Early learning and childcare

ACCOUNTS COMMISSION

AUDITOR GENERAL

Prepared by Audit Scotland
February 2018

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Audit team

The core audit team consisted of: Tricia Meldrum, Rebecca Smallwood and Yoshiko Gibo, with support from other colleagues and under the direction of Antony Clark.

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Key facts

Funded early learning and childcare (ELC) entitlement from August 2014

600 hours

Councils' initial estimate of **annual revenue** spending on funded ELC by 2021/22

£1 billion

1,140 hours

Funded ELC entitlement from August 2020

Scottish Government indicative figure for **annual revenue** funding available by 2021/22

£840 million

25 per cent

of two-year-olds estimated to be eligible for funded ELC

£690 million

£400 million

Councils' initial estimate of **capital funding** needed between 2018/19 and 2020/21 to provide 1,140 hours

£648 million

Allocated to expand funded ELC to 600 hours between 2014/15 and 2017/18

Scottish Government indicative allocation of **capital funding** available between 2018/19 and 2020/21 to provide 1,140 hours

Summary

Key messages

1 The Scottish Government's policy to increase funded early learning and childcare (ELC) is consistent with national strategic objectives around improving the lives of children and their families. The Scottish Government and councils have worked well together to expand provision. Parents are positive about the benefits of funded ELC for their children.

2 The Scottish Government implemented the increase in hours without comparing the cost and potential outcomes of alternative ways of expanding funded ELC to achieve its aims of improving outcomes for children and parents. It has invested almost £650 million of additional funding since 2014 to expand funded ELC to 600 hours but it did not plan how to evaluate the impact of the expansion. This means it is not yet clear whether this investment is delivering value for money.

3 In most councils the majority of children still have a part-day funded ELC place in a council setting, although the range of options has increased. Parents in our research said funded ELC had a limited impact on their ability to work due to the hours available and the way in which those hours were provided.

4 There are significant risks that councils will not be able to expand funded ELC to 1,140 hours by 2020. In particular it will be difficult to increase the infrastructure and workforce to the levels required, in the limited time available. The Scottish Government should have started detailed planning with councils earlier, given the scale of the changes required.

5 The Scottish Government expects the cost of delivering 1,140 hours of funded ELC will be about £840 million per year. Councils were required to prepare their initial plans for the expansion without some important information about how the system will operate from 2020. While councils' plans will change over time, initial estimates of the cost of funded ELC following the expansion to 1,140 hours are about £1 billion per year, significantly higher than the Scottish Government's figure.

the Scottish Government and councils face a number of significant challenges in delivering 1,140 hours by 2020

Recommendations

Our recommendations set out actions for the Scottish Government and councils to:

- progress planning for the expansion to 1,140 hours of funded ELC by 2020
- reduce the risks of them failing to deliver the expansion on time.

We also highlight actions that need to be taken to deliver the current expansion to 600 hours of funded ELC in line with the national policy.

To deliver 600 hours of funded ELC in line with the national policy:

The Scottish Government should:

- Work with the Department for Work and Pensions (DWP) and HM Revenue and Customs (HMRC) to allow councils to receive information on eligible two-year-olds so they can more accurately target eligible families (paragraphs 29–32).
- Update the statutory guidance to clarify the distinction between flexibility and choice. This will help ensure councils understand what is required and parents understand what they can reasonably expect from their council (paragraph 70).

The Scottish Government and councils should:

- Develop better links between the increase in funded hours and programmes to support parents, at a local and national level, into work, training or study (paragraphs 66–68).
- Provide clearer information for parents to help them understand how funded ELC is provided locally (paragraphs 73–76).

Councils should:

- Develop commissioning strategies for funded ELC that set out information on demand, capacity, cost, quality, flexibility and parental preferences (paragraphs 49–50).

To progress planning for 1,140 hours of funded ELC and reduce the risks of failing to deliver on time:

The Scottish Government should:

- Update the statutory guidance following agreement on important aspects of 1,140 hours, such as funding follows the child and delivering flexibility (paragraphs 81–82).
- Continue to develop the detail of how they will evaluate the expansion to 1,140 hours and ensure baseline data is available (paragraphs 106–108).

The Scottish Government and councils should:

- Urgently finalise and implement plans for changes to the workforce and infrastructure to address the significant risks of not being able to deliver on time (paragraphs 83–84, 90–94, 97–99).

- 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 (paragraphs 36, 41, 52, 106–108).

- Work with partner providers of both funded and non-funded ELC to understand the impact of decisions on the wider system of ELC and reduce the risk of unanticipated consequences for these providers (paragraphs 102–105).

More broadly, the Scottish Government should:

Ensure that future major policy changes are backed up by options appraisal, supported by economic modelling (paragraphs 22–23).

Background

1. Children from less advantaged circumstances have poorer levels of educational attainment than children from more advantaged backgrounds. This gap is already apparent in pre-school aged children. By age five, children in more advantaged circumstances are 11 to 18 months ahead in terms of their skills in vocabulary.[1] This effect persists into later life, with gaps between children from the most and least advantaged circumstances in their school attainment and future careers.[2] The Scottish Government is committed to closing this gap, which requires intervention and prevention starting at an early age.

2. Early learning and childcare (ELC) describes the care and learning services that children receive before starting school. It can be funded by parents themselves, or by councils. The Children and Young People (Scotland) Act 2014 (the Act), made changes to how ELC is provided in Scotland.

3. The aims of the policy, as set out in the statutory guidance that accompanies the Act, are to:

- improve outcomes for children, especially those who are more vulnerable or disadvantaged

- support parents to work, train or study, especially those who need routes into sustainable employment and out of poverty.[3]

4. The Act and associated statutory guidance set out a number of requirements for councils relating to:

- the children eligible for funded ELC
- consulting with parents on how they should provide funded ELC and producing plans in response to this every two years
- the delivery of funded ELC.

5. From **August 2014** (i), entitlement for council-funded ELC rose from 475 hours a year to 600 hours for all three and four-year-olds and eligible two-year-olds (estimated at 15 per cent of all two-year-olds). From **August 2015** (i), eligibility criteria expanded to cover about a quarter of two-year-olds. Eligible two-year-olds are from potentially less advantaged backgrounds. Two-year-olds who are eligible because a parent is on certain benefits remain entitled regardless of whether the parent remains on those benefits or not.

6. The Scottish Government and councils are working towards further extending the entitlement to funded ELC, for all three and four-year-olds and eligible two-year-olds, to 1,140 hours per year by 2020. This is equivalent to around 30 hours a week in school term time. Parents are entitled to access funded ELC but it is not mandatory, unlike school education.

7. The aims of the expansion to 1,140 hours focus on improving outcomes for children. The Scottish Government has emphasised that providing high-quality ELC will be necessary to achieve the desired impact on children.

8. Children receive ELC services in a range of settings including nurseries in schools, stand-alone nurseries, early years centres, playgroups and childminders. ELC is delivered by providers working in the public, private and third sectors, such as community groups and charities. We use the term funded ELC to refer to the hours of ELC that councils fund either providing it themselves, with a partner provider from the third or private sector, or a combination of both council and partner provision. There were about 96,000 registrations of children for funded ELC services across Scotland in 2017.[4] About 1,570 council-run settings, 962 partner-provider settings and about 119 childminders delivered this funded ELC.[5] In addition to funded ELC, parents may pay privately for ELC in the same or a different setting to meet their childcare needs. Our audit focuses on funded ELC.

About this audit

9. The overall aim of this audit was to answer the question: How effectively are the Scottish Government and councils working together to improve outcomes for children and support parents by expanding access to funded ELC? The specific audit questions were:

- What are the objectives of, and evidence underpinning, the policy of increased public funding of ELC, and how does this link with wider Scottish Government policy goals?
- How effectively are the Scottish Government and councils working together to deliver the policy objectives of expanding funded hours of ELC, and how are they assessing the cost and impact?

(i)

August 2014:

two-year-olds were eligible if they were, or ever had been since their second birthday, looked after, subject to a kinship care order, or had a parent-appointed guardian. From 31 October 2014, eligibility extended to two-year-olds with a parent who receives one or more of the following benefits: income support; jobseeker's allowance (income based); employment and support allowance (income based); incapacity benefit or severe disablement allowance; state pension credit.

(i)

August 2015:

the qualifying benefits were extended to include: child tax credit, but not working tax credit, with income of less than £16,105 (this threshold can vary annually); both maximum child tax credit and maximum working tax credit with income under £6,420 (this threshold can vary annually); support under Part VI of the Immigration and Asylum Act 1999; and universal credit (you can claim this if your income is less than £610 a month).

- How is 600 hours of ELC being implemented locally and what are the views of parents and carers about the impact it has on their lives?
- What are the main challenges around expanding provision to 1,140 hours and are there plans in place to address these?

10. This report has two parts:

- Part 1 – Delivering the expansion to 600 hours of funded ELC.
- Part 2 – Planning for the extension to 1,140 hours of funded ELC.

11. Our findings are based on evidence from sources that include the following:

- a survey of all 32 councils
- interviews with senior staff in the Scottish Government, Care Inspectorate, Education Scotland, **COSLA** and other national bodies
- interviews with a range of staff in five fieldwork councils – City of Edinburgh, Glasgow City, Perth and Kinross, Renfrewshire and Scottish Borders
- focus groups with partner-provider nurseries from the private sector
- interviews with parents and carers, an online survey of parents and carers; and a review of reports on the experiences of parents and carers
- published information on ELC registrations and costs
- a review of published evidence on the impact of ELC on child and parental outcomes
- a review of councils' expansion plans for 1,140 hours of funded ELC
- a review of key documents including legislation and associated guidance, minutes of groups involved in planning for the expansions to both 600 hours and 1,140 hours of funded ELC, and council documentation about how ELC is delivered locally.

COSLA

COSLA (Convention of Scottish Local Authorities) is a national body which represents councils.

The Scottish Government and councils are continuing to plan for the expansion to 1,140 hours. We included information available to us by the end of December 2017 in our audit.

12. Throughout this report we use the term parents to refer to parents and carers. We have published a separate report, *Early Learning and Childcare: The experience of parents*, on the stories of parents who participated in interviews. We refer to these stories throughout the report.

13. This is the first in a series of audits of the expansion of funded ELC. We plan to carry out further work in 2019/20 closer to the implementation of 1,140 hours. We will also carry out another audit to assess the cost and impact of the expansion following implementation.

Part 1

Delivering the expansion to 600 hours of funded ELC

Key messages

1 The Scottish Government's policy to increase funded ELC is consistent with national strategic objectives around improving the lives of children and their families. Councils and the Scottish Government worked well together to develop ELC services and offer 600 hours of funded ELC to eligible children in 2014. Most three and four-year-olds are registered for their funded place, but uptake for eligible two-year-olds is lower. Parents in our research and in the Scottish Government's recent evaluation were very positive about the quality of the funded hours and the benefits for their children.

2 The Scottish Government implemented the increase in funded hours of ELC without considering different options to improve outcomes for children and parents, and the potential impact and cost of these options. There is a lack of evidence that increasing funded hours in the way that the Scottish Government has done will deliver improved outcomes, and there is potential for conflict between the two aims of the policy.

3 In most councils the majority of children still have a part-day funded ELC place in a council setting, although the range of options has increased. Parents in our research said funded ELC had a limited impact on their ability to work due to the hours available and the way in which those hours were provided.

4 The Scottish Government failed to set out clearly the improved outcomes for children and parents that the expansion to 600 hours was designed to achieve, and how it would assess the impact of the additional investment. It did not identify what measures would indicate success or ensure baseline data was available. The Scottish Government has published an initial evaluation report which focuses on a range of measures of how services have changed. It says that it is too early to report on longer-term outcomes, and states that the increase to 600 hours is not expected to lead to a measurable change in children's outcomes.

5 The Scottish Government has already provided councils with almost £650 million to expand funded ELC to 600 hours. Accurate, comparable information on how councils are spending the additional funding for the expansion is not available. This makes it difficult to assess the cost and impact of the increase to 600 hours and whether it is delivering value for money.

parents are positive about the benefits of funded ELC, but the impact of the expansion on outcomes for children is unclear

The priorities of the expansion in funded ELC are consistent with national strategic objectives

14. The overall aim of the changes to ELC is to improve and integrate the role of early years support in children's and families' lives by increasing the amount and flexibility of early learning and childcare. The policy states this is a significant step towards the Scottish Government's wider ambitions to develop a high-quality and flexible system of ELC which is accessible and affordable for all children, parents and families. The priorities of the policy to increase funded ELC are to improve outcomes for children and to help parents into work, study or training.

15. Improving outcomes for children is in line with a number of the Scottish Government's 16 national outcomes.[6] It is also consistent with other Scottish Government policies relating to outcomes for children, such as Getting it Right for Every Child (GIRFEC), the Early Years Framework and the Delivery Plan for Scottish Education.[7,8,9] These all have a common focus on ensuring children have the best start in life, reducing inequality and raising attainment.

16. The policy ambition relating to parents is consistent with the aims of other national policies to reduce inequalities, widen economic participation and support women into work, including Scotland's Economic Strategy.[10] This highlights improved childcare, boosting attainment and early years interventions that give every child a fair start in life, as actions to tackle inequality across generations and promote inclusive growth. A number of national strategies refer to access to affordable and reliable childcare being a barrier to lasting employment.[11,12]

17. There is the potential for conflict between the two priorities of the expansion. Improving outcomes for parents means focusing on flexible ways of providing ELC, while improving outcomes for children focuses on the quality of ELC. The Scottish Government did not make clear in the statutory guidance which priority, if either, should be given greater weight.

18. For the expansion to 1,140 hours, the Scottish Government's blueprint action plan states that the primary aim of the expansion is to deliver the best outcomes for children, helping to deliver both excellence and equity in education. A secondary aim is to support parents to work, train and study through more flexible ELC. This revision provides more clarity that the key focus of the expansion is on children rather than parents.

19. The Scottish Government did not set out what specific outcomes the expansion to 600 hours of funded ELC was intended to achieve. For example, the statutory guidance:

- does not define what outcomes for children it aims to improve, in a measurable way
- stresses the importance of high-quality ELC but does not define high quality
- lacks detail on the intended outcomes for parents
- does not set out how outcomes for parents and their children are interlinked.

This makes it difficult to ensure the correct actions take place to deliver the aims of the policy and to measure whether it is achieving its aims and making best use of public money.

The Scottish Government did not assess alternative ways of achieving the intended outcomes

20. Research indicates that access to ELC at an earlier age can benefit children, particularly those in lower socio-economic groups or with poorer home-learning environments.[13] This suggests that providing ELC for eligible two-year-olds is likely to improve their outcomes. However, there is limited research examining the impact of increasing the number of hours of funded ELC per year for children who already receive it. This makes it difficult to assess if and how increasing ELC from 475 to 600 hours, or from 600 to 1,140 hours, for three and four-years-olds will improve their outcomes.

> "It brought her on massively with her speech. She came on much quicker [than the older children]
>
> Parent story 27 – parent of an eligible two-year-old whose older children did not attend any childcare at age two"

21. Health Scotland reviewed international research evidence. It concluded that, while access to childcare is an important factor in helping women into work or to continue or increase work, it is not the only factor that has an impact.[14] Other factors include:

- the skills, experience and qualifications of parents
- supportive families and employers
- the types of work and contracts that are available in the local labour market
- the prevailing economic context
- eligibility for, and access to, the benefits system.

22. Although the Scottish Government reviewed the available evidence, it did not prepare an options appraisal that considered alternative ways to achieve its stated aims of increasing funded ELC to improve outcomes for children and parents. This analysis would have helped those making decisions understand whether the options can deliver the benefits they are trying to achieve and at what cost. There was no options appraisal to consider alternatives to the expansion to 600 hours to achieve the Scottish Government's stated aims. For example, it could have considered alternative options such as:

- earlier access to funded ELC for all children, for fewer hours, covering the gap between the end of parental leave (about a year after a baby is born) and the start of funded ELC at age two or three
- earlier access to more funded hours for those children likely to benefit most.

23. The Scottish Government did not carry out economic modelling to assess:

- the likely impact of the policy on children and parents
- the outcomes expected from the additional £648 million allocated between 2014/15 and 2017/18.[15]

This means the Scottish Government did not have information on the policy's likely economic impact, such as additional tax revenue from parents taking up employment or longer-term changes to the economy when eligible children reach adulthood.

Almost all three and four-year-olds are accessing funded hours, but uptake is much lower for eligible two-year-olds

Calculating how many children are eligible for funded ELC is complex

24. Uptake of ELC is measured in terms of the numbers of children receiving the service as a proportion of those eligible to receive it. Nationally, an estimated 86,000 three and four-year-olds were **eligible for funded ELC** (i) at the annual census point in September 2017.[16] The Scottish Government estimates that about a quarter of all two-year-olds in Scotland meet the eligibility criteria for funded ELC, which is about 14,000 children.[17]

25. Calculating the number of children eligible for funded ELC services is complex and the national figures are estimates only. Eligibility varies depending on the birth dates of two and three-year-olds and local policies on both when children are eligible to start receiving funded ELC and when they stop being eligible. We include more information on this in Appendix 1.

Registrations for funded ELC have been consistently high since 2010

26. The Scottish Government reported **almost 96,000 registrations** (i) for funded ELC services in September 2017, of which:[18]

- 5,363 were for two-year-olds (ten per cent of all two-year-olds, or just over a third of those estimated to be eligible)
- **29,287 were for three-year-olds** (103 per cent of those estimated to be eligible)
- **55,585 were for four-year-olds** (97 per cent of those estimated to be eligible) (i)
- 4,910 were for children with deferred entry to primary school

Uptake above 100 per cent may reflect different local eligibility criteria, multiple counting of children with split placements and other data quality issues. These figures are the numbers of registrations of children for funded ELC. There is no available information on children's attendance or the numbers of hours of funded ELC they receive.

27. The proportion of three and four-year-old registrations for funded ELC has been consistently high both before and after the introduction of 600 hours, at 96 per cent or higher since 2010.[19]

Uptake is lower for eligible two-year-olds

28. A major change of the policy was introducing places for eligible two-year-olds. This was particularly significant as two-year-olds have different requirements, such as a higher staff-to-child ratio and facilities for nappy changing.

Eligibility

An additional estimated 29,000 children were eligible to defer entry to school. Deferral depends on parental choice. Even if deferred, not all of these children would automatically get an extra year of funded ELC.

Parents of children with birthdays between 1 September and the end of February can defer the start of school until the August after their child's fifth birthday. But only those born between 1 January and the end of February are automatically entitled to an extra year of funded ELC if they defer.

Registrations

This might be different to the number of children, as children can register for more than one service.

Three and four-year-old registrations

The difference between the number of three and four-year-old registrations is because during the September census, only some of the children who will turn three during the academic year are currently eligible for funded ELC, depending on the date of their third birthday.

29. At a Scotland level, about ten per cent of all two-year-olds were **registered for funded ELC in September 2017** [20]. This is much lower than the estimated quarter who are eligible. There are a number of possible reasons for the lower uptake:

- Some children receive funded ELC from childminders, but registration figures do not count these children.
- Councils do not have a statutory duty to identify eligible two-year-olds and their parents, but should promote the entitlement locally. Councils do not get information from DWP and HMRC about eligible children in their area. This can make it difficult for councils to promote the service to all eligible families.
- Parents may be unaware that their child is eligible. Initial research struggled to identify parents who were aware of funded ELC and choosing not to access it.[21] Similarly, our own research struggled to find parents of eligible two-year-olds who chose not to access their funded hours. A recent large-scale survey of parents carried out as part of the Scottish Government's evaluation found that a lack of awareness of the entitlement was one of the most frequently mentioned reasons for not using funded ELC. About a fifth of parents of eligible two-year-olds who were not using funded ELC gave this reason.[22]

> "When Josh was two I found out about it online. My mum had mentioned it to me so I looked it up. I had never realised that you could get it… After I saw it online, I went into the nursery and spoke to them, and they gave me a tour and got me to fill in some forms… It was easy."
>
> Parent story 28 – parent of an eligible two-year-old attending a council nursery

30. Councils are working with partners to promote uptake of places for eligible two-year-olds in a number of ways. For example by:

- writing to parents of two-year-olds who are, or may be, eligible
- working with different professionals, such as health visitors, social workers, family support workers, Jobcentre Plus and DWP to promote uptake
- raising awareness through posters, local news and social media.

31. Parent story 26 describes the role of the health visitor in accessing funded ELC. Parent story 27 describes how a family were not able to take up funded hours for their two-year-old daughter as the closest provider was too far away. However a social worker recognised the stress the family was under and was able to arrange a nursery place with transport.

Two-year-old registrations

This is based on the numbers of registrations of two-year-olds for funded ELC. This might be different to the number of children, as children can register for more than one service.

> Well I actually knew through a friend that she was eligible but the closest one to us – there's only certain ones who offer it – was [name of nursery]. It's two buses away and I have to drop my older kids off [at a school in a different direction]. We only managed the other one because they offered us the bus that dropped her off.
>
> Parent story 27

32. Work with parents found that personal contact was key to promoting uptake with eligible families. This included personal contact with professionals, such as health visitors, early years workers, children's and families' social workers and staff in local DWP offices. This research highlighted that councils not knowing the details of exactly who is eligible was a major barrier. It recommended improved information sharing between DWP, HMRC, the Scottish Government and councils to help accurately target families with eligible two-year-olds.[23]

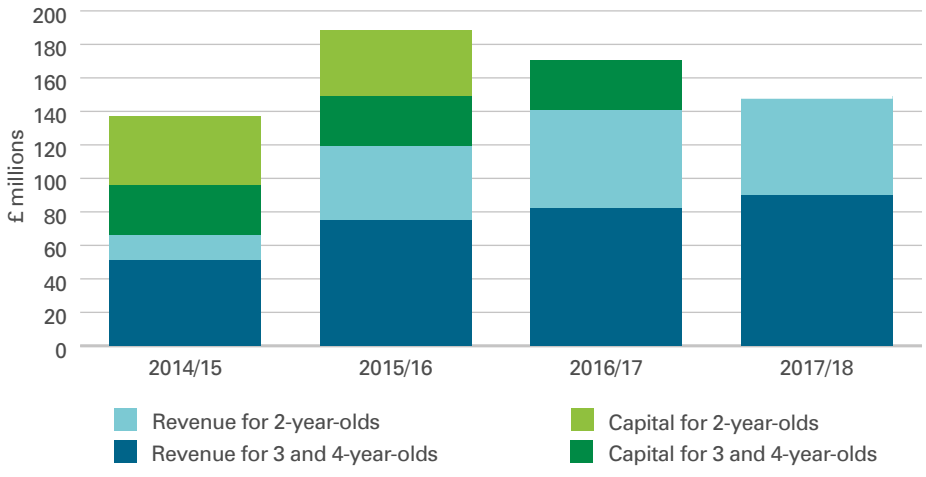
33. The Scottish Government's Children and Young Person Improvement Collaborative is developing an improvement package aimed at increasing the uptake of ELC places for eligible two-year-olds. This was initially tested in Scottish Borders Council with wider testing due in 2018.

The Scottish Government has provided almost £650 million so far for the expansion to 600 hours of funded ELC

34. Between 2014/15 and 2017/18 the Scottish Government allocated just over £648 million revenue and capital funding to deliver the ELC parts of the 2014 Act (Exhibit 1). Revenue funding is for day-to-day costs and capital funding is for property or other assets used to deliver services. Councils were allocated the funding on the basis of the Grant Aided Expenditure formula, which is the way the Scottish Government divides central funding between councils, and the estimated number of two-year-olds in workless households.

Exhibit 1

Additional revenue and capital funding for the expansion to 600 hours.
Just over £648 million was allocated over four years.



Source: Scottish Government, 2016

35. Data on council spending from the Local Financial Returns (LFRs) identifies spending on pre-school education. This may not include all spending on ELC (paragraph 36). Councils report net revenue expenditure of just over £369 million, in cash terms, on pre-primary education in 2015/16.[24] This has increased year-on-year from just over £306 million, in cash terms, in 2013/14 (before the Act took effect). This is an increase of 21 per cent in cash terms, and a real-terms increase of 18 per cent, if inflation is taken into account. Net revenue expenditure per child registered for funded ELC has increased in cash terms in almost all councils since the Act came into force in August 2014.

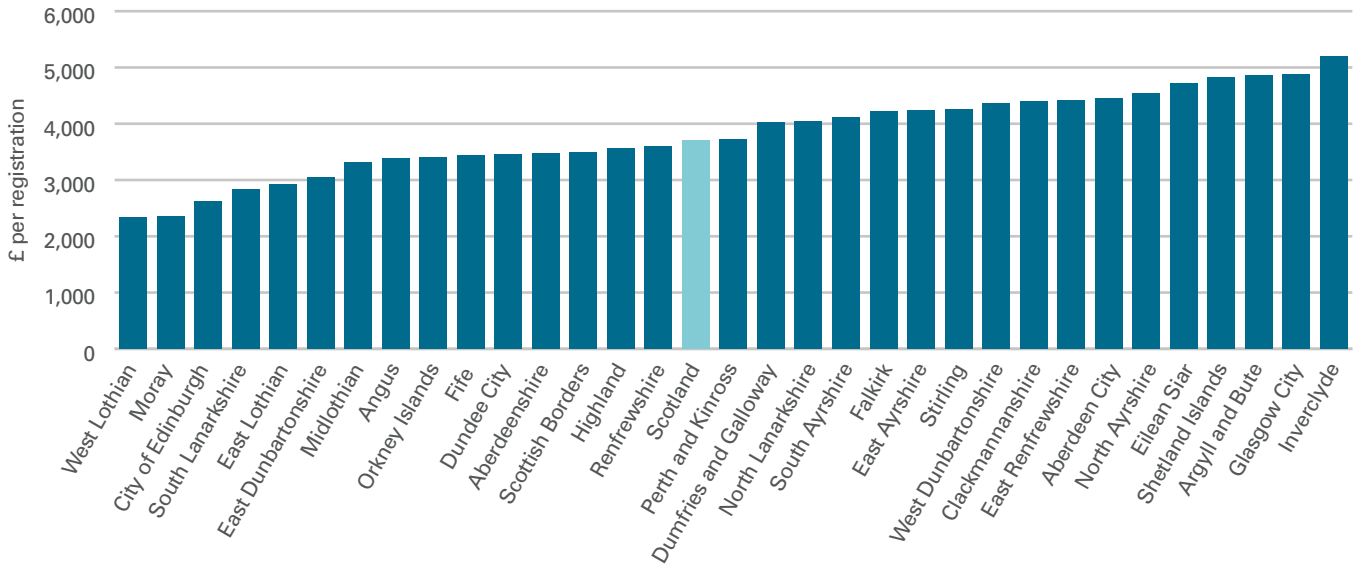
36. Exhibit 2 highlights the variation in spending on ELC between councils. A number of data quality issues mean it is difficult to conclude how much of this is genuine variation and how much is due to differences in how councils compile the LFR information. Inconsistencies include the following:

- different ways of apportioning the costs of teachers and head teachers in nurseries which are part of a school, and different ways of splitting up other whole school costs (for example the cost of cleaning) for these nurseries
- not all councils include spend on partner providers in the pre-primary section of the LFR
- some ELC services, particularly for two-year-olds, may be reported as part of social work expenditure.

Exhibit 2

Net revenue expenditure on pre-school education per registration for funded ELC by council in 2015/16

Net revenue expenditure per registration for funded ELC varies across councils.



Notes:
1. Figures are in cash terms.
2. The numbers of registrations for funded ELC are based on a census in September 2015 and the net revenue expenditure is based on the 2015/16 financial year.

Source: Local Financial Returns, Scottish Government, 2016 and Summary statistics for schools in Scotland 2015, Scottish Government, December 2015.

37. The Scottish Government published a financial review of ELC which concluded that over the three years 2014/15 to 2016/17, councils received £329 million additional revenue funding for providing ELC. But they only increased their spending on ELC by £189 million.[25] COSLA disputes the accuracy of this funding gap for a number of reasons, including the limitations in the data quality discussed above. They also feel that the review failed to adequately account for the need for councils to deliver efficiencies to balance budgets over the review period.

The way that councils provide funded ELC varies across Scotland

38. Funded ELC can vary considerably both between and within councils. Some of this variation is necessary to provide a range of options to suit family circumstances. However, the extent of the variation contributes to the complexity of the system that parents must navigate to access funded ELC.

39. The predominant type, or model, of ELC for three and four-year-olds, in most councils, remains a part-day place (sessions of about three hours ten minutes) in a council nursery setting.[26] A number of other models are also available (Exhibit 3, page 18). The Act sets out a minimum framework where councils must deliver funded ELC in sessions of more than 2.5 hours and less than eight hours a day. These must be available at least 38 weeks a year.

40. The types of ELC can also vary by age. Some councils offer different types of funded ELC for eligible two-year-olds, compared to those for three and four-year-olds. Parent story 28 describes a family with a four-year-old and a two-year-old attending different nurseries, as the local nursery that the four-year-old attended did not offer provision for two-year-olds, and the logistical difficulties this caused. The parent also felt that the local nursery offered better facilities. A number of parents described nurseries offering different sessions for three-year-olds and for four-year-olds, for example only offering one age group places in the mornings and the other places in the afternoons. This can be difficult for parents who need to fit funded ELC around arrangements for working, studying or training.

41. The limitations in the financial data make it difficult to examine the financial impact of different models of ELC and changes to flexibility. It is not possible to identify any relationships between the cost of funded ELC and the models available. Councils and the Scottish Government need this information to plan both current services and the expansion to 1,140 hours.

Some of the differences between councils reflect local circumstances

42. A number of factors contribute to the variation in types of funded ELC that councils offer, and how these have changed since the Act took effect in 2014. Different local priorities before the Act was passed meant that councils were at different starting positions in terms of how they were providing funded ELC. Some already offered more hours of funded ELC than the statutory requirement of 475 hours. For example, Glasgow City Council offered 570 hours in all council settings from 2000. This was extended to partner-provider settings from 2011, with additional hours available for parents to buy. It also had 1,000 places for two-year-olds available before 2014. In contrast, other councils provided more traditional types of funded ELC before 2014, with three and four-year-olds typically receiving two hours thirty minutes of ELC, five days a week, in a council-run nursery. These councils had to make many more changes to allow them to deliver 600 hours for three and four-year-olds and eligible two-year-olds.

Exhibit 3

Models of funded ELC available in 2016/17

Councils offer a range of different models of ELC.

Notes:

1. Councils may additionally offer some of these services, outwith the 600 funded hours, for a fee. This is sometimes known as wraparound care.
2. The data on childminding services is based on the SCMA survey and updated by Audit Scotland. The SCMA data shows the number of councils where childminders were delivering funded ELC as at July 2017. West Dunbartonshire Council commissioned childminding services available for two to four-year-olds. Orkney Islands and West Lothian Councils commissioned childminding services for two-year-olds but no parents used the services at that time. East Dunbartonshire and Perth and Kinross Councils' responses were not included in the SCMA survey but provided individually. Glasgow City Council has had a pilot using childminders for three and four-year-olds since July 2017.
3. The use of partner providers is the percentage of registrations for funded ELC in a partner-provider setting in September 2016.

Source: Audit Scotland survey of councils, 2017; Early learning and childcare statistics 2016, Scottish Government, 2016; Early learning and childcare 1,140 funded hours, SCMA, 2017

43. Some of the variation may also reflect differences between urban and rural councils. Urban councils are likely to have access to a wider range of potential partner providers, as dispersed populations in rural areas can mean privately provided ELC is not economically viable. Rural councils may also have access issues, where children live some distance from the nearest ELC setting. Councils are not required to provide transport to ELC but may choose to do so. The statutory guidance suggests integrating services and compressing days in ELC could minimise the impact of travelling. However, travel can impact on the likelihood of parents choosing to use a service.

> "One of the reasons for selecting this particular nursery was access to nursery transport provided by the council. Sadly, two weeks before the term started, we were informed that new children starting would not be allowed to use the minibus service… to reduce costs. This had a significant impact… and this was not conducive to work-friendly practice, especially since my office was 40 miles away! We saw the minibus pick up Michael's neighbour to take him to nursery but Michael wasn't allowed on board."
>
> Response to Audit Scotland user survey

44. During our fieldwork, councils with rural areas acknowledged these issues, particularly the concerns around transport. However, they also highlighted the opportunities afforded to rural areas in terms of the abundance of space, in particular outdoor space, available for ELC and the opportunities for community involvement in delivering ELC.

45. Deprivation is also likely to have an impact on the childcare market. Private sector providers are more likely to be situated in areas where there is enough demand to make them economically viable. The Care Inspectorate found that there were proportionately fewer childminders and private providers in the most deprived areas of Scotland. This can mean there are fewer potential partner providers to work with councils in these areas. In more deprived postcode areas, councils provide a greater proportion of services than in the least deprived areas.[27] Councils should use commissioning strategies to examine local levels of provision and plan services to meet local needs (paragraphs 49–50).

All councils work with partner providers but almost a third cap the number of places they fund

46. Councils vary in the extent to which they use partner providers to deliver funded ELC. The percentage of all children registered for funded ELC with a partner provider ranged from about five per cent in Falkirk to about 60 per cent in Moray in 2016 (Exhibit 3, page 18).

47. Ten councils (i) restrict the numbers of children that they are willing to fund in partner providers.[28] This is a process known as capping. This is separate to the limitations on all ELC providers on the maximum number of children that can be accommodated under Care Inspectorate regulations. Capping places at partner providers allows a council to accurately budget for spend on partner providers. While councils have to balance tensions between affordability and choice, capping can cause difficulties for parents. It can create circumstances where children already attending a partner provider before becoming eligible for funded ELC are not offered funding at the partner provider they attend. Parents then

(i)

Ten councils:

Clackmannanshire, East Lothian, East Renfrewshire, Falkirk, Fife, Inverclyde, Moray, Renfrewshire, Stirling and West Lothian.

In East Lothian, there is some flexibility to the initial cap, where additional spaces may be negotiated during the year.

have to choose whether to move their child to another setting where the council has offered them a funded place, or to continue to entirely self-fund their child's ELC. Information is not recorded consistently to quantify how many children this affects across Scotland.

> My son was three in February so was entitled to funding from the April term but our funding application was rejected by the council due to it being a partnership nursery and space being available in a council run establishment. We chose to keep our son at the private partnership nursery for consistency of care as he had been there since he was a baby. The lack of a funded place had no direct impact on his care but did continue to have an impact on the family finances. We were told by our local authority consistency of care was not an issue at pre-school years, only when a child starts school.
>
> Response to Audit Scotland user survey

48. Parent story 2 describes a three-year-old missing out on funded hours as the three nearest partner providers were not able to offer her a place, due to capacity pressures and giving priority to four-year-olds. In order to try and find a funded place, they would have had to 'shop around the city' for spaces further away.

No council has a comprehensive commissioning strategy for funded ELC

49. Councils commission funded ELC from a variety of providers to meet local needs. The statutory guidance does not require councils to develop a commissioning strategy for funded ELC, or specify what a strategy could include. A commissioning strategy would help councils to effectively plan services and make informed decisions on the types of care to commission to support this plan. We have previously recommended that councils improve social care commissioning by developing comprehensive commissioning strategies.[29] We recommend that a local commissioning strategy for ELC should set out the following points:

- current and projected future demand
- places provided across all types of providers, split by levels of deprivation and rurality
- the different types of flexibility available in these places
- the quality of ELC
- what type of ELC best suits parents, both current and future users of ELC services
- current and projected future needs of children, including additional support needs and any equalities issues
- what changes to flexibility the council intends to introduce
- the full costs of the different types of ELC offered.

No council has a strategy which covers all these points, although councils are starting to address this as part of planning for the expansion to 1,140 hours.

50. Councils should consider Education Scotland and Care Inspectorate indicators as part of commissioning partner providers, in line with statutory guidance. However, only about two-thirds consider both Care Inspectorate and Education Scotland grades in their commissioning process. A further eight refer to **Care Inspectorate grades only,** and three councils use **neither Care Inspectorate nor Education Scotland grades** in their commissioning decisions.[30] This means externally assessed measures of quality are not influencing commissioning decisions in all areas. It also suggests that the expansion to 600 hours may not always provide the high quality of ELC that the Scottish Government has stressed is important, and that research shows improves outcomes for children.

The impact of the expansion on outcomes for children is unclear as the Scottish Government did not plan how to evaluate this

51. The Scottish Government did not plan the evaluation of 600 hours before it implemented the expansion. For example, it did not identify what indicators would show whether the policy was achieving its aims, and it did not ensure that baseline data was available. This makes it difficult to assess the cost and impact of the increase in funded hours and whether the policy is delivering value for money.

52. Significant gaps in the data include a lack of accurate cost and spend data on funded ELC; **incomplete data** on staff providing funded ELC; and a lack of data on the number of hours of funded ELC children are receiving. The Scottish Government is working with councils to address some of the gaps and limitations in the data currently available. The Scottish Government is testing new data collection methods with councils and plans to have these in place by May 2021. However, these plans will not fill all the current data gaps.

53. In December 2017, the Scottish Government published the first in a series of evaluation reports.[31] It examined the impact of implementing 600 hours, including the quality of funded ELC and the flexibility available. The report includes a range of measures of how services have changed and a large-scale survey of parents. It found high levels of parent satisfaction with the quality of their funded ELC. It also reported an increase in the number of funded places available and an increase in the percentage of places in council nurseries opening outwith school hours, although there was wide variation across the country.

54. The evaluation report does not assess the impact on outcomes for children and parents as these are anticipated to be longer-term outcomes. It states that the expansion to 600 hours was a limited increase to the number of hours of ELC which is not expected to lead to a measurable change in children's outcomes. This reflects a lack of planning for the specific outcomes that this change was anticipated to achieve. The report sets out some baseline information for the expansion to 1,140 hours. This will help to monitor short-term outcomes over time including quality, flexibility, accessibility and affordability. The Scottish Government is working with partners to continue to develop measures of longer-term outcomes. Some councils have also done their own evaluations of the impact of the changes introduced by the Act (Case study 1, page 22).

Commissioning decisions:

Councils using Care Inspectorate grades only:
- Aberdeenshire
- Angus
- Clackmannanshire
- Eilean Siar
- Edinburgh
- Inverclyde
- Moray (for childminders)
- Orkney Islands.

Comhairle nan Eilean Siar reported that they have not newly commissioned partner providers for many years but have Service Level Agreements with all of them.

Commissioning decisions:

Council using none of these:
- Midlothian
- Shetland Islands
- West Lothian.

Incomplete data:

The current data cannot separate staff providing funded ELC and those providing ELC that parents pay for themselves, where both are provided by the same council service or partner provider.

Case study 1

Perth and Kinross Strong Start evaluation

Places for eligible two-year-olds in Perth and Kinross have been branded as Strong Start places in an attempt to reduce any stigma attached to the eligibility for places. An initial evaluation examined the impact of these places on children and their families from the perspective of both parents and nursery staff. Eight of the 19 council nurseries offering Strong Start places provided information for the evaluation.

Both parents and nursery staff reported children had made progress with developmental milestones, with parents reporting more significant progress than nursery staff. The council acknowledges it is difficult to attribute these developments solely to Strong Start, as children in this age group typically make rapid developmental progress. Both parents and staff reported similar benefits of the Strong Start place to the child. The most frequently reported benefits were improved social skills with adults and peers and improved speech and language skills.

Parents and nursery staff both reported that funded ELC provided similar benefits to parents. The most frequently reported benefits were giving them:

- time to themselves or to spend with siblings, family and friends
- opportunities to develop their parenting skills through stay and play, parent groups, and working with nursery staff to reinforce positive behaviour.

The council is continuing to collect information to allow a long-term evaluation. For example, to compare the developmental milestones of children about to start school who had a Strong Start place and those of children who did not.

Source: Perth and Kinross Council

There is no evidence that the additional investment has improved the quality of ELC services

55. Although the Scottish Government stressed that access to high-quality ELC is important, the expansion to 600 hours made few changes to directly improve quality. The statutory guidance only refers to the quality assurance and improvement framework which existed prior to 2014. It does not set out how aspects of quality link to improvements in children's outcomes. In August 2014, the Scottish Government published practical guidance for staff working in ELC, describing the experiences, interactions with adults and environments that different age groups of young children require.[32] The Scottish Government developed a quality action plan as part of its planning for 1,140 hours (paragraph 92).[33]

56. Both the Care Inspectorate and Education Scotland externally assess the quality of ELC. The Care Inspectorate inspects all **daycare of children** (i) and childminding services while Education Scotland only inspects services that provide funded ELC. The Scottish Government recently announced that a shared inspection framework will be introduced by the end of 2018.[34] The details of how this will work in practice have still to be confirmed.

Daycare of children:

Daycare of children services are defined as those which provide care for children in non-domestic premises for more than two hours a day and on at least six days a year. It includes nurseries, playgroups, early years centres and after-school clubs.

57. The most recently available information on Education Scotland inspections is for January 2012 to June 2016. Almost all centres inspected received satisfactory or better grades across three quality indicators.[35] Care Inspectorate grades for daycare of children services and childminders as a whole have remained constant since March 2014. About 40 per cent of daycare of children services received very good or excellent grades for all indicators over this period. These include providers of ELC that are not funded and services for older children.[36]

Funded ELC hours are part of a broader range of services that councils provide to support children and families

58. In addition to the complex task of managing funded ELC across both their own services and with partner providers, councils also provide many other services for children and families. The statutory guidance highlights that councils deliver funded ELC within the wider context of GIRFEC. We found examples of councils integrating funded ELC into a broader package of support for families. This was particularly the case for eligible two-year-olds. For example, Renfrewshire Council has a Families First programme providing local support teams to advise and help families on a wide range of issues in addition to childcare. This includes parenting support, financial advice and help with health issues. Our work with parents highlighted examples of councils focusing on the specific needs of the child rather than their statutory entitlement.

> "Millie's speech wasn't too good, Aiden [twin] spoke on her behalf, and [our health visitor] said 'I'm not happy about her speech' and sent her to the speech and language centre who said she needs more interaction with children her own age… So they referred me to the department within the council and we got two slots allocated within the two-year-old room [at older sister's nursery].
>
> Parent story 15 – whose council provided funded hours for her twins from age two

59. Parent story 8 describes a child with additional support needs attending a council nursery from age three. The child's speech and language therapist advised this as the council nursery would provide more specialist input than the private nursery he attended previously.

> "[At the council nursery] Ciaran got a lot of input and things and he had a one-on-one person towards the end, so they were very good, treated him well and they always seemed very nice and approachable and you could always speak to someone.
>
> Parent story 8

Parents were positive about the impact of funded ELC on their children

60. A large majority of parents surveyed for the Scottish Government's evaluation report were satisfied with the quality of their main current provider of funded ELC. Parents in our interviews were overwhelmingly positive about the quality of the funded ELC and the benefits for their children. They frequently praised the skills, qualifications, experience and warmth of staff. When discussing the impact on their children, they highlighted:

- improvements in speech and language

- improvements in cognitive development
- improvements in social skills
- improvements in behaviour
- their children being better prepared for school (including, when the nursery was attached to their future school, getting to know other children who would be in their class).

61. They also felt their children benefited from the opportunity to try new activities and experiences and use different toys, books and outdoor equipment.

> She did start speaking just before she went to nursery and since then it's come on leaps and bounds…more articulate, new words […] socialising, social skills – obviously it's helped there […] the fact she's getting out to play, has brought on her running and jumping skills, her motor skills […] there's loads of things, honestly, things I don't have time to sit and do with her on a regular basis […] it's given her a whole world of opportunity […] it's just given her so much more to challenge her and get her head round.
>
> Parent story 26 – parents of an eligible two-year-old

There is a lack of evidence on the impact of the expansion on outcomes for parents

62. Similar to outcomes for children, a lack of available information makes it difficult to assess how the expansion has contributed to outcomes for parents. For example, to what extent the expansion has helped parents into work, training or study.

63. Our interviews with parents found some evidence of the funded ELC allowing parents to work where they could not have afforded to pay for childcare themselves. However, due to a combination of the number of hours available and the fact that there was often little flexibility in when those hours were available (eg, three hours in the morning or afternoon, five days a week), the impact was limited. Parents who felt the funded hours had allowed them to work tended to use settings that offered flexibility in when the funded hours could be used and/or the option to purchase additional hours at an affordable rate.

> They're easie-oasie up there so I can just change my hours [at short notice]… You can just pay for extra hours. [The nursery's] open all day. I can just tell them how long I want Layla to be there for. You need to pay £2 an hour, so it's quite cheap.
>
> Parent story 18 – parent using a council nursery in a rural area that offered flexible provision that could fit around her working patterns

64. Some parents in our interviews discussed how the way that funded hours were available meant they did not get the full financial benefit. They had to pay a private nursery for additional hours, or for full-day places, when their child attended a council nursery for a part-day place.

> She's in [private nursery's] care for the full day. [The council nursery] didn't let me have choices when I could take her. It was an afternoon place. The other thing I could have done was put her in a private nursery that offered pre-school provision and then I would have got the government funding…[For] the three hours a day she goes to the school nursery, the private nursery has no difference in its staff and its costs. So they're not saying 'she's away for a couple of hours, we'll take a bit off your day rate.' Which I understand.
>
> Parent story 7 – parents using both private and council nursery provision as they wanted their daughter to attend a council nursery when she turned three to help with her transition to school, but also needed to use, and pay for, full days at a private nursery as the council nursery did not offer wraparound care

65. Parent story 9 describes the logistical difficulties that a family needed to overcome to take up the funded hours for their daughter Karla as both parents work full time. An older child Uma is at primary school and the funded hours are inflexible morning sessions (8:45 to 11:55). Grandparents are able to help out with the pick ups on a Monday and Tuesday.

> On a Wednesday [Thursday and Friday], I drop them off and I pick Karla up at 11:55 and give her an early lunch and then I take her to the [private] nursery. And she's there from one until about half five and then I pick her up again. [In the meantime] I come back at quarter to four to get Uma from school. Sometimes the other grandparents are able to help, if I have work stuff that means I'm not able to get away, but they live further away […] My current employer is a bit more flexible […] I wouldn't have been able to do it if I'd still been in my previous job.
>
> Parent story 9

There is no coordinated national approach to improve outcomes for parents

66. The Scottish Government has not led a national approach to help the expansion in funded hours achieve its aims in relation to parents. Nor has there been a joined-up approach between different Scottish Government departments to achieve these aims. Some aspects of employability and social security policy are reserved to the UK Government. However, the Scottish Government could have done more to increase the impact on parents by better linking related policies on employment and training. For example, it could have considered how best to link the increase in funded hours to other national initiatives to help parents into work and training, and provided a more coordinated national approach. As set out in paragraph 21, research evidence highlights that access to childcare is only one factor in helping women into work or to continue or increase work. This is why it is important that the Scottish Government links the expansion in funded ELC with its wider economic and employability strategies.

> One of the reasons I stopped working in the salon was the [funded] nursery hours just weren't flexible enough.
>
> Parent story 23 – parent using a council nursery in a deprived area of a city

67. The expansion to 600 hours also aims to help parents study and train. However, this conflicts with the Scottish Government's priorities for colleges, which focus on providing full-time college places for younger students.[37] In October 2017, Scottish Government guidance clarified that colleges have flexibility to respond to local needs, including increasing part-time places and places for older learners.[38] One of the parents in our interviews had a positive experience of the funded hours allowing her to finish school and go to college. Her council nursery offered hours that she could fit around her college schedule.

> [The funded hours allowed] me to get qualifications that I wouldn't have otherwise got. So looking for a job might be a wee bit easier because I've got qualifications, it's gave me skills. It makes me feel more useful, like I can actually do something… It gives you confidence.
>
> Parent story 21

68. While there is no evidence of a coordinated national approach to use employability and other linked policies to support the aim of improving outcomes for parents, some councils have local initiatives which address this. For example:

- Glasgow City Council has developed a First Steps in Childcare Programme in conjunction with Glasgow Clyde College. This offers a funded SVQ3 qualification targeted at vulnerable parents accessing family learning centres.

- City of Edinburgh Council delivers a Big Lottery funded Making it Work service for lone parents and vulnerable families. This includes signposting and key worker services to help link parents to employability and support services, including childcare.

The Act's requirements for flexibility and choice are not clear, meaning councils cannot demonstrate they are meeting them

69. Providing increasing flexibility and choice in funded ELC to meet local needs presents a number of challenges for councils. For example, councils may extend the length of sessions in their own settings to provide more flexibility and choice. These extended sessions have a staffing ratio of one staff member per eight children, compared to one staff member per ten children for traditional part-day sessions. This can result in increased staff costs. Councils may also have to make changes to staff contracts to accommodate different session lengths or to operate for longer periods throughout the year. Changes to session times to accommodate flexibility and choice also may not suit some parents, for example where this clashes with arrangements for collecting or dropping off school-aged siblings. Councils have a challenging task to balance these potentially conflicting impacts to develop a system of flexibility and choice which meets local needs.

70. Councils are required to provide funded ELC which is flexible enough to provide parents with an appropriate degree of choice around the patterns of provision, for example a part-day or full-day session. Councils have to develop the range of ELC on offer locally in response to parental consultation, and design choice around this. The statutory guidance requires councils to provide a choice of models of ELC, rather than a choice of individual provider or funded place. However it is not clear what the Act means by 'flexible enough' and 'an appropriate degree of choice' and how these differ. For example it is not clear whether providing various types of ELC for parents to choose from demonstrates flexibility, or whether flexibility is intended to refer to something additional to choice such as:

- allowing parents to regularly change the days of the week that a child attends
- giving parents the option of starting a child's session at a time convenient for them
- accommodating different numbers of sessions throughout different times in the year.

Without clarity on any distinction between flexibility and choice, it is difficult for councils to demonstrate they are meeting the Act's requirements. It also means the perspectives of councils and parents on what flexibility represents and what would be an appropriate degree of choice are likely to vary.

More councils have increased the range of models of ELC offered to parents

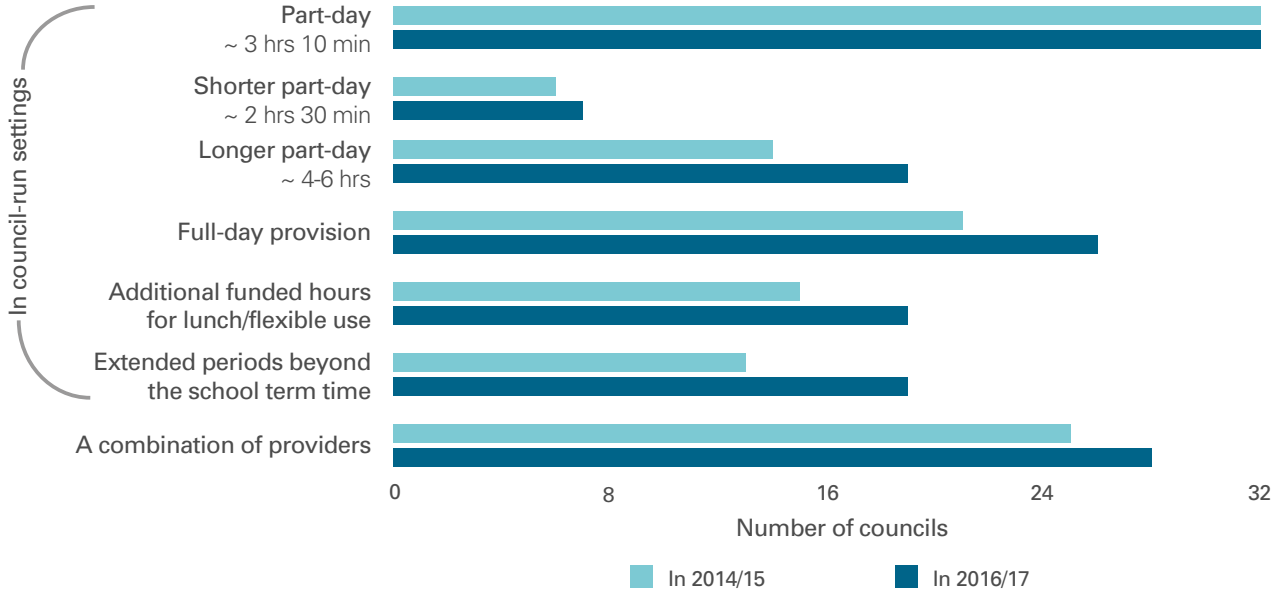
71. The statutory guidance states that introducing flexibility and choice is likely to require a significant reconfiguration of services and that this is best done through year-on-year change. The Scottish Government surveyed councils in 2016 and about 80 per cent of them reported increasing flexibility in the past year by increasing the number of options of ELC available to parents.[39] Exhibit 4 (page 28) illustrates some of the changes councils made to services in 2014, when entitlement increased to 600 hours, and changes since then. Care Inspectorate data highlights the scale of the changes around the time 600 hours of funded ELC was introduced in August 2014. Between June 2014 and the end of October 2015, the Care Inspectorate approved 1,334 variations to the conditions of registration for providers of funded ELC. This included creating 2,509 new places for two-year-olds and amending existing ELC for three and four-year-olds, such as changes to opening hours, or increasing the number of places available.[40]

72. The Scottish Government's evaluation report concludes there has been an increase in flexibility since the Act was introduced, with more provision available outwith the school day and during school holidays.[41] However, these indicators are based on information about the opening patterns of individual settings. This does not mean that all children attending these settings will be able to access longer opening hours or places during school holidays as part of their 600 funded hours. The Scottish Government will continue to monitor flexibility.

Exhibit 4

Models, or types, of ELC introduced as part of the implementation of 600 hours and those available in 2016/17

More councils had adopted a range of models by 2016/17.



Note: Some councils already offered different models of ELC before 2014 so did not need to introduce as many new ones to implement 600 hours.

Source: Audit Scotland survey of councils, 2017

Councils do not always provide clear information to help parents understand how the complex system of funded ELC works

73. Another source of variation both between and within councils is the procedure for applying for a funded place. For example, some councils require parents to apply directly to ELC providers, while in others parents make a central application. Councils also vary in whether or not they use catchment areas for nurseries.[42] A number of parents in our interviews had not been able to get a place in the council nursery they wanted.

> "It took me a full year to get him somewhere. What they said was you get a form and you put in 3 choices, so I put in 3 choices but none of them could take him… It's just as well I went to [another nursery] as he still didn't get a place at the ones on my form… They (health visitors) told me… I was like 'can I try other nurseries?' They were like 'that's the whole point of putting your 3 choices down because you need to stick to them' so if I applied for other nurseries that would cancel my request at the other nurseries. So it's a nightmare but I eventually got him in."
>
> Parent story 3 – parent in a deprived area of a city

74. Councils use a set of criteria to decide which children receive funded ELC places in specific settings, particularly where settings are oversubscribed. These admissions criteria set out which children will be prioritised for their first choice of setting. Councils use different admissions criteria, but these often prioritise:

- older children
- children in need (defined in the Children (Scotland) Act 1995)
- children with additional support needs
- looked after children
- children living in the council area.

75. A number of parents in our interviews talked about older children getting priority. Parent story 1 describes their daughter not being offered a funded place at a council nursery until seven months after she was eligible, due to a lack of places and older children receiving priority.

76. The recent survey undertaken as part of the Scottish Government's evaluation found that 15 per cent of parents of eligible three and four-year-olds who were not using funded ELC reported they did not know how to apply or found applying too difficult.[43] Our review found areas where not all councils were providing clear information to parents about the application process.[44] For example, information was not always clear on:

- the session lengths available to apply for
- the timescales for the application process
- the criteria for allocating places
- how to apply to partner providers
- funding procedures for partner providers; for example if funded places are free at the point of use, or parents pay upfront and get a rebate.

> "Communication around whether she had a place or not was also too slow, in reality you cannot wait until May/June to know what will be happening from mid-August, particularly if you need a childminder as well or other additional childcare."
>
> Response to Audit Scotland user survey

Part 2

Planning for the extension to 1,140 hours of funded ELC

Key messages

1 The Scottish Government and councils face a number of significant challenges in implementing 1,140 hours by 2020. Although they are working hard to address these, it is difficult to see how all the challenges can be overcome in the time available. There are major risks around workforce, infrastructure, such as land and buildings, and finance. Delays in agreeing a multi-year funding settlement add to these risks.

2 In November 2014, the Scottish Government announced its intention to increase funded ELC to 1,140 hours by 2020. The Scottish Government has made positive changes from the way it implemented 600 hours. It is involving councils more in planning and it is developing an evaluation framework, and published some baseline indicators, in advance of implementing the policy. Since 2016 the Scottish Government and councils have been working closely together to plan how they will deliver this expansion and assess its impact. However, given the amount of work required at national and local level, the Scottish Government should have started detailed planning earlier to help councils progress their local plans.

3 Councils developed their initial plans for the expansion by the end of September 2017, but without knowing the funding available and some important information about how the system will operate from 2020. This included quality standards, the flexibility required and how funding will follow the child.

4 Councils' initial plans vary both in the level of detail included and councils' planned approaches to the expansion. While council plans will change over time, initial estimates are that by 2021/22 they will need over 12,000 WTE additional staff and about £690 million by 2020/2021 to make changes to infrastructure. This is much higher than the £400 million indicative figure from the Scottish Government.

5 Councils' initial plans show the estimated cost of providing funded ELC will rise to about £1 billion per year by 2021/22. In October 2017, the Scottish Government announced that it expects funding for funded ELC to rise to £840 million per year by 2021/22 following the expansion to 1,140 hours. This is significantly less than the councils' estimates.

it is difficult to see how all the challenges can be overcome in the time available

Initial progress in planning the expansion to 1,140 hours was slow

77. In November 2014, the Scottish Government set out its intention to almost double the 600 hours of funded ELC by the end of the next parliament.[45] Since then, a number of groups involving the Scottish Government and councils have been set up to plan the expansion. These started in late 2015, about a year after the policy announcement. The amount of activity increased significantly from late 2016 (Exhibit 5, page 32). Given the scale of the task and the significant risks associated with delivering the additional expansion, the Scottish Government should have started detailed planning earlier. Appendix 2 illustrates the large volume of work taking place and planned up to 2020.

78. In March 2017, the Scottish Government published its blueprint action plan for the expansion to 1,140 hours.[46] This required councils to prepare and submit initial expansion plans to the Scottish Government by the end of September 2017. Councils and the Scottish Government have stressed that these are initial plans to be developed as planning progresses. The Scottish Government has created a delivery support team to provide councils with access to expertise and support. This team ran workshops in late August and early September 2017 to help councils develop their expansion plans.

79. The Scottish Government has made other policy announcements that impact on funded ELC:

- In October 2015, it committed to providing an additional graduate, a teacher or graduate with a **BA in Childhood Practice or equivalent qualification,** (i) in every nursery in the most deprived areas and the three island councils by August 2018.[47] This equates to **435 additional graduates.** (i) The Scottish Government will be funding the additional training places and the additional staff costs.

- In March 2017, the Scottish Government announced that, by the end of this parliament, staff in partner providers, delivering funded ELC, will be paid at least the living wage. This only applies to **staff directly delivering funded ELC to children.** (i) This is currently about 8,000 staff, but this could change by 2020. The Scottish Parliament is unable to legislate for the living wage to be paid to staff, as employment law is reserved to the UK Parliament. The Scottish Government plans to provide councils with up to £50 million funding by 2020 to allow them to contract with partner providers at a rate which allows them to pay their staff the living wage. This funding will not cover staff providing ELC that parents pay for themselves; for example, staff caring for one-year-olds in the same settings. This poses risks around equity for staff, morale and may have an impact on staff retention, the quality of ELC and on the cost for parents of non-funded ELC. In March 2018, the Scottish Government is due to publish guidance on implementing the living wage across all ELC providers. In developing this, the Scottish Government and councils will draw on learning from implementing a similar commitment in adult social care.

- In March 2017, the Scottish Government provided councils with details of funding allocations for 2017/18 for the expansion to 1,140 hours. This comprised £21 million of revenue funding for workforce development and £30 million of capital funding to develop infrastructure.[48]

Qualification:

The commitment covers graduates with a relevant Scottish Social Services Council (SSSC) benchmark qualification at Scottish Credit and Qualifications Framework Level Nine.

Additional graduates:

Based on Care Inspectorate data, 432 nurseries are in the 20 per cent most deprived areas. The Scottish Government is also funding an additional graduate in each of the three island councils, which have none of the most deprived areas.

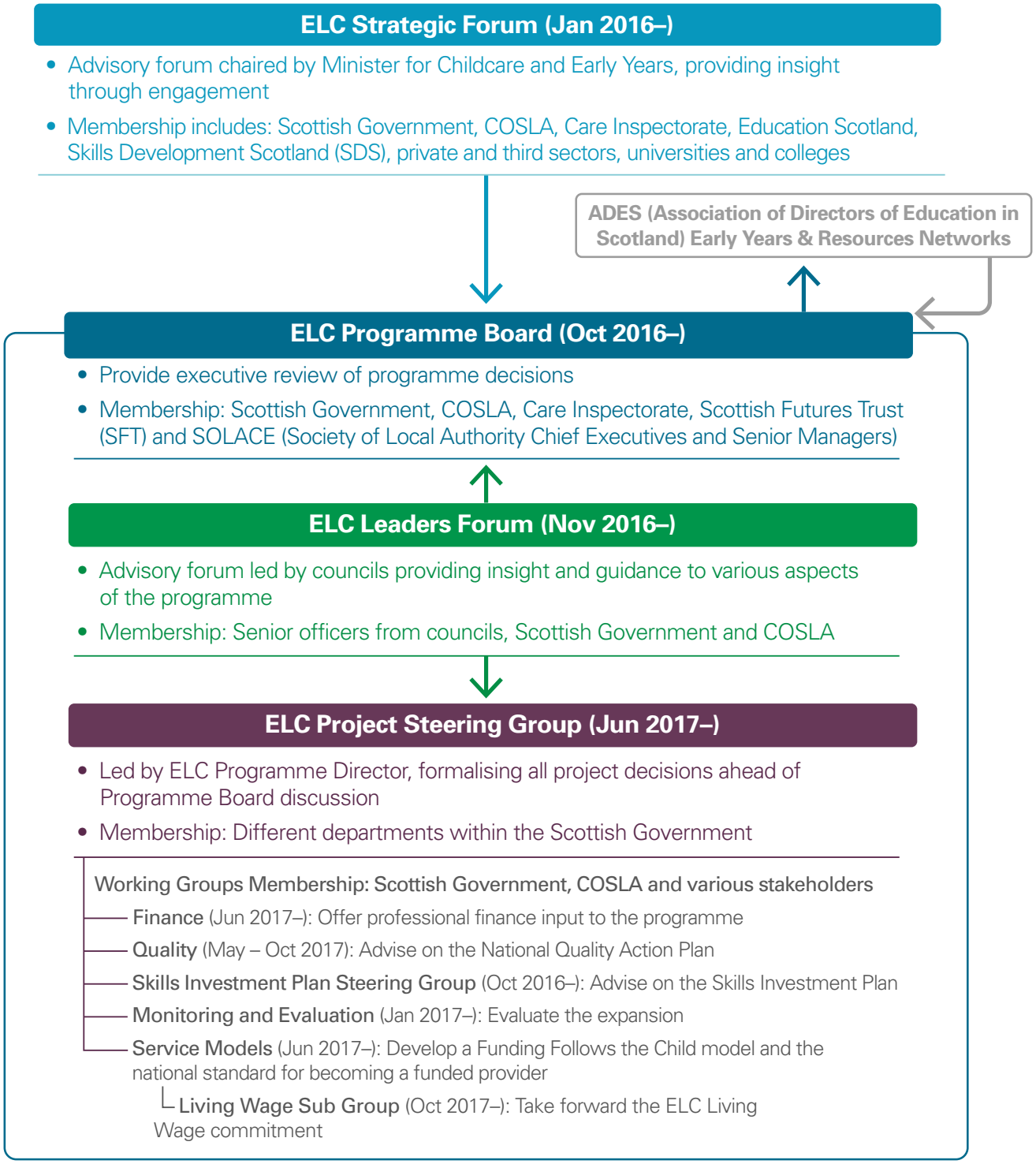
Staff:

The commitment applies to staff required to register with the SSSC. It does not cover other staff in partner providers who are not required to register with the SSSC, for example cleaners or cooks.

Exhibit 5

Overview of the Scottish Government's high-level governance arrangements for the expansion of ELC and the dates the groups were established

The Scottish Government has set up various groups to plan the expansion to 1,140 hours involving a wide range of stakeholders.



Notes:
1. Not all groups are included in this diagram.
2. The Strategic Evidence Group ran from December 2015 to February 2017 and the Workforce and Quality Group ran from January 2016 to April 2017. New working groups reporting to the Project Steering Group replaced these initial groups.

Source: Audit Scotland analysis of Scottish Government ELC Programme Board meeting papers

Councils prepared initial expansion plans in the absence of clear information from the Scottish Government on some important requirements

80. Councils had to prepare expansion plans without knowing some important requirements (Exhibit 6, page 34). The expansion plans include their initial projections for the capital and revenue costs of expansion up to 2021/22. Some councils and COSLA have highlighted that this was difficult to do without more clarity about the funding that the Scottish Government will be allocating over this period. We have previously highlighted the challenging circumstances for councils with decreasing revenue funding and changing demand for services.[49] Councils had to develop initial plans for the expansion, in the context of these challenges, without certainty over the funding available beyond 2017/18 and the potential impact on other council services.

81. Councils prepared their expansion plans without knowing the details of what quality may look like, or how this will affect their plans. The Scottish Government has stressed that the most important element of the expansion is that children receive quality ELC.[50] However, it is still working with councils and other stakeholders to develop the details of the specific measures of quality which will allow providers of ELC to become partner providers.

82. A number of other significant pieces of information and guidance were not available to councils when they developed their expansion plans:

- Councils prepared expansion plans without clear information on the expectations around future flexibility. For example, currently, councils can deliver funded ELC in a maximum session of eight hours and it is unclear whether councils can offer longer sessions to deliver the expanded hours. The Scottish Government is developing guidance with stakeholders on delivering flexibility in providing ELC, due to publish in March 2018. This will draw on learning from ongoing trials. In January 2017, the Scottish Government launched 14 trials of various ways of providing funded ELC, to provide information on how 1,140 hours could be delivered and the impact on staffing, costs and on children and families. However, the results will not be available until late in the planning period. The Scottish Government has put in place real-time evaluation of the trials, including learning events to share lessons, starting in May 2017, and it produced an interim report in October 2017.

- The blueprint action plan introduces a new funding method 'Funding follows the child', which will be in place in 2020. The Scottish Government has said this is about prioritising the settings that are best placed to deliver quality outcomes for children. The details of this new approach are still being developed with stakeholders and will not be available until March 2018. Councils and partner providers do not yet know the full implications for the types of service they will be offering, and the impact on staffing and costs. The blueprint action plan also commits to a feasibility study on longer-term changes to the funding system where parents receive funding directly to spend at a provider of their choice. This means further uncertainty for councils over their future role.

Exhibit 6

Timeline of guidance issued and still to be completed, January 2017 to March 2018

The Scottish Government is working with partners to develop additional guidance.

2017/18

January	Scottish Government launches trials of different types of ELC; a report on the findings will be available in summer 2018
	Scottish Government publishes the blueprint action plan and planning guidance for councils
March	Scottish Government announces that councils will be required to prepare expansion plans by 29 September 2017
	Scottish Government provides details of councils' revenue and capital funding allocations for 2017/18 for the expansion to 1,140 hours
May	Scottish Government gives councils indicative figure for capital funding available at national level from 2018/19 to 2020/21
June	Care Inspectorate, SFT and Scottish Government publish design guidance for ELC settings
	Finance Working Group issues planning assumptions to help councils prepare expansion plans
July	Scottish Government provides councils with a guidance note on meeting additional graduate commitment
	Scottish Government issues a financial template for councils to submit as part of their expansion plans
August	Delivery support team starts workshops with councils to help develop initial expansion plans
September	Councils submit initial expansion plans to Scottish Government
	Scottish Government announces increase in revenue spending on funded ELC by 2021/22
October	Scottish Government publishes the national quality action plan
December	Scottish Government publishes information on: • its spending review and budget • initial evaluation and baseline indicators for monitoring progress towards 1,140 expansion
January 2018	SDS publishes a skills investment plan for the ELC sector
Early 2018	Scottish Government publishes guidance on: • delivering flexibility, drawing on the trials launched in January 2017 • national learning report based on a review of council expansion plans
March 2018	Scottish Government publishes information on: • funding follows the child • national standard for becoming a partner provider • implementing the living wage across all providers
	SFT publishes an infrastructure progress report for the expansion

Note: The blueprint action plan only sets out actions up to March 2018.

Source: *A blueprint for 2020: the expansion of early learning and childcare in Scotland - 2017/18 action plan*, Scottish Government, March 2017; Scottish Government papers and personal communication

- The Scottish Government published initial guidance on expansion plans in March 2017. In July 2017, the Finance Working Group issued planning assumptions to councils to help them prepare their plans. In late August 2017, the Scottish Government issued a financial template for councils to submit as part of their plans. This was intended to help councils prepare for the expansion and to identify indicative costs. Although based on the initial guidance, issued in March 2017, the template required more detail. Councils received the template more than four months after the initial guidance requiring them to prepare plans by the end of September, and very close to the time when the plans were due.

The expansion to 1,140 hours needs significant changes in ELC services and there are risks that these will not be in place for 2020

83. The expansion to 1,140 hours of funded ELC means almost doubling current funded hours and spending more public money on funded ELC. It means having more staff providing ELC, potentially more premises, larger premises, or both of these, and more funded ELC provided by the private and third sectors. Although ELC services will need to expand to accommodate 1,140 hours, doubling the funded hours does not necessarily mean doubling staffing or premises. Services can work in different ways, using current premises more effectively, for example by extending opening hours beyond the school day and during school holidays. Councils will need to provide funded ELC in different ways in future to meet the new requirements on numbers of hours, flexibility and quality. While some councils have developed plans for doing this, others are still deciding how they will offer services locally.

The Scottish Government has estimated that up to about 8,000 WTE additional staff will be needed to deliver 1,140 hours but has not yet done enough to ensure they will be in place in time

84. The Scottish Government has estimated that between about 6,000 and 8,000 whole-time equivalent (WTE) additional staff will be needed to deliver the expansion by 2020, depending on the levels of flexibility offered.[51] It is continuing to work with councils and other stakeholders to refine these estimates. Councils' expansion plans show an estimated larger increase of over **12,000 additional WTE staff** (i) by 2021/22 including staff in training and central staff.[52] This is a very significant increase, of **128 per cent** (i) from 2016/17. SDS was due to publish a skills investment plan for the sector in October 2017. This was published in January 2018 and set out an action plan to:

- raise the profile and attractiveness of the sector and actively increase the diversity of the workforce
- better promote routes into, and career pathways through, the sector
- support and promote workforce development
- engage early learning and childcare employers with the skills system and with regional networks and activities, and to promote the skills investment plan.[53]

Additional staff:

Three councils did not include initial information on staffing levels in 2016/17, so this figure may be an overestimate. The three councils are: East Renfrewshire, North Ayrshire and Scottish Borders.

The percentage increase:

Based on 29 councils that submitted 2016/17 figures.

85. Since the increase to 600 hours of funded ELC was implemented in August 2014, there has been an increase in staff **delivering funded ELC** (i). The number of WTE staff delivering funded ELC has increased by six per cent from 18,260 in 2013 to 19,430 in 2016. This is due to increases in council ELC staff which increased by 19 per cent over this period. This compares to a one per cent fall in WTE staff numbers for private providers of funded ELC and a decrease of almost six per cent for voluntary providers.[54]

86. There are a number of workforce challenges across the ELC sector. Many people perceive jobs to be poorly paid with limited opportunities for career progression.[55] In December 2016, about a fifth of daycare of children services reported having vacancies, although this compares favourably with the average for social services as a whole (35 per cent).[56] About a third reported vacancies were hard to fill. The main reasons were a lack of applicants with the correct qualifications and right experience. The Scottish Government launched a national recruitment campaign to increase the ELC workforce in October 2017.

87. Recruiting and retaining staff can be particularly challenging for partner providers. Almost two-thirds of partner providers surveyed in 2016 said they found it very or fairly difficult to recruit suitable new staff.[57] However they were more positive about retaining existing staff. Nonetheless, the partner providers we spoke to typically reported losing staff to council providers who could afford to offer more generous terms. The Scottish Government estimates that the annual staff costs, including costs to the employer such as pension contributions, for average full-time practitioners are about £28,000 in council settings and £15,000 in partner-provider settings. Some of this difference may reflect the higher proportion of practitioners still completing their qualification who are employed in partner providers.[58] Almost half of the respondents to the **National Day Nurseries Association's (NDNA)** (i) survey in Scotland reported that losing staff to councils was challenging or very challenging.[59]

88. The councils we spoke to were generally more positive about recruiting and retaining staff to deliver 600 hours, although with some regional variation. We saw examples of voluntary changes to staff contracts to include additional hours and councils creating new roles. Some councils report more challenges in recruiting suitable staff, particularly where the council already has high rates of employment. For example, to address local pressures in recruiting an adequate ELC workforce, The City of Edinburgh Council has set up a workforce academy to train new staff and allow existing council staff to retrain in childcare (Case study 2, page 37).

89. Recruiting a diverse workforce is also a challenge, across both councils and partner providers. About 97 per cent of the ELC workforce are women.[60] We found examples of initiatives to increase diversity in the workforce. For example Perth and Kinross Council run a Men in Childcare programme in conjunction with Perth College, to encourage men into the childcare workforce. This provides a childcare qualification for up to ten men at a time. Some of its graduates are now working in childcare, although more typically in after-school care than ELC.

90. The Scottish Government, councils and training providers have started planning for this increase, but urgently need to do more. Only three years remain to ensure that a significantly larger, skilled workforce is in place to deliver the high-quality service across all of Scotland. The Scottish Funding Council (SFC) has

Funded ELC:

These figures are based on staff working in settings which report to the Care Inspectorate that they are delivering funded ELC.

The way in which services were asked whether they deliver funded ELC changed between 2013 and subsequent years. This could impact on the trend reported here.

These figures include staff within a setting delivering funded ELC. Not all staff in all these settings will necessarily be delivering funded ELC, for example, those caring for younger children or children receiving their funded ELC in a different setting.

The NDNA is:

a body which represents private and voluntary sector day nurseries.

Case study 2

Edinburgh workforce academy

Edinburgh Early Learning and Childcare Academy was launched in August 2014 with the aim of helping the council to develop a highly skilled and motivated workforce to deliver a high-quality early years service.

The Academy provides a framework for all early years training requirements. This includes supporting modern apprentices and trainee practitioners to gain a Scottish Vocational Qualification (SVQ) Level Three in Social Services for Children and Young People. The first group of 21 SVQ3 students completed their courses in 2016 and are now working as ELC practitioners in Edinburgh. The academy allows the council to increase its ELC workforce and has also been used to retrain existing council staff to work in ELC, as part of workforce restructuring and efficiencies. Using this in-house approach to training allows the council to have input into the content of the training available. Students at the academy must complete a module on curriculum and child development, which is not compulsory in all other training providers.

The academy supports the development of existing ELC staff through a range of working groups and networks. It also provides opportunities for workforce development, by training existing council staff to work as a course assessor or verifier as part of their work.

Source: The City of Edinburgh Council

committed to funding more college places, and SDS has committed to increasing the number of modern apprenticeships in ELC. However this will only provide a very small number of the additional staff that need to be trained:

- SFC has committed to funding an additional 350 graduate places and 650 practitioner places in 2017/18, but this includes places to meet the additional graduate commitment
- SDS has committed to increasing the number of modern apprenticeships in ELC by ten per cent year-on-year up to 2020.[61]

91. The Scottish Government is also in negotiations with the SFC to offer about 1,500 additional places on a one-year HNC course in 2018/19 and over 400 additional graduate places.[62] SDS is doing work to attract people into the sector, but it remains to be seen if this number of additional students can be attracted to a career in ELC.

92. The Scottish Government published the National Quality Action Plan at the end of October 2017. This sets out 15 high-level actions to strengthen the quality of ELC in advance of 2020. Most of the actions relate to improving the training and support provided to the ELC workforce. This includes changes to the content and assessment of some ELC qualifications from August 2018. The plan also commits to developing a national induction resource to support new staff entering the sector from August 2018.[63]

93. Councils have started to plan locally for how they will increase their workforce. This often includes developing training pathways such as modern apprenticeships. Some councils are planning schemes to allow existing council staff to retrain into ELC. However, many councils' expansion plans did not include detailed information on how they plan to recruit all the necessary additional staff. Expansion plans often did not take account of the numbers of staff required by partner providers, although several councils highlighted the risks to partner providers recruiting and retaining staff, while the council workforce was expanding. One council planned to mitigate this risk by initially advertising all but entry-level council ELC posts internally in the first instance. Others aimed to mitigate the risk by increasing the rate paid to partner providers to allow them to improve staff terms and conditions.[64] Councils will need to ensure that they engage with their existing ELC staff on the impact of any changes as part of planning for the 1,140 hours expansion.

94. Challenges elsewhere will also impact on securing the additional workforce. Some councils are already having difficulty recruiting school teachers, and councils and partner providers are having difficulty staffing adult social care services.[65,66] The expansion of ELC is potentially competing for the same workforce. The impact of the UK's decision to leave the EU is also unknown. The Scottish Government has commissioned work to understand the number of migrant workers in the care sector, including ELC, which is due to report in early 2018.

Increased use of childminders could provide more options for children

95. The Scottish Government, SDS and the Care Inspectorate are taking action to increase the number of childminders providing funded ELC as part of the expansion. This includes publishing a learning and development resource in September 2017, and developing the quality standard for partner providers.[67] This will set out the criteria that partner providers, including childminders, must meet to deliver funded ELC. In developing it, the Scottish Government is considering the quality required, and whether childminders will need to be qualified to the same level as staff providing funded ELC in other settings, such as nurseries.

96. Most council expansion plans highlight they are considering or planning to use childminders to deliver 1,140 hours of ELC. For example, based on the information provided by 23 councils, the plans estimate that childminders will deliver about 6.5 per cent of total funded hours for eligible two-year-olds by 2020/2021, compared to 1.6 per cent in 2016/17.[68] Often, these plans are for a blended model, where children receive ELC from two providers; for example, attending a nursery session before being cared for by a childminder for the rest of the day.

Councils are planning for about £747 million of changes to infrastructure, such as buildings, to deliver 1,140 hours of funded ELC

97. Councils will need adequate infrastructure, such as land and buildings, to expand to 1,140 hours. In May 2017, the Scottish Government gave councils an indicative assumption that about £400 million of capital funding will be available at national level across the next three financial years, 2018/19 to 2020/21.[69] However, the Scottish Government and councils have still to agree how future capital funding will be allocated between councils, for example through councils bidding or a national formula. Councils prepared their expansion plans without knowing how much capital funding they would receive. These plans highlight that councils are planning on the basis of much more capital funding than the Scottish Government has indicated is available. Between 2018/19 and 2020/21, councils' plans detail almost £690 million of capital funding, more than the Scottish Government's indicative funding of £400 million. Over the period 2017/18 to 2021/22, the amount

councils estimate they will need increases to about £747 million. This includes £411 million for new builds, £194 million for extensions, £115 million for refurbishing existing buildings and £15 million to develop outdoor spaces for ELC.[70]

98. In December 2017, the Scottish Government announced additional capital allocations for 2018/19. However, the method for allocating this between councils will not be agreed until early 2018. Councils will receive guidance on how this additional funding can be used in March 2018. The Scottish Government was due to announce a multi-year funding settlement, to 2021/22, by the end of November 2017. However, due to differences between Scottish Government and council figures on funding levels, this is now not anticipated until March or April 2018.

99. Significant infrastructure development will take time. However, less than three years remain during which any new infrastructure needs to be planned, funded, contracted, built and operational. There are risks to this being done on time, particularly as the multi-year funding settlement has been delayed and councils are all working to similar timescales, creating an increased demand across the country for construction.

Councils' plans estimate that funded ELC will cost £1 billion per year from 2021

100. Councils' expansion plans detail about £1 billion of annual revenue spending on funded ELC by 2021/22.[71] In early October 2017, the Scottish Government announced that the revenue funding available for funded ELC was expected to almost double to about £840 million a year by the end of this parliament.[72] The Scottish Government's figure is inclusive of any increase to the rate paid to partner providers for the living wage commitment (estimated £50 million) while councils were asked not to include this in their figures. Some of the differences between Scottish Government and council figures result from different assumptions around flexibility, workforce and the uptake of funded places by eligible children.

101. Similar to capital funding, the Scottish Government announced revenue figures for 2018/19 in December 2017, with the multi-year settlement delayed to March or April 2018. Again, individual councils' shares of the 2018/19 revenue allocation will not be confirmed until early 2018 and councils will receive guidance on how the funding can be used in March 2018.

Partner providers have identified risks to their ability to deliver more funded ELC

102. Private-sector nursery providers have identified risks to being able to continue in business while providing more hours of funded ELC, including:

- difficulties in recruiting and retaining staff (paragraphs 86–89)
- changes to their costs resulting from the Scottish Government commitment that staff in partner providers delivering funded ELC will receive the living wage
- receiving lower rates for council-funded ELC than ELC that they charge parents for directly.[73] About half of respondents to an NDNA survey are projecting a loss or break-even in 2017/18.[74] Private providers highlighted that they are already facing financial challenges, and delivering more funded hours would mean they have less opportunity to raise income through charges to parents for additional hours. The National Audit Office found the system of free places in England relied on additional payments by

parents.[75] The UK Government's evaluation of pilots of increasing funded hours in England found that the financial impacts on private providers were mixed, but the tendency was towards them incurring higher costs and making lower profits[76]

- the Scottish Government will be publishing new standards for becoming a partner provider in March 2018, so it is not yet clear what this could mean.

103. Councils' expansion plans refer to these challenges that partner providers, including childminders, are facing (the last two risks in paragraph 102 also apply to childminders). The plans recognise partner providers will play an important part in the expansion to better meet parental needs.[77]

104. In September 2017, the Scottish Government announced plans to support private and third sector nurseries by providing 100 per cent relief from paying business rates for day nurseries, starting in April 2018.[78]

105. Councils' expansion plans estimate that about 26 per cent of funded hours of ELC for two, three and four-year-olds will be delivered by partner providers and two per cent by childminders in 2021/22, compared to 24 per cent and less than one per cent, respectively, in 2016/17.[79] Risks to the sustainability of these providers could have a considerable impact on councils' abilities to deliver 1,140 hours successfully. In addition to providing funded ELC, childminders and private and third sector settings may provide ELC for younger children, not yet eligible for funded ELC, or after-school care for older children. Any risk to the future of these businesses as a result of the expansion could negatively impact on parents using these services for younger or older children.

The Scottish Government is developing its approach to evaluating the impact of the expansion in funded ELC but still needs to agree longer-term outcome measures

106. In May 2017, the Scottish Government produced an evaluation framework to assess the outcomes and impact of the expansion of funded ELC.[80] This included plans to evaluate:

- the expansion to 600 hours
- councils' progress towards implementing 1,140 hours
- the outcomes of the expansion for children and families
- the impact on the ELC sector
- how the expansion contributes to the success of Scottish Government objectives.

The Scottish Government's Monitoring and Evaluation Working Group plans to do more work by 2019 to develop the framework and indicators. The framework sets out short, medium and long-term aims for the expansion, in more detail than the blueprint action plan (Exhibit 7, page 41).

Exhibit 7

Aims of the expansion of funded ELC as set out in the monitoring and evaluation framework

The monitoring framework provides more detail on the intended outcomes of the expansion.

	Aims
Short term	To provide high-quality, accessible, flexible and affordable ELC delivered across 600 hours and 1,140 hours a year.
Medium term	To provide children with strong foundations with which to maximise their potential and outcomes, including closing the attainment gap between children living in our most and least deprived communities.
Long term	To support the eradication of child poverty and inequality.
	To support long-term inclusive growth in Scotland's economy.
	To provide more opportunities for parents to move into employment, particularly mothers.

Source: Scottish Government ELC Programme Board meeting papers, Scottish Government, 2017

107. The evaluation framework will use existing data and a series of short and longer-term research strategies. Initial plans for research before 2020 include:

- asking parents about their needs
- economic evaluation assessing the relative efficiency of how councils provide funded ELC and of different types of providers.

The working group is developing a longer-term strategy to explore and monitor the impact of the expansion on longer-term outcomes for children, parents and the ELC sector. The Scottish Government is leading work to:

- identify the most relevant indicators and methods of collecting data for monitoring child outcomes at the end of ELC or at the start of P1 and beyond
- assess longer-term outcomes for parents, such as the impact on their work, study or training.

108. The Scottish Government is significantly better prepared in terms of monitoring and evaluation than it was when it implemented the increase to 600 hours. The Scottish Government has set out some baseline indicators to monitor short-term outcomes (paragraph 54).[81] However the working group has still to agree baseline indicators for longer-term outcomes. It needs to do this, and ensure that the data is available, as a matter of urgency to have trend analysis over a longer period of time.

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78 Finance Secretary statement to Scottish Parliament, 12 September 2017.

79 Audit Scotland analysis of councils' financial templates, September 2017. Based on the plans of 23 councils that provided this detail.

80 Scottish Government ELC Programme Board meeting papers, Scottish Government, 2017.

81 *The Expansion of Early Learning and Childcare: Evaluation Report 2017*, Scottish Government, December 2017.

Appendix 1

Operation of funded ELC by councils

109. The statutory guidance states that children are eligible for funded ELC from the first term after their third birthday. However, this is not strictly accurate, as children turning three between the start of March and the start of the summer term in April are not eligible until the start of autumn term in August. Exhibit 8 sets out the statutory guidance for eligibility. There are also local variations in eligibility criteria, with some councils offering earlier access to funded places. For example, in Glasgow City Council, children born between 1 September and the end of February are eligible for funded ELC at the start of the term in which their third birthday falls. For some children, this will result in a place up to five months earlier than their statutory entitlement. For example, a child born on 1 September would be eligible for a place in the spring term, in January, under the statutory guidance. But Glasgow City Council would provide a place earlier from autumn term, in August. National calculations of eligibility are based on the statutory guidance, so are likely to underestimate the actual numbers of children who can access funded hours in councils with more generous criteria.

Exhibit 8

Statutory guidance on eligibility for funded ELC

Start of eligibility depends on the child's birthday.

Source: Children and Young People (Scotland) Act 2014, Early Learning and Childcare, Statutory Guidance, Scottish Government, August 2014.

110. We found that **11 councils** did not comply with the statutory guidance for eligibility.[1] This mainly applied to a small group of children with birthdays between the start of the autumn term in August and the end of August. The statutory guidance states these children should be eligible for a place from the start of the autumn term. But we found that in some councils children in these circumstances were not eligible until their birthday or the week, month or term after their birthday. Some councils explained that the way in which their ELC settings were registered with the Care Inspectorate meant they were unable to accept children before their birthday, as they would not meet the minimum age for the setting. Settings can apply to vary their conditions of registration with the Care Inspectorate to allow them to accommodate children from an earlier age. For example, to accept children from under three years rather than from three years. There may be associated implications such as for staffing, to ensure that younger childrens' needs are being met in line with Care Inspectorate standards.

111. Two-year-olds who meet the specified eligibility criteria have similarly staggered start dates depending on their birthdays. Again, councils can choose to provide earlier access locally. Using information from the DWP and HMRC, the Scottish Government estimated the numbers of two-year-olds eligible for funded ELC in 2015, by qualifying criteria (Exhibit 9). About 25 per cent of all two-year-olds in Scotland are estimated to be eligible for funded ELC.

11 councils:

- Angus
- Argyll and Bute
- Dumfries and Galloway
- East Ayrshire
- East Lothian
- Glasgow City
- Midlothian
- North Lanarkshire
- Shetland Islands
- South Ayrshire
- South Lanarkshire.

1 Audit Scotland survey of councils, 2017.

Exhibit 9

Estimates of two-year-olds eligible for ELC by qualifying criteria, 2015

Two-year-olds can become eligible for funded ELC by meeting various criteria.

Qualifying criteria	Estimated number of eligible two-year-olds
Income support	8,000
Jobseeker's allowance (income-based)	900
Employment and support allowance (income-based)	1,100
Pension credit/Severe disablement allowance/Incapacity benefit	150
Child tax credit only (income under £16,105)	2,400
Working tax credit and child tax credit (income under £6,420)	2,800
Looked after child/Kinship care order/Parent-appointed guardian	500
Immigration and Asylum Act	100

Notes:
1. Many of the benefit criteria are mutually exclusive. For example, a person must be state pension aged to be eligible for pension credit and this makes them ineligible for jobseeker's allowance, employment and support allowance and income support. However, some estimates are adjusted to take account of other qualifying criteria. To estimate likely eligibility under other criteria, adjustments have been made to the numbers of children eligible under the following criteria: child tax credits; as a result of being looked after; having a kinship care order; or a parent-appointed guardian.
2. These figures are based on estimates of eligibility in 2015. This is higher than the around 14,000 two year-olds estimated to be eligible in 2017.

Source: *Financial Review of early learning and childcare in Scotland: the current landscape*, Scottish Government, 2016

112. Another complexity in calculating the number of children eligible for funded ELC relates to when children stop being eligible for the service. For most children, this is when they start school. Again the timing of starting school depends on a child's birthday. Children born between the start of March and the end of August will start school in the autumn term of the year in which they turn five. Children born between the start of September and the end of December can also start school in the autumn term of the year in which they turn five. However, their parents may choose to defer their school start date until the autumn term of the following year. Children in these circumstances are not eligible for an additional year of funded ELC, although councils may choose to offer this in some circumstances. Children born between the start of January and the end of February are eligible to start school from the autumn term in the year preceding their fifth birthday. However, parents may choose to defer their school start date until the autumn term the following year. Children in these circumstances are automatically entitled to an additional year of funded ELC. In practice, some children will receive funded ELC for longer than others, depending on their birthday and whether their school start date is deferred or not.

Appendix 2

Timeline of key ELC developments 2017-2020

Date	Event	Service delivery	Workforce	Finance	Infrastructure
20 Mar 2017	Councils receive confirmation of revenue funding allocations of £21 million for 2017/18			●	
23 Mar 2017	Action Plan for 2017/18 publishes. ELC expansion planning guidance publishes.	●	●	●	●
5 May 2017	ELC trials learning event.	●			
19 May 2017	Councils receive confirmation of final capital funding allocations of £30 million for 2017/18 and an indicative capital planning assumption of £400 million for 2018/19 to 2020/21.			●	
9 Jun 2017	New Health and Social Care Standards publishes.	●			
30 Jun 2017	Good practice design guide for ELC and out of school care settings publishes.				●
7 Jul 2017	Councils receive planning assumptions to help prepare their expansion plans.	●	●	●	●
14 Jul 2017	Councils receive guidance note on meeting additional graduate commitment.	●	●		
3 Aug 2017	Recommendations for ELC data: implications for the ELC census publishes.	●	●		
25 Aug 2017	Councils receive financial template to help present multi-year financial and workforce estimates with their expansion plans.	●	●	●	●
Aug/Sept 2017	Twelve workshops with councils to help them prepare their expansion plans.	●	●	●	●
Summer 2017	Pilot programme plans for reducing upfront childcare costs publishes.	●			
Summer 2017	Learning from ELC trials available; councils receive early lessons over the period of the trials.	●			

Date	Event	Service delivery	Workforce	Finance	Infrastructure
26 Sept 2017	Learning and development resource for childminders publishes.	●	●		
29 Sept 2017	Councils submit their ELC expansion plans to the Scottish Government.	●	●	●	●
Sept 2017	Inclusion Fund for supporting children with additional support needs establishes.			●	
23 Oct 2017	A recruitment marketing campaign launches to promote careers in ELC.		●		
31 Oct 2017	National Quality Action Plan publishes.	●	●		
Oct 2017	ELC trials learning event.	●			
3 Nov 2017	Report on onsite childcare provision in further and higher education estates and large public sector employers publishes.	●			●
Nov 2017	Councils receive individual feedback reports on ELC expansion plans from Scottish Government, including confirmation of next-steps follow-up action.	●	●	●	●
Nov 2017	Scottish Government initially due to announce multi-year funding settlement.			●	
Nov 2017	Guidance on delivering the Daily Mile in ELC (age-appropriate equivalent activity for children) publishes.	●			
Dec 2017	Scottish Government publishes draft budget with 2018/19 funding allocation.			●	
Dec 2017	Evaluation and monitoring report (first in a series) publishes, including an evaluation of the expansion to 600 hours, baseline indicators for monitoring progress towards the expansion to 1,140 hours and parents' survey.	●	●	●	●
Jan 2018	Skills Investment Plan for ELC publishes.		●		
Jan 2018	Guidance available on capacity and funding within higher education and further education institutions to expand ELC workforce.		●		
Jan 2018	Scottish Government and councils to agree how 2018/19 funding allocations will be distributed between councils.			●	

Date	Event	Service delivery	Workforce	Finance	Infrastructure
Early 2018	Scottish Government receives a report on the impact of the UK's decision to leave the EU on social care services.		●		
Early 2018	National learning report from ELC expansion plans publishes.	●	●	●	●
Early 2018	Consultation document on flexibility available.	●			
Early 2018	National learning event to share key findings from councils' ELC expansion plans and ELC trials with councils and their partners.	●	●	●	●
Feb 2018	Councils receive guidance note on additional graduate progress.	●	●		
Feb/Mar 2018	Updated statutory guidance, including parent guidance, publishes.	●			
Mar 2018	Guidance on implementing the Scottish Living Wage publishes.		●	●	
Mar 2018	Guidance available on delivering flexibility, drawing on ELC delivery model trials.	●			
Mar 2018	A national standard for becoming a funded provider available.	●			
Mar 2018	Details of the new Funding Follows the Child model available.	●		●	
Mar 2018	SFT infrastructure review publishes.				●
Mar/Apr 2018	Scottish Government due to announce multi-year funding settlement.			●	
Spring 2018	Pilot programme for reducing upfront childcare costs to start.	●			
Apr 2018	New Health and Social Care Standards operational.	●			
Aug 2018	Additional graduates start in nurseries in most deprived areas.	●	●		
Summer 2018	A report on learning from the trials available.	●			
Summer 2018	Proposals for a new approach to funding set out.			●	
Summer 2018	Consultation on flexibility completed and further guidance on flexibility available.	●			
Dec 2018	A single inspection framework for ELC is applied.	●			
Aug 2020	A new national standard for funded provider status in place.	●			
Up to Aug 2020	The number of ELC Modern Apprenticeships increases by ten per cent year on year up to 2020.		●		
Up to Aug 2020	Councils receive up to £50 million additional revenue to realise living wage commitment up to 2020.			●	
Aug 2020	Expansion to 1,140 hours of ELC starts.	●	●	●	●

Appendix 3

Advisory group members

Audit Scotland would like to thank members of the advisory group for their input and advice throughout the audit.

Member	Organisation
Alison Koslowski	University of Edinburgh
Angela Leitch	East Lothian Council
Carrie Lindsay	Fife Council
Catherine Agnew	Care Inspectorate
Clare Lamont	Education Scotland
Jane Brumpton	Early Years Scotland
Jane Mair (to June 2017) and Jane Malcolm (from July 2017 onwards)	National Day Nurseries Association
Jane O'Donnell	Convention of Scottish Local Authorities
Joe Griffin	Scottish Government
Laura Friel	North Ayrshire Council
Maggie Simpson	Scottish Childminding Association
Neil Craig	Health Scotland

Note: Members sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

Early learning and childcare

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ISBN 978 1 911494 48 5 AGS/2018/1

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