy, funding and legislation.
2. Early Learning and Childcare (ELC) expansion is an important early intervention investment - ensuring that children have more opportunities to play and learn and their parents/carers have more time to work, train and volunteer. The work undertaken by councils and their partners to deliver this expansion, against the very challenging and changeable backdrop of the pandemic, demonstrates the shared commitment to improving outcomes for children and families.
3. We provided both written and oral evidence to the Education, Children and Young People Committee earlier this year. We hope this submission, focusing on a number of key issues around ELC funding, provides useful information for the Committee as it engages in its pre-budget scrutiny.

Background

4. As the Committee is likely aware, in 2018 COSLA and the Scottish Government agreed both a multi-year funding agreement to support the ELC Expansion, and [Funding Follows the Child](#), which set out the model for delivery³. In April 2018 COSLA and the Scottish Government also agreed a multi-year funding settlement to support the implementation of the expansion. Covering the financial years 2019/20 to 2021/22, the funding package of £476m additional capital over the period and a phased increase in recurring, additional revenue funding, to £567m in additional funding for 2021/22.
5. The Improvement Service has worked with local authorities since 2018 to provide regular delivery assurance reports - further information on these reports is provided within the Improvement Service's submission to the Committee. The most recent [Delivery Assurance Report](#) was published in May. In summary, it highlighted that:
 - 121,101 children were accessing funded ELC as of the end of January 2022:

³ It should be noted that there is currently [interim guidance for Funding Follows the Child and the National Standard](#) to reflect the impact of the pandemic on inspection and the sustainability of the sector.

- 97% of these children were accessing more than 600 hours, and 87% were accessing the full 1140 hours funded ELC.
- There has been an increase of 15% since 2021 in the numbers of eligible 2s accessing funded ELC, rising to 7,157.
- There has been an increase in the local authority ELC workforce of 8,845FTE since 2016/17 rising to 18,064 FTE.
- Private and third sector settings and childminders are delivering 31% of funded provision.

ELC Funding

6. Funding for the delivery of 1,140 hours of Early Learning and Childcare is complex, as such a high-level briefing paper which summarises ELC funding is attached as an appendix to this submission. Funding for the 600 hours pre-expansion ELC is provided through the core General Revenue Grant, with funding for the further 540 hours met through a Specific Revenue Grant provided by the Scottish Government.
7. The Scottish Budget 2022/23 represented a 4% reduction in the Specific Revenue Grant funding available to local authorities to fund the expansion to 1140 hours of Early Learning and Childcare, in summary this included:
 - The reduction in the ELC specific grant of £15m for 22/23.
 - The top slicing of a further £9m from ELC specific grant to support pilot work for deferred entry into Primary 1.
8. At the same time there is reduced scope for pressures to be met from Local Government core budgets as the Local Government core settlement (defined within the Scottish Budget document as “core LG”) has seen a real terms reduction of 15.2% since 2013/14. Over the years, the demands on the core settlement have increased with numerous Scottish Government policy priorities that Local Government has been asked to deliver, for example period products and teacher numbers. The table below highlights a “flat-lining” of the core so when costs rise for policy-specific funding, then the core is by necessity plundered to plug the gap.

	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
General Revenue Grant + Capital Grant + NDR (CORE)	10,120	10,339	10,382	10,094	9,947	9,843	9,916	9,926	10,217	10,249
Specific Grant- Resource	98	90	90	93	211	263	484	686	752	752
Specific Grant- Capital	100	149	145	126	133	278	380	295	139	139
Within Other portfolios						123	291	429	512	1,334
Total LG Settlement	10,318	10,578	10,617	10,313	10,291	10,507	11,071	11,335	11,620	12,474

Note: figures from published Scottish Budget may differ slightly from Finance Circular, due to additions made during the Parliamentary process

9. This pressure on core budgets is becoming increasingly visible and leaves councils with no alternative than to making difficult choices about service funding levels.
10. Additionally, the move towards a single formula basis for the distribution of the ELC specific grant and the previous seven formula-based allocations, which was recommended by the Joint Local Government/Scottish Government Settlement and Distribution Group (SDG) and agreed by COSLA Leaders in 2021, will see a needs-based redistribution of the overall ELC funding across councils over the next three years.
11. The Scottish Government carried out a review of the expansion funding, including distribution methodology, ahead of setting the budget for 2022/23. As part of that exercise, calculations based on recent population estimates found that there were fewer children eligible for funded ELC now than was originally anticipated when the multi-year funding agreement was reached in 2018. In addition to taking account of the changing eligible population, the review identified where additional uplifts were required to meet inflationary pressures in 2022/23 (based on inflation rates in summer 2021) and the direct costs of Covid. The Scottish Government's revised modelling estimated that there was capacity of at least £39m within the ELC 1140 budget. Prior to the announcement of the reduction in funding for the ELC ringfenced grant - and based on work between Scottish Government officials and COSLA officers - COSLA Leaders had agreed that any head room identified at a local level would be used to support a series of shared priorities including COVID Recovery, increasing uptake and sector sustainability.
12. Whilst the rationale for the reduction in expansion funds was based on a national reduction on numbers of children, this cannot directly translate into a reduction on costs in either local authority or partner provider settings. There are significant fixed costs (rising faster than anticipated given inflationary pressures) and therefore small reductions in children taking up places in settings cannot directly translate into the ability to reduce ELC provision. Whilst overall the number of children may be less, the costs incurred on the ground to provide 1,140 hours across private, voluntary and local authority settings does not directly allow any cost reduction. For example, a reduction of a small number of children at an individual setting level will not allow for any reduction in costs relating to staffing, or costs relating to the building such as heating and cleaning. As such the impact of the £24m reduction to the specific ringfenced grant for ELC has required other measures to compensate which directly impact on the delivery of the quality and flexibility of the provision.
13. The COSLA Children and Young People Spokesperson wrote to the Minister for Children and Young People in December 2021, setting out COSLA's concerns that the reduction in funding available would mean that councils are unable to deliver ELC in line with the shared ambitions of Funding Follows the Child. These concerns were discussed in more details at a subsequent meeting between the COSLA Spokesperson for Children and Young People and the Minister for Children and Young People in February 2022 and at the ELC Joint Delivery Board meeting in March 2022, where COSLA, ADES, SOLACE and Local Government Directors of Finance again set out their

concerns on the impact of the reductions of funding and the impact that this will have on the delivery of ELC services across Scotland.

14. Inflation is having a significant impact across Scotland at both an organisational and an individual level, and Local Government is no exception. Councils are facing major knock-on impacts on services – for instance through increased energy costs across the council estate, estimated at £100m for 2022/23, and rising food costs, both of which are leading to increases in the actual costs involved in delivering ELC. Councils are also seeing significant inflationary pressures in capital projects, most reporting increases of c.30% on anticipated costs. The impact of the cost of living crisis on our communities will also likely mean an increase in the number of eligible 2 year olds accessing funded ELC. While the costs of delivery are increasing at an unprecedented rate, the funding made available for councils to deliver funded ELC has reduced in 2022/23, as outlined above. This is culminating in severe and unsustainable budgetary pressures across local authorities.
15. While councils are proud to be Living Wage employers and are committed to ensuring fair pay, terms and conditions for our staff, it must be recognised that the burden of austerity has fallen most heavily on those doing vital, but less well paid, roles. The continued downward pressure on councils' core budgets means that the pay awards that can be given are restricted, and Local Government is now facing a substantial funding gap in relation to pay for 2022/23 onwards. This is adding yet more pressure to already severely stretched budgets. It should be highlighted that the funding made available for ELC expansion by Scottish Government was agreed on the basis that sustainable rates paid by councils would enable partner providers to pay staff the real Living Wage, and Local Government's commitment to this continues.

Partnership working and Sustainable rates for ELC provision

16. Our partners across the private and voluntary sector and childminders are a key part of funded childcare offers across Scotland, whilst we acknowledge there may often be areas of tension, we continually strive for strong and trusted relationships between all parties. COSLA's Children and Young People Board have agreed a series of [principles](#) for partnership working with the National Day Nurseries Association, Early Years Scotland, the Care and Learning Alliance and the Scottish Childminding Association.
17. Local authorities work hard locally to support their partners in the private and voluntary sector in terms of quality improvement, particularly those not meeting the national standard, this included the provision of evening training sessions to accommodate working patterns and enhancing the number of quality assurance visits.
18. As set out in Funding Follows the Child, a sustainable rate is “the hourly rate that is paid to funded providers in the private and third sectors, including childminders, to deliver the funded entitlement ensuring they can remain financially viable while offering funded hours to eligible children. The rate will support delivery of a high quality ELC experience for all children; **reflect the cost of delivery**, including the delivery of national policy objectives; **allow for**

investment in the setting – staff, resources and physical environment; and **enable payment of the real Living Wage** for those childcare workers delivering the funded entitlement”. We believe that setting rates at the local levels continues to be the right approach, as costs for providing ELC will look different across Scotland.

19. Guidance for local authorities on [setting sustainable rates](#) was developed by Scotland Excel and agreed by COSLA in 2019. This guidance not only provided an overview of the key components of a rate (e.g. staffing costs, rent, utilities and equipment) but also a series of principles for rate setting and four suggested models of collection.
20. The Scottish Government collated data from [local authorities on the rates paid to the private and third sector for funded ELC provision](#), alongside a wide range of benefits in kind that are provided by councils to their providers. The average rate across those local authorities who had confirmed rates for 3-5 year old provision in 2021-22 at the time of data collection was £5.44 per hour which has increased from an average of £3.68 per hour in 2017-18.
21. In recent months COSLA has worked with worked with the Improvement Service to commission this exercise to provide all local authorities with consistent and high-quality information to support improved local rate setting processes. Ipsos Mori were contracted to undertake the survey, building on their previous work conducted across Scotland for the Scottish Government in 2016. COSLA engaged with the bodies that represent private and third sector ELC providers on the draft survey, incorporating their feedback into the final version. The survey was live between February and March 2022.
22. As the aim of the work was to provide local authorities with consistent data, no national report on these results was produced, with information provided at the local authority and Regional Improvement Collaborative (where information was more robust) level. Councils received the data for their local areas earlier this summer. Councils are at different stages of setting sustainable rates for ELC provision for their local areas, which in some case has been driven by governance timescales (following the Local Government elections earlier this year). We are aware that in some areas, the way in which local discussions have unfolded has resulted in unanticipated and unplanned delays in governance and decision-making timescales.
23. We understand that the Scottish Government will be collating information on sustainable rates by local authorities across Scotland, including information on in-kind support. We will continue to engage with the Scottish Government and the bodies representing private and third sector ELC providers on this issue, including the crucial read across to the broader funding envelope available to local authorities to support the delivery of ELC across Scotland.

Future work

24. We believe that a sustainable ELC funding settlement for local authorities will be key to ensuring the successful delivery the 1140 hours expansion, particularly as we recover from the pandemic and the possibility that demand

may change as a result of changes to family working patterns and the ongoing cost of living pressures. However, this will be reliant on getting a fair settlement. Local Government remains committed to ensuring quality ELC provision, which prioritises improving outcomes for children and families.

25. Through the jointly chaired Scottish Government COSLA ELC Finance Work Group, we are considering the quantum for 2023/24 onwards. Work is currently underway to analyse trends drawing on actual spend to date, uptake, population, pay and inflation, recognising that the impact of these factors can be complex. For example, as explained at paragraph 12, a decrease in the population of eligible children at the national level does not directly translate into a reduction in delivery costs for local authorities or partner providers. It is critical that there is recognition of the need for sustainable ELC funding, ahead of any investment in new childcare commitments.
26. We note that the Scottish Government has recently published a [strategic early learning and school age childcare plan](#) covering 2022 to 2026. We will look collaboratively with the Scottish Government to understand their commitments to:
- “develop proposals for a long-term financial agreement that covers all funded ELC services and is focused on delivering shared priorities and outcomes”.
 - “develop an outcomes and measurement framework for funded ELC”
27. The strategic plan also sets out further on the Scottish Government’s plans to expand ELC provision for 1 and 2 year olds and build a future system of school age childcare. We hope that, as with the 1140 hours expansion, Local Government are core partners throughout the planning development and implementation of this work. The development of fair and sustainable funding arrangements for these new commitments will be critical as this work is progressed.

Wider financial challenges

28. In the context of pre-budget scrutiny, there are a number of wider points around the financial challenges facing Local Government that we wish to highlight for the Committee to consider.
29. Whilst the Scottish Government’s Resource Spending Review presents a flat cash position for Local Government, similar to other non-health portfolios, critically there will be no additional core funding for Local Government in the next three years, which represents a 7% cut in real terms over that period. This marks a continuation of the severe funding pressure faced by Local Government for at least the past decade. This 7% real terms reduction will mean that, by 2026-27, there will be £743m less in real terms to spend on frontline services that matter most to communities – equivalent to 20,000 fewer Local Government jobs. This is around 10% of the current workforce.

30. The increasing trend of providing highly-directed funding to Local Government should be reversed, giving councils more flexibility to make decisions that ensure best use of resources based on local need and priorities.
31. There needs to be whole systems thinking about health and wellbeing across the public sector, with greater investment to reduce demand rather than just increasing funding for the NHS – prevention is key. Funded ELC provision is an important early intervention investment, along with the vast range of Local Government services (housing, education, employability, leisure and culture).
32. Single-year budgets for Local Government restrict the ability of councils to plan and invest in dealing with long-term systemic challenges around poverty and inequality, wellbeing, climate change, and the economic recovery following the pandemic. Multi-year settlements are required to tackle these issues effectively and maximise the positive impact of public spending, with a focus on broader outcomes rather than narrow inputs and outputs.
33. The Scottish Government's expectation that public bodies will deliver 3% recurring annual efficiencies during the Resource Spending Review period fails to acknowledge that Local Government has already achieved significant efficiencies, through reform, rationalisation (including of the public sector estate), innovation and transformation, in response to substantial real-terms reductions in core funding over the past 3 decade; any 'easy' savings have been made, and further reductions will have a major impact on services.
34. The National Care Service as currently proposed poses a risk to councils' ability to deliver a wide range of services for communities – including non-social work and care services – resulting in a destabilising of the Local Government workforce and potentially impacting on the sustainability of some councils to carry out their functions and responsibilities. Further costly, time-consuming structural reform of public services will only lead to further upheaval at a time when the focus should be on supporting people through the recovery from the pandemic and the cost-of-living crisis.

Conclusion

35. Local authorities and their partners have worked hard to deliver the 1,140 hours expansion despite the challenging backdrop of the pandemic. Though we move forward and into a period of recovery from the pandemic, we do so the face of significant cost increases, and more families experiencing poverty and financial hardship. Therefore, we need to be focused on providing the services that we know help mitigate some of those pressures on families. We continue to be focused on supporting our workforce and partners in delivering high quality services which improve outcomes for children and their families. We hope that this submission is useful to the committee in their continued consideration of early learning and childcare.

Appendix 1 - Briefing Paper – quick guide to ELC Funding

This short paper is aimed at providing a very brief overview of the funding of statutory early learning and childcare delivered in line with the Children and Young People Act 2014 (as amended). For further information on the model of childcare delivery, please refer to [Funding Follows the Child and the National Standard for Early Learning and Childcare](#).

