

# **The Commission for Childcare Reform**

**MEETING SCOTLAND'S CHILDCARE CHALLENGE:**

**THE REPORT OF THE COMMISSION  
FOR CHILDCARE REFORM**

**JUNE 2015**

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## FOREWORD

***By Jackie Brock, Chief Executive, Children in Scotland and Ross Martin, Chief Executive, Scottish Council for Development and Industry***



We are delighted to support this final report of the Commission for Childcare Reform and we welcome all its recommendations. We endorse the Commission's vision for high-quality, affordable, flexible and accessible childcare that will allow parents to work or study. The priority given to support for vulnerable children and their families and ensuring that proposed reforms help to address inequalities is profoundly important.



Children in Scotland, as chair of the Alliance, and with the support of the Scottish Council for Development & Industry (SCDI) established the Commission in March 2014 as an independent entity to investigate how childcare in Scotland should be provided and funded to better suit the needs of children, their families and wider society. In carrying out this work the Commission has engaged in extensive consultancy research, been non-aligned politically, and drawn from the experience and expertise of the Commission's members to shape its

findings. These qualities have helped mark out its work and make many of its arguments compelling. We are particularly grateful for the invaluable leadership of Colin MacLean, the Commission's Chair.

Over 15 months of investigation the Commission has cast its net wide, hearing views from across Scottish civic society. Crucially, it has placed business development and the needs of employers at the core of offering solutions for parents and carers, and providers, while always ensuring that children's best interests are first and foremost. It has proposed in detail how to secure long-term transformation in childcare, and laid down some challenges that will need to be discussed and met head-on. The Commission's vision provides a powerful base for taking forward Scotland's priorities to reduce poverty and support equality.

The Commission makes a number of ambitious calls for action at UK, Scottish and local government level that will require collaborative working to examine and, where appropriate, put into action. For example, it believes every child up to the age of 12 should be entitled to up to 50 hours of high quality childcare and education per week throughout the year. Priority should be given to smoothing cost burdens for all families and supporting those families who live in or near poverty. Children in Scotland will be exploring with Alliance members whether the recommendation of a Child Account is a way of achieving this. The Commission also recommends that the Scottish Government – working together with the UK Government, local authorities and providers – should commission a fundamental review of all aspects of the funding of childcare.

These recommendations come at a time when childcare's political profile has never been higher. We are encouraged that childcare is now a genuine priority for all of Scotland's political parties, and we welcome the Scottish Government's commitment in this area.

In this context we are more confident than ever that the changes proposed in this report can be achieved. However, the work to deliver on the Commission's vision has to start now. The Alliance intends to take forward the Commission's calls with a national strategy for childcare. We look forward to planning the next steps in shaping this in conjunction with the Scottish Government and local authorities.

Given the reality of the childcare financial settlement in Scotland, the Alliance believes progress must be made now. It is ready to lead on this through childcare pathfinder projects, delivered at a local level, which will exemplify powerful local strategic planning and deliver services in the ways that working families deserve.

But alongside the Alliance's work there are now expectations of the UK and Scottish governments. They must recognise the pressing need to work together on childcare, bringing forward the Commission's proposals, collaborating on policy, and creating the step change in the culture of childcare families deserve.

## CHAIR'S INTRODUCTION



Childcare is good for children, families, employers and the economy. There is strong support from all political parties and across Scotland for action to ensure that childcare is high quality, available, affordable and meets the needs of children and their families. There is also a widespread recognition that the issues that need to be addressed are complex, challenging and will require constructive engagement by a wide range of people and organisations.

I was happy to accept the invitation by Children in Scotland and the Scottish Council for Development and Industry to chair the Commission on Childcare Reform, grateful for their support throughout our work, and glad that they assembled such a powerful and committed team of Commissioners to work with me on this project. We would like to express our huge thanks to Maggie Tierney, Lesley Warren and Xin Fei for the intense, high quality and innovative work they have done for the Commission, and to the other staff in Children in Scotland who have helped throughout the process.

Our report is built on large numbers of open conversations with a wide range of people and many written contributions from the full range of organisations with an interest in childcare. They helped us understand issues from many different perspectives, and tested and responded to our ideas. It is that engagement that gives us confidence we have produced a report that identifies and offers a way forward on the most important issues affecting the organisation, delivery and funding of childcare.

By way of introduction to the report, I would offer some personal observations on what we have discovered this year:

There is a powerful commitment from government, employers, local authorities, providers and parents to make childcare work for families. The UK and Scottish Governments have both committed to find substantial additional resources for childcare at a time when public spending is under severe constraint. We need to capitalise on this opportunity and make real progress. Across the public, private and voluntary sectors, we have seen highly innovative, flexible approaches to the organisation, delivery and funding of childcare designed to meet the needs of children and families. We have also seen evidence of inflexibility and rigidity in both policy and practice that reduce the chances of children and families getting the outcomes they need. We have seen some excellent partnership working across organisations and sectors that is focused on outcomes for children, but we have also seen evidence of poor relationships, lack of trust and mutual suspicion that appear to be getting in the way of finding solutions or even, in some cases, admitting the existence of problems. We will need exceptional leadership to break down the barriers to progress that we often create for ourselves.

For many of the families where parents need to work or study, the current mix of state provision of early learning, market-led provision of paid for childcare, and a variety of tax and benefit supports does not work together in a way that enables them to work or study confident that their children's needs are being met. It has become clear in the course of our work that a major barrier to progress is the approach to both policy and practice that tends to focus attention on individual components in isolation. (Just one example of this is the delivery of the free early learning component without ensuring it is available to families as part of an all-day, year-long, affordable childcare package). We need a fundamental shift in our approach. We should stop dealing with individual policy and funding issues in isolation. Instead we should define our vision for childcare and then create a coherent, integrated set of policies that work together to achieve that ambition.

With the publication of our report and the recent Siraj report on workforce issues, and the widespread engagement of so many stakeholders in debate and discussion, we believe the key issues have been clearly identified. With the clear support from Scottish and UK political leaders for investment in childcare, the opportunity has never been greater. Let us embrace the challenge!

A handwritten signature in cursive script that reads "Colin MacLean".

**Colin MacLean**  
**Chair, Commission for Childcare Reform**

## ***Scotland's Childcare Challenge:***

***To ensure that when parents need to use childcare in order to work or study, they can access high-quality, affordable, flexible provision and be confident it is meeting the needs of their child.***

## **EXECUTIVE SUMMARY**

We define childcare to include early learning and childcare for pre-school children of all ages 0-5, and out of school and holiday care for school-age children. Our report relates to forms of registered childcare provision.

We have visited a variety of provision, engaged with many different people and organisations, and looked at a wide range of evidence and international experience.

We have come to a number of conclusions:

- High quality childcare is good for children, families and the economy.
- Substantial progress has been made, and we sense a real commitment across all political parties to make further improvements in provision and affordability.
- Scotland now needs an ambitious long-term vision for childcare that meets the needs and aspirations of children, families and the economy.
- Many families currently find it hard to access affordable, high-quality, flexible services.
- A series of practical actions are required to address problems within the existing system, as well as to lay the foundations for the future.

Our long-term vision is that:

- Every child up to the age of 12 (and in some cases beyond 12) is entitled to up to 50 hours of high quality childcare and education per week throughout the year;
- Within that entitlement, both primary schooling and the 15 hours per week in term time (the '600 hours' of early learning and childcare per year for eligible children) is free at the point of delivery;
- The balance of the 50 hours is accessible and affordable for all families; and
- The 50 hours is provided using arrangements that enable parents to work or study.

That vision is ambitious. At a time of reducing public spending, it is both exciting and challenging to consider how to achieve such a bold outcome, and we recognise that it would take a number of years to deliver all of our recommendations. But we believe it is both necessary and possible to do so.

Two important themes underlie our report: quality and equality.

The quality of childcare is critical for children because their wellbeing and development depends on it. It is also critical for their parents and employers who need to rely on a high-quality system to feel assured, engaged and productive in their economic and other activities while others care for their children.

The primary factor that determines quality is the staff who work with children in the childcare setting. Prof Iram Siraj recently published a report on workforce issues commissioned by the Scottish Government, and we have therefore made no recommendations in that area. We support the broad thrust of her recommendations. We note the potential consequences of her report for the cost of provision.

There is a well-established system of inspection and regulation to provide assurance on quality. Prof Siraj makes some recommendations for improving that system which we endorse.

We believe that childcare can be a powerful means of advancing Scotland's equality and anti-poverty ambitions. When childcare is of high-quality and affordable for all, it enables female labour market participation and enables all parents to work or study if they wish. When high-quality childcare is only accessible to, and affordable by, relatively well-off families, it can exacerbate poverty and other inequalities. We understand too that high-quality childcare must be understood as part of a wider set of supports to families and communities and should not be seen in isolation. Our proposals are intended to enhance equalities and help reduce poverty. We hope they will be assessed against that test.

We believe there are six major issues that need addressed to resolve current problems and to lay the foundations for the future.

## **1 Affordability**

The cost of paid for childcare is expensive for all working families.<sup>1</sup> It is also a barrier to work and study for those unable to access highly paid work and unable to call on friends and family to provide informal childcare.

The costs paid by parents in the form of fees are complex. The tax and benefits systems interact to provide erratic support for childcare that helps some families much more than others, for no obvious policy reason.

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<sup>1</sup> For a UK couple, both working full-time and earning the average wage, childcare costs represent 29.4% of net family income. See OECD (2012) Benefits and Wages database.



For the foreseeable future, there will be limits on the amount of public money that can be found to meet childcare costs. We welcome the commitments by both the Scottish and UK governments to increase financial support for families through increasing direct provision; the childcare element of universal credit; and tax free childcare. However, we note that eligibility rules mean that the total value of support packages will vary considerably across families.

Our key recommendations:

- All families should be entitled to 50 hours per week throughout the year of free or subsidised childcare for each child (approximately 20 hours per week outside school hours during term time for school age children).
- The net cost to parents should be on a sliding scale that takes account of income to ensure affordability for all families. In the long term, we believe that no family should spend more than 10% of net household income on the costs of their 50 hours childcare entitlement. Depending on their circumstances, some families may need support to reduce costs below 10% of their net household income.
- In the short term, we believe priority should be given to smoothing cost burdens for all families (who face the highest costs when their children are very young) and to supporting those families who live in or near poverty. We are assuming that the state cannot afford to subsidise all families to the same extent as it supports the poorest families, although we have no objection in principle if that is what the state chooses to do.

## **2 Availability**

Many parents find it hard to access childcare that meets the needs of their child and matches their work and study patterns.

Our key recommendations:

- The state should take responsibility for working with parents, employers and providers to ensure the availability of a range of suitable childcare to meet the needs of children, families and business in Scotland. Decisions about local provision should be taken locally. Decisions about whether to use childcare, and which provider to use, should continue to be taken by parents.
- Parents, employers and childcare providers all need to be flexible about working patterns and about the hours when childcare is available.

### **3 Funding mechanisms**

State funding of childcare (through direct funding of services and the tax and benefits systems) is complicated, confusing, unfair and lacking transparency.

Many of the problems relate to the interaction between the tax and benefits systems, family income and childcare costs, and we suspect apply across the UK. However, there are two specific issues affecting many working parents that it is within the power of Scottish Government and local authorities to resolve.

- First, that there are not enough providers of all day childcare who receive local authority funding for the 600 hours of free early learning and childcare, so some working parents end up paying the full cost of the 600 hours.
- Second, where that funding is provided, providers claim it is inadequate and that they have to pass on part of the costs to parents.

We are aware that the funding and commissioning arrangements are complex. We believe that key players are acting in good faith. However, it is clear that some working parents are paying for some or all of the cost of the 600 hours that should be free at the point of delivery.

We suspect that the way the 600 hours of childcare is organised and paid for leads to inefficiencies in the use of public funds as well as failing to meet the needs of many working parents.

A lack of robust, comprehensive, agreed data on childcare is making it harder to agree a way forward.

Our key recommendations:

- Scottish Government, working with local authorities and providers, should specify, and ensure rapid collection of, the robust and comprehensive data on the provision, uptake and funding of childcare that is needed to inform debate and decision making.
- Scottish Government, working with UK Government, local authorities and providers, should commission a fundamental review of all aspects of the funding of childcare.
- Scottish Government and local authorities should ensure that working parents do not have to pay any of the costs of the 600 hours per year of free early learning and childcare.
- Scottish Government, the UK Government and local authorities should work together to simplify the funding of childcare to ensure it is clear, simple and fair for both families and providers.

- A child account should be established for each child, to provide a transparent route through which all money (public or private) that is used to pay for, or subsidise, childcare is channelled to providers. HMRC are planning to establish such an account for routing tax free childcare and related parental contributions. We suggest that mechanism is expanded to be the vehicle for all state and private funding used to pay for childcare.

#### **4 Focus on early learning for pre-school children at the expense of broader childcare provision**

The local authority focus has been on securing the delivery of 15 hours per week in term time for a particular group of pre-school children. Now that this has been achieved, attention needs to shift to meeting the needs of working parents who require childcare for children of all ages, all year round.

The Scottish Government commitment to invest the resources needed to provide up to 30 hours per week of free early learning and childcare to eligible pre-school children in term time (1,140 hours per year) is welcome. However, if local authorities are simply set the task of delivering 30 hours for three and four year olds in term time, experience suggests they will do exactly that, but not take steps to ensure the 30 hours is available as part of full-time childcare provision.

If that happens, many parents will still not be able to access affordable full time childcare, all year round, for those children who need it.

Our key recommendations:

- There should be a duty, probably on local authorities or community planning partnerships, to act as the strategic planning authority for childcare, and ensure the availability of the childcare required locally to deliver the 50 hour per week commitment.
- As part of the funding review proposed above, the Scottish Government and local authorities should agree the basis on which additional resources are used to subsidise and support delivery of that entitlement.

#### **5 Range of views on the needs of very young children**

We heard strongly held and often conflicting views on whether or not very young children should be in childcare, and whether or not that childcare should be subsidised. We respect all the views we heard and recognise that families will make different choices.

We believe that the state should make it easier for families to make that choice by not requiring the financial support it provides to depend on whether parents

of the very youngest children are at work, or whether they use registered childcare.

Our recommendation:

- Families with a very young child should receive a cash sum equivalent to the childcare subsidy they would be entitled to if that child was older.<sup>2</sup> That cash sum can be used to cover the costs of childcare and/or to help parents afford to stay at home with their child for longer. We recognise that this will be expensive, but families in the UK with very young children receive significantly less cash through paid-for parental leave than in most other countries and many come under real financial pressure at that critical point in their child's life.

## **6 Need to take responsibility for fixing the practical problems**

No single person or organisation has taken responsibility for taking the practical actions required to ensure families have access to the affordable, high quality childcare they need. That is not surprising since the issues described in this report make clear that there are complex and difficult issues to be addressed requiring the involvement of Scottish and UK Governments, local authorities, providers, parents and employers. However, strong leadership is required to address the challenging issues identified above.

Our key recommendations:

- Scottish Government should take responsibility for establishing, and ensuring delivery of, the strategy required to ensure families have access to the affordable, high quality childcare they need.
- Local partnerships should be responsible for securing delivery of that strategy in their area. We believe that it would be appropriate for the Community Planning Partnership to take on that function, but have no principled objection if a different approach is taken, as long as it is effective.
- UK Government should either work with Scottish Government to ensure the tax and benefits system operates smoothly to support that strategy, or take action to ensure the devolution of responsibility for the relevant tax and benefits areas to the Scottish Parliament.

### **Implementing our recommendations: cost and timetable**

The cost of implementing our plans will depend to a large extent on the level of uptake, which in turn depends on the state of the labour market and the choices made by individual families.

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<sup>2</sup> We suggest this means a child under the age of one, but that is for debate.

In our report we offer some illustrations of the costs of supporting individual families. These show that the additional cost to the state of supporting these sample families will vary considerably depending on the number and age of children in each family, their financial circumstances and the choices they make about working patterns. **Annex G** shows the wide variation in possible total costs of provision (to families, and also to the state) depending on levels of uptake.

We do not underestimate the time it will take to develop and implement the proposals in this report. Immediate tasks will be to develop the long term vision, establish a robust evidence base, carry out a thorough review of funding, and build a strategic plan.

We would expect implementation of that plan to take at least five years and perhaps nearer ten – not least because it will be essential to manage the rate of expansion to avoid compromising quality, and also because increased public spending will be needed to enable expansion.

If Scotland is to realise the ambition to be the best place in the world to bring up children, we believe we should take on the challenge and deliver the vision set out in this report.

## 1 INTRODUCTION

The Commission for Childcare Reform was established in March 2014 to investigate how best childcare provision in Scotland might be organised, delivered and paid for. This report sets out the case for reform, and builds on the draft recommendations for change set out for discussion in our interim document of March 2015.

Our primary interest throughout is to ensure that all families who wish to can access high-quality, affordable, flexible and convenient childcare which in all circumstances meet the needs of the child.

This report provides a short account of the childcare challenge for Scotland. It sets out the characteristics of a high-quality system, with a focus throughout on both quality and equality of provision. It identifies six major challenges which we believe need addressed. It proposes reform in all the areas where we think action is required, and makes recommendations for how change might be accomplished.

While the case for change is rooted in everything that civic society and business have told us they find important, we have not felt constrained to please everybody by basing our recommendations on the lowest common denominator. In an important panel discussion with MSPs last August, which confirmed full cross-party support for our reforming objectives, MSPs of every political party asked us to be bold in our thinking. We believe we have been.

### 1.1 The Commission - its Remit, Membership and Reporting Arrangements

The Commission for Childcare Reform was launched by the Childcare Alliance. The Alliance is a network of hundreds of partner organisations drawn from across civic society and business in Scotland, led by Children in Scotland and the Scottish Council for Development and Industry (SCDI).

Our recommendations are delivered to the Childcare Alliance to take forward with national and local government and a wide array of civic society and business interests in Scotland.

The Commission is chaired by Colin MacLean. **Annex A** sets out our membership and terms of reference. Our remit is:

- **To engage widely with Scottish civic society and business, and consider evidence from within Scotland and other countries, to identify and explore issues related to childcare.** Section 1.2 below lists our engagement over the last 15 months; section 1.3 summarises our guiding values; section 1.4 our scope; and section 1.5 our objectives. Chapter 2 describes the childcare system in Scotland. Together with the annexes, it provides the context and the published evidence base for our report.

- **To deliver advice on the key features of an excellent system of childcare provision for Scotland, and make recommendations on how such an excellent system might be established and sustainably funded.** Chapter 3 below sets out our understanding of excellence; chapter 4 provides our advice on how to achieve it; and chapter 5 offers recommendations.

## **1.2 Our Engagement with Civic Society and Business**

Since the launch of the Commission on 27 March 2014, we have engaged online with thousands of parents (2,592 responded to our online survey). We have met in person with hundreds more people from across civic society and business. Our regular blogs have maintained ongoing discussion.

We have hosted a number of large events, including a political panel event in the Parliament last summer. We received 16 written submissions to our call for expert evidence, and a number of experts offered us several hours of their time for close discussion in person. We co-hosted or participated in upward of 20 local conversations across the country involving a wide array of parents, providers, employers, childcare professionals, union representatives and organisations representing the interests of children and their families.

Following publication of our interim report in March 2015, we hosted a number of workshops to test our proposals for change, including events in Glasgow, Edinburgh and Dundee, and we also benefitted from workshop discussion and feedback from a number of particular interest groups.

Throughout the 15 months, we have also engaged with various Scottish Government, UK Government and local authority groups, bodies and individuals.

We believe a principal value of our report lies in the fact that it has been built on conversation with such a wide range of people, each offering different perspectives on the challenge (see **Annex B**).

Thank you to everyone who gave us their time and insights.

## **1.3 Our Values and Principles on the Care of Children**

In some countries, there is a strong social and cultural expectation that families will use extended childcare from an early age. In others, there is still an expectation that mothers will stay at home with young children, although that is changing. We believe that the primary responsibility for children's care and development lies with parents. While high-quality childcare should be available to all families, it is for the family to decide whether to use it.

We recognise that there are some children and families whose circumstances mean that they need intensive and specialised support. Some elements of that support may be delivered in a childcare setting, or are planned to complement the childcare that is being used. The needs of these children must be addressed, and in some circumstances this might involve an element of direction by the state. But for the vast majority of families, choices about childcare are made by families themselves.

As discussed below, we believe that high-quality childcare is good for children and families, and enables parents to engage in the labour market. For that reason, the state should ensure high-quality childcare is available, suitable and affordable for families who want it.<sup>3</sup> It needs adequate public investment, although we believe parents should – and will want to – contribute fairly to the cost.

Whatever the reason for the family using childcare, the needs and interests of the child must remain central.

High-quality childcare is valuable for children. It provides activities and experiences that support the child's need for safety, social development, learning, care, play, meals and rest. However, children also want and need to spend time with their families. Any state-supported system of provision should recognise this and restrict the total amount of childcare that it supports.

All high-quality childcare should provide children with care and learning opportunities. At different points during the day, different of the child's activities and experiences will be prominent, but we do not think it is good for the child if the day is artificially divided into 'care' and 'learning'.<sup>4</sup>

The current 600 hours per annum of free universal early learning and childcare offered to all 3 and 4 year olds and some 2 year olds, directly serves important child development outcomes.<sup>5</sup> It should continue to be free at the point of delivery, and easily accessible by all families seeking to take up their child's entitlement. In section 3.2.5, we discuss the widespread concern that the 600 hours is either not entirely free at the point of delivery or is not easily accessible for many working families.

Research evidence suggests that, for most pre-school children, it is not essential for child development reasons to increase the number of hours of free universal early learning and childcare provision.<sup>6</sup>

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<sup>3</sup> When we refer to the 'state' or 'government' in this report, unless we specify otherwise, we mean the Scottish Government working with the UK Government and, as appropriate, with Scottish local authorities.

<sup>4</sup> We welcome that this point is also emphasised in the recent workforce review commissioned by the Scottish Government. An Independent Review of the Scottish Early Learning and Childcare Workforce and Out of School Care Workforce, UCL Institute of Education (June 2015)

<sup>5</sup> See **Annex C** which includes a note on current and planned free universal entitlement to early learning and childcare in Scotland.

<sup>6</sup> Jo Blanden et al (2014) The Impact of Free Early Education for 3 Year Olds in England, Nuffield Foundation. Also, 'Has free childcare helped children and mothers?' Societygeneral.ac.uk (Feb 2015)



It is good for families and for the economy that many parents work or study. Ensuring that more families can realistically do so helps tackle income and gender inequalities. If parents who work or study are to feel confident that their children are being well looked after, high-quality childcare is required as part of a positive mix of experiences for their children.

Ensuring that suitable and affordable childcare is available can only be achieved through effective partnership working involving families, employers and business interests, as well as service providers and funders.

## **1.4 Our Scope: What we mean by ‘Childcare’**

Our review covers provision for both 0-5s and school-age children, and we need language that covers that broad scope. We recognise that terminology in this area has changed positively over the last two decades, reflecting growing ambitions for what we expect for our children. It is excellent to see this, yet the overlapping language we have at present can sometimes appear confusing or awkward to use.

We capture four overlapping types of provision within our scope. These are provision for children aged 0-5 that enables their parents to work or study, or to seek to do so; early learning and childcare; care before and/or after school hours for school-age children during term time; and holiday care when normal school or provision for the 0-5s is not available.<sup>7</sup>

By ‘provision’ we mean services offered by organisations and individuals who are **registered** by the Care Inspectorate to take care of children while their parents do not.<sup>8</sup>

There is no single word or phrase that exactly captures the scope of our work. So for simplicity we are using the single word **childcare** to mean all four types of registered provision described above. Throughout this report, please read the term ‘childcare’ with this meaning.

### **1.4.1 A Note on Informal Childcare by Family Members**

Informal childcare is very common in Scotland, more so than anywhere else in the UK. At least 40% of families regularly use grandparents to provide childcare compared with about 33% in the UK as a whole.<sup>9</sup>

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<sup>7</sup> We exclude provision of school-age education, residential care, NHS hospital care, foster care, etc.

<sup>8</sup> There are some services which are currently not registered in Scotland, including holiday activity clubs for school age children and individual nannies. OFSTED in England has addressed this for childcare funding purposes (ie, so that parents in England can use childcare vouchers on these services) without being subject to full inspections. There may be interest amongst inspectorates in Scotland in investigating if a similar arrangement could be reached here. We would welcome this inclusion.

<sup>9</sup> Growing Up in Scotland (2012) The Involvement of Grandparents in Children’s Lives, Research Findings No 1/2012, Scottish Government. Grandparents’ care is most common for children under the age of 3 and to provide out-of-school care for older children.

The use of informal childcare in Scotland is growing. Both the number of children looked after by grandparents, and the length of time that grandparents spend on childcare, is rising.<sup>10</sup>

Understanding parents' motivations for using informal childcare helps reveal the weaknesses in current provision, as well as providing clues to Scotland's underlying cultural values around the care of children (especially younger ones). A 2011 UK report found that parents tend to use informal childcare:

- to cover before and after school periods,
- to offset the cost of registered childcare - particularly for those in short term employment or peripherally in the labour market;
- as emergency backup; and
- for lone parents and those working atypical hours.<sup>11</sup>

The same report found that families also strongly value informal childcare. Informal arrangements are about trust. Childcare offered by grandparents is felt to be safe and flexible and not just highly affordable or free.

While many families are able to make choices about whether to use family members to provide informal childcare, there are many others for whom this is not an option, for example because of distance or because family members cannot afford to give up their own employment to provide childcare cover.

The state should therefore not assume that families will be able to use informal care to manage the logistics of caring for, and transporting, children between poorly-coordinated periods of childcare in different settings.

## **1.5 Our Objectives – Balancing Amongst Priorities**

Based on our values and principles (see section 1.3), we consider that the overall system of childcare provision should be designed to deliver an acceptable balance between:

- At all times and without exception, meeting the child's daily and weekly needs, across the full range of those needs;
- Enabling parents to work or study if they wish;

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<sup>10</sup> Age UK and Grandparents Plus report (2013) Between 2009/10 and 2010/11 the number of children being cared for by their grandparents rose from 11.7% to 14.3% of all children under 14; and the hours of childcare provided rose by 35%.

<sup>11</sup> Jill Rutter and Ben Evans, Daycare Trust (2011) Listening to Grandparents - Informal Childcare: Choice or Chance? Research Paper 1.

- Helping address inequalities, by ensuring all children have access to high-quality learning opportunities and by enabling parents living in or near poverty to access the labour market; and
- Supporting inclusive economic growth, by enabling parents to make a positive contribution to the economy through work and study, confident that their child's needs are being met.

We recognise and welcome that these four objectives are widely shared across the OECD countries, and also more particularly across Scottish society. However, these objectives are not always mutually reinforcing. We often observe inconsistencies in policies and practice as a result.<sup>12</sup> For example, the child's need for stability may conflict with the employer's need for parents to work variable shifts. Or, the parent may wish to limit the time the child spends in childcare, but needs to work overtime to earn a decent income. Or, delivering pre-school early learning and childcare in three-hour blocks may make educational and practical sense for children who are at home the rest of the day, but not for those who are in all-day childcare or who move across multiple daily or weekly childcare arrangements.

We consider the different vantage points of the child, the parent, the employer, the service provider and the funder need to be further explored in future discussions, to establish where the consensus lies on which of the inconsistencies are worth living with and which not.

In declaring our own position amongst these objectives, we believe everything must start with meeting the child's needs.<sup>13</sup> However, we consider the child's interests in childcare are largely confined to their direct experience of it. When they are in receipt of these services, of course they must be good. When they are good, the child's interests are met.

However, the child's interests do not typically extend to what triggers the need for a decent childcare system in the first place. That trigger relates to meeting the needs of parents, including poorer parents, who may wish to work or study; and the needs of employers, colleges and universities for an inclusive, motivated and well-supported workforce or student body.

The professionals in this sector, as well as the policy makers, regulators and funders have generally focused on ensuring the child's experience of childcare is good. That should continue as an area for continuous improvement. But nobody as yet has taken responsibility for ensuring families have access to the affordable high-quality childcare they need.

It is time for that to change. The aspiring working parent or student is a 21<sup>st</sup> century user of public services, and the employer is an essential stakeholder. They are not just entitled, but are required, to participate fully in a modern set

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<sup>12</sup> Mike Brewer, Sarah Cattán and Claire Crawford (2014) State Support for Early Childhood Education and Care, Institute for Fiscal Studies

<sup>13</sup> **Annex C** provides a summary of the main policy frameworks and legislation relating to the care of children. Our approach to meeting the four objectives sits well, we believe, with these.

of relationships between funder, provider and client. It is this new set of dynamics that should determine what publicly-supported services are available, and to whom, and how, and at what cost to the public purse.

## **1.6 The Needs of the Child at Different Stages of Development**

The child's needs must always be at the centre, but these develop and change as the child grows. Our approach is based on the needs of the child at different life stages. We recognise that not all children will progress through these stages at the same pace, and individual circumstances must be taken into account.

While the life-stage approach to the care of children enjoys clear support, not least because childcare professionals and parents understand this leads to higher quality services for the child, there is some divergence of views on the care of very young children in registered childcare settings.

Early years experts agree that a baby's attachment to their parent or loving adult in the first year of life matters profoundly. This relationship needs closely protected. Where experts do not agree amongst themselves is whether this means it is better for the child for one of the parents to remain at home for the first year of their baby's life. The quality of registered childcare on offer to the young child is particularly important in shaping advice on this issue.<sup>14</sup> While very young children do form positive attachments with a range of carers, the form of provision they receive critically shapes whether it is a high quality experience.<sup>15</sup>

There is a gap between the end of paid parental leave and the commencement of universally available subsidised provision for pre-school children (see Chart 9 at **Annex D**). Current parental leave entitlement in the UK is set at a financial level which often requires parents, for financial reasons, to return to work sooner than many would like (see section 2.4).

These considerations prompt the question of whether or not it is right that the state should enable – and perhaps be seen to encourage – parents of very young children to work, by offering subsidy for childcare during this period. We offered options for discussion in our interim report of March 2015, and heard

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<sup>14</sup> The National Institute of Child Health and Development (NICHD) study of 1997 (Child Development 68 (5)) found that being in childcare had no direct effect on attachment security, unless the childcare was poor quality; the child spent more than 10 hours per week in care; or was in more than one childcare setting during the first 15 months of his or her life. Sagi et al (2002) (the Haifa Study of Early Child Care, Child Development, 73) report that nurseries offer worse quality care than maternal care or care by a relative, child-minder or nanny. This study found that being exposed to infant-adult ratios of more than 6:1 while in group care increased the likelihood of an insecure attachment, especially when combined with low maternal sensitivity; low-quality care; being in care for more than 30 hours pw; entering care at younger than 13 weeks old; and having more than one type of carer. Care by relatives had higher levels of attachment security than other forms of care. A 2013 study calls for supported protected leave, with maternity leave of at least 6 months and a reserved period of remunerated 'daddy leave'. Childcare that runs alongside or follows on from this leave should be in small ratios (3:1 at most) with a stable source of care in a group setting. Imogen Parker, Institute of Public Policy Research, Nuffield Foundation (2013), Early Developments: bridging the gap between evidence and policy in early years education.

<sup>15</sup> Schaffer HR (1990) Making Decisions about Children, Oxford: Blackwell

strongly-held views on each of these. We respect the full range of discussion we heard, and recognise that families will make different choices.

In our discussions, we heard calls for additional funding to be provided to families where one parent opts to stay at home with very young children. We also heard that childcare subsidy should be available for very young children on the same basis as for older children. We believe both of these are legitimate aspirations, but that the choice should be made by parents based on their own views and circumstances.

We have therefore concluded that the state should make it easier for families to make that choice by providing financial support for the families of the very youngest children that does not depend on the employment status of parents or on whether or not they use registered childcare.

Our recommendation is at chapter 5 (Recommendation No 14).

## 2 AN OVERVIEW OF CHILDCARE IN SCOTLAND

Excellent sources of evidence exist on the size, location and quality of childcare services in Scotland. Data on costs, funding, accessibility, flexibility and meeting parents' needs is patchier and often contested. In this chapter and the next we highlight what the evidence available to us, along with our own engagement with parents, providers and employers, tell us are the major challenges for the organisation, delivery and funding of services.

The workforce review commissioned by the Scottish Government, and led by Prof Iram Siraj, reported recently on the childcare workforce and related inspection and regulation issues in Scotland.<sup>16</sup> As that review was being conducted over the same time period as ours, we did not give detailed consideration to workforce or inspection issues or look in depth at the evidence in these areas.

### 2.1 The Shape of Registered Childcare Provision in Scotland

The summary evidence offered here relates to registered childcare. In practice, many families wish to, or need to, arrange a mix of formal and informal care for their children (see section 1.4.1).

#### 2.1.1 *Who provides childcare?*

Scotland has a mixed economy of services, with historically different systems in place for children aged under 3, pre-school children, and children of school age.<sup>17</sup>

The settings for childcare vary, and include nurseries (day nurseries, nursery schools and nursery classes) and child-minders, along with playgroups and children or family centres. There are about 190,000 childcare places in Scotland, a majority of these being for the 0-5s. The number of childcare places has stayed constant over the last 5 years.<sup>18</sup>

Chart 1 at **Annex D** shows a breakdown of providers. Services for the under 3s are mainly offered by private providers, although there is also workplace-based and local authority provision. As we saw in section 1.4.1, the use of informal childcare is also highest for children aged under 3.

Services for the over 3s include the entitlement to 600 hours of early learning and childcare for all 3 and 4 year olds (as well as some 2 year olds).<sup>19</sup> Of the nurseries whose offer includes the 600 hours, a full 61% are directly run by

<sup>16</sup> I Siraj and D Kingston, University of London Institute of Education (June 2015) An Independent Review of the Scottish Early Learning and Childcare and Out of School Workforce

<sup>17</sup> Ingela Naumann et al (2013) Early Childhood Education and Care Provision: International Review of Policy, Delivery and Funding, Chapter 2, Scottish Government Social Research.

<sup>18</sup> Family and Childcare Trust Factsheet (April 2015) Childcare in Scotland, FACT, London

<sup>19</sup> **Annex C** includes a note on current and planned free universal entitlement.

local authorities.<sup>20</sup> While some local authority nursery services are offered on an all-day basis, it is more common for private sector providers to offer parents the option of full-day cover for their child. When those nurseries are also partner providers, that offer will include the 600 hours entitlement within the full day. Much of the 600 hours entitlement offered by local authority nurseries is provided in the format of 3-hour slots (morning or afternoon), over 5 days a week.<sup>21</sup>

The majority of registered school-age childcare is managed by the voluntary sector (52%) or by the private sector, including child-minders. Only 12% of services in this area of provision are offered by local authorities.<sup>22</sup>

Local authorities' percentage share and private providers' percentage share of day care for 0-5s have both been rising steadily since 2008, while the voluntary sector's percentage share has been decreasing.

### **2.1.2 Who uses childcare?**

About one-third of Scottish families use multiple care arrangements.<sup>23</sup>

Levels of take-up of registered childcare relate to the age of the child. Chart 2 at **Annex D** shows the number of hours different EU children spend in childcare. In Scotland, only 30% of one-year olds use childcare, rising to 70% of two-year olds.<sup>24</sup>

The Scottish Government has suggested that over 98% of 3-4 year olds (including those accessing the 600 hours entitlement only) are taking up their entitlement based on data about registration. However, there is credible reason to be concerned about using registration as a suitable measure for understanding uptake because some parents register with more than one provider, or are unable to take up a place they have registered for because it does not meet their need for all-day childcare. This issue has recently been debated in Parliament.<sup>25</sup> We support the call from parents for more robust, comprehensive and agreed data to be developed which can reveal the uptake of entitled places, and can do so against an analysis of whether uptake rates are being hampered by the current inflexibilities in how the entitled places are offered to parents seeking them.

About 10% of 7-11 year olds use registered out-of-school childcare.<sup>26</sup> Children from all backgrounds are equally likely to take up the 600 hours entitlement to free early learning and childcare. Children from lower income families are more likely to belong to nursery classes based in local authority primary schools. Use of private providers increases with household income

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<sup>20</sup> Family and Childcare Trust (2015) Annual Childcare Costs Survey, London FACT

<sup>21</sup> Family and Childcare Trust Factsheet (April 2015) Childcare In Scotland

<sup>22</sup> Out of School Care in Scotland (October 2013) SOSCN Information Briefing No 3 Edition 3

<sup>23</sup> Growing Up in Scotland (2009) - Multiple Childcare Provision and its Effects on Child Outcomes

<sup>24</sup> Care Inspectorate (2014) Childcare Statistics December 2013

<sup>25</sup> Scottish Parliament Official Report, Wednesday 3 June 2015

<sup>26</sup> Out of School Care in Scotland (October 2013) SOSCN Information Briefing No 3 Edition 3

because more private providers offer the option of full-day cover to the working parent<sup>27</sup>, and also because we suspect that poorer working families may be unable to afford the childcare fees.

Parents from low-income areas are least likely to make use of formal childcare services, even when they are free.<sup>28</sup> Parents living in rural areas and areas of higher deprivation are less likely to be able to access childcare services than those in urban areas, which results in lower use.<sup>29</sup> (See also Chart 3 and Table 1 at **Annex D**). Parents of disabled children face particular barriers around accessing affordable and flexible childcare.<sup>30</sup>

The number of hours spent in childcare also varies by age. About one-third of parents with children aged 3 or 4 use 9-16 hours of childcare per week; about a third use 17-30 hours; the final third use more than 30 hours.<sup>31</sup>

As children get older they are more likely to access 'de facto' childcare such as hobby and sports clubs and holiday activity clubs.<sup>32</sup> (See footnote 8 also on the related registration issue).

### **2.1.3 Is there enough childcare?**

Since the passing of the Children and Young People Act (2014), local authorities in Scotland must have a "strategic view of childcare accessibility". They must also consult and publish plans for both their under-5s and their out-of-school care services.<sup>33</sup>

However, in 2015, only 15% of local authorities in Scotland reported they had enough childcare for parents who work full-time, compared with 43% in England (in 2015) and also compared with 23% of authorities in Scotland reporting sufficiency in 2014. Eight local authorities in Scotland (25%) reported in 2015 that they had no supply/ demand data on childcare in their areas, and could not estimate whether and to what extent a gap existed.<sup>34</sup>

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<sup>27</sup> Growing Up in Scotland (2014) Characteristics of Pre-School Provision and their Association with Child Outcomes. Children living in large urban areas are less likely to attend than those living in rural areas (91% compared with 96%). Children living in lone parent households are less likely to attend than those in couple households (88% compared with 93%)

<sup>28</sup> About Families (2012) Parenting on a Low Income, Edinburgh: Centre for Research on Families and Relationships. The Scottish Government's November 2010 report on Child Poverty in Scotland notes that only 15% of families experiencing persistent poverty used childcare throughout their child's early years compared with 68% of families who had not experienced poverty. The Equality and Human Rights Commission's report, 'Childcare: A Review of What Parents Want' (2010) notes that those experiencing multiple disadvantage are more likely to be negative about formal provision, and this may reflect a lack of experience of using childcare; beliefs about mothers' paid work; and/or concerns about the impact of registered childcare on their children.

<sup>29</sup> Growing Up in Scotland (2009) Parenting and the Neighbourhood Context, summary report Research Findings No 3/2009 Scottish Government.

<sup>30</sup> About Families (2012) Parenting on a Low Income, Edinburgh: Centre for Research on Families and Relationships

<sup>31</sup> Growing Up in Scotland, Year 2 Overview Report (2008) Scottish Government, Edinburgh

<sup>32</sup> Family and Childcare Trust (2014) Holiday Childcare Survey, London FACT

<sup>33</sup> These expectations are also outlined in the Early Years Framework dating from 2008. Actual statutory duties are set out in the CYP Act 2014. See **Annex C**.

<sup>34</sup> Family and Childcare Trust (2015) Annual Childcare Costs Survey, London FACT



Chart 3 at **Annex D** indicates the inequalities in access or use of childcare in deprived areas. The lowest availability of childcare tends to be in deprived areas, where it can be difficult for private and not-for-profit providers to break even.<sup>35</sup> Families in deprived areas often require quite complex childcare arrangements to make working a possibility.<sup>36</sup>

Out of school service provision is concentrated in larger urban areas.<sup>37</sup>

In 2015, only 7% of local authorities reported they had enough childcare for disabled children.<sup>38</sup>

Occupancy rates in different services vary by location; by the extent to which children are in full- or part-time places; and by time of year.<sup>39</sup>

There is uncertainty about the extent to which suitable, or enough, spare capacity exists at present which could help meet current demand if existing provision were more effectively organised. While there may be as much as 20-25% average underuse of places, anecdotal evidence suggests these places are not available in the right places or at the right times to suit families' work patterns. In addition, there may quite simply not be enough total capacity at present to meet current demand. Better evidence in this area will be helpful.

It is a difficult challenge for service providers and funders to estimate future demand, including the extent to which demand would grow were services to become generally more affordable, accessible and flexible. While local authorities are expected to assess need, we consider it should be a major and urgent task for local partnership planners to make progress in this area.

## **2.2 Childcare Costs for Parents, and Public Spending in UK and Scotland to Support Childcare**

State funding of childcare in the UK (including Scotland) is complicated and lacks transparency.

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<sup>35</sup> National Day Nurseries Association (2015) "Annual Nursery Survey 2015 – Scotland Report" notes that 49% of nurseries expect to either just break even (37%) or make a loss (12%) this year. Penn and Lloyd (2013) report findings that on average the annual profit per childcare nursery in England in 2012 was £13,600. This varies with the size and location of the nursery. In 2012, 11% of nurseries in England had broken even and 24% made a loss. The loss-makers tended disproportionately to be small nurseries operating in deprived areas. In contrast, at the top end of the market some large nursery chains were dealing with revenues of up to £80 million pa. Penn & Lloyd (2013) *The Costs of Childcare, Childhood Wellbeing Research Centre Working Paper No 18*

<sup>36</sup> Growing Up in Scotland (2010) *The Circumstances of Persistently Poor Children – summary report. Research Findings No 1/ 2010, Scottish Government*

<sup>37</sup> SOSCN figures for October 2013 report the number of out of school services per head of population in large urban areas is 8.9, falling to just 3.0 in remote rural areas.

<sup>38</sup> Family and Childcare Trust (2015) *Annual Childcare Costs Survey, London FACT*

<sup>39</sup> The NDNA survey of 2015 reports an average occupancy for private providers in Scotland of 76%, but the range varies widely. There is lower occupancy in recently opened nurseries, or those "suffering from a challenging local childcare market". The CEEDA study *Counting the Cost* (October 2014) notes that settings in England operating all year round experience significant dips during school holidays. Occupancy is highest in the mornings.

Costs paid by parents in the form of fees are likewise complex. The tax and benefits systems interact to provide erratic support for childcare that helps some families much more than others, sometimes for no obvious policy reason.

### **2.2.1 How much do parents pay for childcare?**

The amount each family will pay towards childcare varies widely. The principal variables relate to: the amount of registered childcare the family uses; the age of the child; the family's income, as well as its net income position after taking account of the various tax reliefs and welfare benefits that that family may be entitled to (see section 2.2.3); and the way the childcare market operates in Scotland (see section 2.3).

The Family and Childcare Trust's survey of childcare costs in Scotland in 2015 reports that on average:

- Families pay more for childcare in Scotland than any other European country except for Switzerland<sup>40</sup>;
- Part-time childcare for two children under the age of 5 costs more than the average mortgage in Scotland;
- The cost of a nursery place has increased by 27% in Scotland over the last 4 years; and
- The costs of childcare are higher in Scotland than anywhere else in the UK, outside London.

The costs of childcare are highest for parents with children around the 1-2 age group. Costs start to fall as the child gets older (ie, once they can access their free 600 hours). Parents of children aged 5 and over are reported to continue to find it hard to afford out-of-school care.<sup>41</sup>

Childcare costs (for two children attending full-time services) are very high in the UK compared with other countries, as shown in Charts 4 and 5 in **Annex D** and related notes. Invoices charged to parents in the UK account for 53% of the average wage, as compared with 6.5% of Sweden's and 14.4% of Denmark's.

Net childcare costs paid by parents with two pre-school children in the UK (ie, the actual fees incurred, minus the effect of any childcare benefits or tax relief

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<sup>40</sup> OECD 'Doing Better for Families' (2009). Across all OECD countries, the average cost of childcare takes up 12% of family net income, where both parents earn the average wage. For dual earner couples in the UK, both on the average wage, net childcare costs take up 27% of household income. Estimates from FACT (2014) suggest that since 2009 this has increased to 30%.

<sup>41</sup> Response from the Scottish Out of School Network to the Commission's call for expert evidence, autumn 2014.

that family receives) range from 46% of the average wage for a high-income couple<sup>42</sup> down to 6% for a low-income lone parent. For a UK couple, both working full-time and earning the average wage, childcare costs represent 29.4% of net family income. This is the highest of any OECD country.<sup>43</sup>

These percentages apply only if other benefits are also being claimed by eligible families via Childcare Tax Credit. Costs for average and low income families rise very substantially if families miss out on claiming Childcare Tax Credit (see notes on Charts 4 and 5 at **Annex D**).

Eligibility for benefits is tightly targeted, although not in coherent ways that ensure roughly equivalent support is available to different types of poorer family whose income is similar.

A majority of middle-income families cover almost all the costs of childcare themselves apart from the 600 hours free entitlement.<sup>44</sup> Two thirds of parents in the UK get no financial support at all from either the current tax credits schemes or employer vouchers,<sup>45</sup> but see section 3.4 of **Annex E** for beneficial planned changes with the introduction of the new tax free childcare scheme.

For some families the costs of childcare cancel out the after-tax gains from employment.<sup>46</sup> The families who would benefit most from additional income are those who may be either withdrawing from the labour market, or are unable to afford to enter it – either lone parents, or second-earners in low-income households.<sup>47</sup> Particular challenges are faced by those whose earnings are erratic, for example, people on zero hours contracts.<sup>48</sup>

High childcare invoices to the parent tend to reduce the employment rate of grandparents, especially younger grandmothers, who give up employment earlier to look after their grandchildren.<sup>49</sup>

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<sup>42</sup> Family support for relatively well-off working families is currently limited to basic rate tax relief on childcare costs (if their employer operates the Childcare Voucher scheme) and some free early learning and childcare (once their child turns three years old). This means that net costs for these families are very significantly higher than for similar families in other countries where a greater number of directly-provided services are in place.

<sup>43</sup> OECD (2012) benefits and wages database

<sup>44</sup> Parents can currently claim tax and National Insurance Contributions relief on the cost of childcare using childcare vouchers or workplace nurseries provided through their employers. Only 5% of employers in Scotland offer employer-supported childcare, UK Government Press Release March 2013 “New scheme to bring tax free childcare for 25 million working families”

<sup>45</sup> Helen Penn and Eva Lloyd (2013) *The Costs of Childcare*, a report for DFE, CWRC Working paper No 18, London

<sup>46</sup> An Aviva survey (December 2014) reports that one in 10 families use one earner’s wages solely to cover childcare and commuting costs, with 4% of women “paying to work” because their costs are greater than their wages. The median average wage left by the lower earner’s family is just £243 per month. Rob Gowans, Citizens Advice Scotland (2014) “Working at the Edge” reports that the cost of childcare is a major contributor to in-work poverty for many of their clients.

<sup>47</sup> A Joseph Rowntree Foundation report (January 2015) found that over half of 2-parent families with only one earner live on incomes below the Minimum Standard Income (ie, what the public think you need for a socially acceptable standard of living) – 51% in 2012/13, up from 38% in 2008/09.

<sup>48</sup> Rob Gowans, Citizens Advice Scotland (2014) “Working at the Edge”. For people on zero hours contracts, budgeting can be impossible, and the safety net of the benefits system inaccessible because of the unpredictability of their working hours.

<sup>49</sup> Grandparents Plus press release (16 March 2015) “2 million parents would give up work without grandparents’ help, polling reveals”.

### 2.2.2 How much does the state spend on childcare?

Public spend in the UK on families with children (aged 0-16) is delivered through three different routes:

- Direct public funding of services;
- Cash transfers to families (eg. through general entitlements like Child Benefit or childcare-specific entitlements like the childcare element within Working Tax Credit); and
- Tax breaks to working families.

Authoritative data on total public spend in Scotland on families with children (0-16) has proved difficult to source, but it is likely to be in the region of £5 billion per year (excluding school education spend).<sup>50</sup> The bulk of that money is in the form of benefits and tax breaks/ credits that are controlled by UK Government and not explicitly tied to childcare.<sup>51</sup> The Scottish Government controls direct public funding of childcare services, as it has devolved responsibility for education and social services, including childcare workforce qualifications and development.

The UK Government is estimated to spend £6 billion per year on pre-school education and cash support to families related to childcare (for children aged 0-5 only).<sup>52</sup> On that basis, it is reasonable to assume the Scottish and UK Governments spend roughly £600 million between them on the education and childcare support for pre-school children in Scotland. That amount will increase significantly with the introduction of 30 hours free childcare and tax free childcare.<sup>53</sup>

The majority of support with the costs of childcare, over and above the free entitlement, is currently directed to families on low incomes.<sup>54</sup> However, the introduction of tax free childcare will significantly increase the number of

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<sup>50</sup> Chart 7 at **Annex D** indicates that the UK spends 3.45% of GDP on support to families with children. Assuming Scotland spends the same proportion as the UK, we can estimate about £5 billion is spent in Scotland, of which about £600 million relates directly to early education and childcare.

<sup>51</sup> Between them, cash transfers to families with children and tax breaks/ credits are estimated to account for about 86%-88% of the public monies families with children in Scotland receive. It is impossible to estimate what proportion of these general entitlements individual families will decide to spend on childcare.

<sup>52</sup> Family and Childcare Trust Factsheet, April 2015. This £6 billion is noted by FACT to include £1.7 billion delivered through tax credits and universal credit; £800 million on employer-supported childcare vouchers (which will soon be phased out); and £1 billion on the tax-free childcare scheme (which is expanding). See **Annex E** for further detail on relevant tax and welfare schemes.

<sup>53</sup> The bulk of this estimated figure is provision for the 600 hour commitment under the Children and Young People's Act 2014. The Scottish Government has pledged to increase provision to 30 hours per week if re-elected following the 2016 Scottish elections. By 2019/20 annual revenue spend on early learning and childcare in Scotland will have increased from £439 million in 2014/15 to around £880 million. (Scottish Government press release, 25 Feb 2015)

<sup>54</sup> Support with the costs of childcare is targeted to those in receipt of Working Tax Credit and can cover up to 70% of the costs of childcare. Additional support is also offered to low income families in the form of income disregards for any funds spent on childcare when calculating the family's eligibility for Housing Benefit and Council Tax Benefit. See **Annex E**.

middle income families who also get state support for their childcare costs. **Annex E** provides a summary of current and planned sources of support to families with children in Scotland which includes several different schemes, many of them administered at UK Government level. Only some of these relate specifically to childcare, but all are relevant to the family's capacity to find net childcare costs affordable.

Any changes in tax reliefs, benefits payments and cash transfers to families in Scotland would need to be agreed by UK Government, and negotiated in the context of the post-Smith Commission devolution process. Regardless of the final demarcation points agreed, it will always be harder for two different administrations to agree coherent policy and related funding support for childcare than for one administration alone. This is a major practical challenge.

Chart 6 at **Annex D** shows that the UK spends almost as much as Norway on early learning and childcare.<sup>55</sup> Chart 7 at **Annex D** illustrates that the UK spends a comparable amount on families and children as do other leading OECD countries: the UK spends 3.45% of GDP, whereas Sweden spends 3.75% and Denmark 3.9%.

The UK differs from many OECD countries (e.g. the Nordic countries and France) in terms of the proportion of spend delivered via the three routes of direct services, cash transfers and tax breaks. The UK's cash benefits (welfare benefits and tax reliefs) make up 2.09% of GDP, against Sweden's 0.82% and Denmark's 0.41%. By contrast, the UK's direct spend on childcare services is only 0.43% of GDP, as compared with 1.43% in Sweden and 2.43% in Denmark.

Chart 8 at **Annex D** compares the different balance of supports available to working mothers in the UK against selected others, and shows they get significantly less support, in total, than some of their European counterparts.<sup>56</sup>

## 2.3 The Childcare Market in Scotland

Scotland has a mixed economy of service providers, and multiple childcare arrangements are common for working families across these (see section 2.1.1).

The UK's childcare market is one of the most privatised in Europe, with a majority of providers being either small businesses or micro-businesses.<sup>57</sup>

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<sup>55</sup> The OECD average spend is 0.7% of GDP, and the UK's ranks well in comparison, 5<sup>th</sup> highest at 1.1%. This level of spend is well ahead of countries like Slovenia which invests 0.5% of GDP, although the vast majority of Slovenian pre-school children spend 30 hours or more in publicly funded childcare, as we see in Chart 2 at **Annex D**. See also Jana Javornik and Jo Ingold (2015), "A childcare system fit for the future?" in Foster et al (eds) *In Defence of Welfare II*, Bristol, Policy Press

<sup>56</sup> See the 2013 report by Emma Saragossi for the 30% Club, "Mothers on Board: Comparing the level of support for working mothers to the proportion of women in senior management in eight OECD countries"

<sup>57</sup> Lloyd and Penn (eds) (2012) *Childcare Markets: can they deliver an equitable service?* Bristol

Including child-minders, a full 70% of all services for 0-5s are delivered by the private sector; 12% by the voluntary sector; and 18% by the public sector. Note that if child-minders are excluded, and the focus is on day care services for pre-school children more so than arrangements for the care of the 0-3s, the balance of provision looks rather different. In 2011, local authority services accounted for 45% of all day care in Scotland for 0-5 year olds (excluding childminders), while only 29% were privately run and a further 27% were not-for-profit providers.<sup>58</sup>

Childcare prices in the UK are not capped or regulated.

We welcome the recommendation of the recent workforce review commissioned by the Scottish Government which seeks to improve the status, pay and conditions of all staff working in childcare and, as part of that, to reduce differentials between the public, private and voluntary sectors. We also recognise the effect improved pay will have on the cost of provision.<sup>59</sup>

The different parts of the market are poorly integrated in terms of the organisation, funding and location of (different) services for the under 3s, for pre-school children and for school-age children.<sup>60</sup> There is also a lack of alignment with parental and other leave.<sup>61</sup> There is low profitability in setting up services in some parts of the country or for some specialist services<sup>62</sup>, although the general trend is towards growth.<sup>63</sup> This suggests instability in the supply of services for parents, and unevenness of growth in provision. The availability of out-of-school provision is particularly patchy.

### **2.3.1 Supporting the childcare market with public subsidy**

Experts agree that further public funding is needed if the childcare market is to be made equitable, sustainable and affordable to all parents, while remaining of the high-quality that children require.<sup>64</sup> Many also argue for transparent regulation and management of that public funding.<sup>65</sup>

There is greater debate as to the most effective means of influencing the market to work in desired ways. There are pros and cons to each of the major

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<sup>58</sup> Ingela Naumann et al (2013) Early Childhood Education and Care Provision: International Review of Policy, Delivery and Funding, Chapter 2, Scottish Government Social Research

<sup>59</sup> Iram Siraj and Denise Kingston, Univ of London Institute of Education (June 2015) An Independent Review of the Scottish Early Learning and Childcare and Out of School Workforce

<sup>60</sup> Ingela Naumann et al (2013) Early Childhood Education and Care Provision: International Review of Policy, Delivery and Funding, Chapter 2, Scottish Government Social Research.

<sup>61</sup> O'Brien M, Moss P, Koslowski, A and Daly M (2013) "The UK Report" in the Annual Review of Leave Policies and Research, International Network of Leave Policies and Research

<sup>62</sup> Dept of Education (Sept 2014) reports concerns about the ability of the private childcare sector to be attractive to banks. DoE, Childcare and Early Years Provider Survey 2013

<sup>63</sup> Scottish Enterprise have reported to us that day care centres in the UK have grown annually by 2.3% between 2010 to 2015, and further annual growth is estimated at a rate of 4.3% annually up to 2020.

<sup>64</sup> This was an almost universal comment made in the written submissions we received from our call for expert evidence, Autumn 2014, [https://www.commissionforchildcarereform.info/?page\\_id=68](https://www.commissionforchildcarereform.info/?page_id=68)

<sup>65</sup> The experience of Norway and France are cited as examples of the benefits of requiring regulation not only of the quality of the actual service delivered, but also of the public investment made. Jacobsen K and Vollset G (2012) Publicly Available and Supported Early Education and Care for All in Norway, in Lloyd and Penn (2012) eds Childcare Markets – can they deliver an equitable service? Bristol

funding routes in terms of their effectiveness for delivering short- or long-term social and economic goals.<sup>66</sup>

Under the current balance of public spend in the UK which is heavily weighted towards cash transfers and tax breaks, there is a consensus amongst experts:

- that public supply-side subsidy levels vary considerably and are generally too low<sup>67</sup>;
- that small private businesses depend heavily on pre-school early learning subsidy (the 600 hours) in order to remain viable<sup>68</sup>; and
- that options available for low income families are often narrow and of poorer quality.<sup>69</sup>

The way public funding is distributed is at least as important as its quantity if there is to be increased assurance that public spend on childcare is having the intended impact on how the market operates. A particular issue arises in Scotland about how the fraction of public money which is spent on delivering the 600 hours is being managed and allocated. (See section 3.2.5 for a discussion).

## **2.4 Parental Leave Arrangements in the UK and Scotland**

Parental leave policies and funding are set at UK Government level, and apply in Scotland on the same basis as the rest of the UK.

Entitlement to maternity leave in the UK is for 52 weeks: 6 weeks at 90% of earnings; 33 weeks paid at the lower end of 90% or a flat rate of £139.58; and the remaining 13 weeks unpaid. Since April 2015, couples have the option of dividing traditional maternity leave entitlement between them, under new shared parental leave arrangements. Fathers retain their existing right to two weeks paternity leave, paid at the same flat rate as for mothers.

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<sup>66</sup> OECD Starting Strong 2 report (2006). The argument made in favour of supply-side public funding is that long-term social change can be best achieved with this approach. The argument for cash transfers is that they are flexible tools for governments. They respond to policy targets, such as reducing child poverty rates, or having to cut spending quickly. Cash transfers can be means-tested and therefore effectively targeted and are more transparent in terms of their cost to the government. The argument for tax breaks is that they are more efficient for encouraging work. They are harder to apply in practice, given the interplay with other labour market conditions and choices. In practice, they favour those paying the most tax (i.e. the higher earners). As with cash transfers, the costs and effects of tax breaks can be quite readily assessed.

<sup>67</sup> This was a very common point raised in the submissions we received from our call for expert evidence, Autumn 2014. [https://www.commissionforchildcarereform.info/?page\\_id=68](https://www.commissionforchildcarereform.info/?page_id=68)

<sup>68</sup> Lloyd and Penn (2013) eds. *Childcare Markets – can they deliver an equitable service?* Bristol. Lloyd E – ‘We need to change the childcare subsidy system’, comment on Paull, G (2014) ‘Can government intervention in childcare be justified?’ *Economic Affairs*

<sup>69</sup> Citizens Advice Bureau, *The Practicalities of Childcare: an overlooked part of the puzzle?* (July 2014) See also, Eva Lloyd and Sylvia Potter (2014) *Early education and care and poverty*, Joseph Rowntree Foundation: London. Amongst other critiques of the current subsidy models, this report highlights that universal credit is not designed around the practicalities of childcare, including that it is paid in arrears which is a major challenge for poorer families trying to access the labour market.

Many employers make additional provisions beyond the statutory minimum for maternity leave, although there are concerns that employers are not ready to implement the new rules on shared parental leave.<sup>70</sup>

Chart 9 and Table 2 at **Annex D** provides information about parental leave entitlement in the UK compared with other OECD countries, including Sweden and Denmark. While the total number of statutory weeks available to UK parents is high (at 80 weeks), most of this period is either poorly paid or unpaid.

The cash value of leave entitlement is very significantly less than the support available to the Nordic comparators. The UK spends only 0.36% of GDP on parental leave compared with 0.76% in Denmark and 0.61% in Sweden.<sup>71</sup>

Chart 9 also illustrates the time gap which a majority of parents in the UK face, between the end of paid parental leave and the commencement of some level of state-supported early learning and childcare. The majority of other European countries do not expose parents to this gap.

It is bridging this gap which costs UK parents so highly while their child is aged one or two.

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<sup>70</sup> Jana Javornik, (26 August 2014) 'Employers aren't ready for shared parental leave' The Conversation.com

<sup>71</sup> OECD social expenditure database 2012 A UK working parent will receive £7,400 in state support for their parental leave, compared to £22,000 for a Danish parent or £23,000 for a Swedish parent.



### 3 THE NATURE OF THE CHILDCARE CHALLENGE – SIX MAJOR POINTS OF REFORM OR IMPROVEMENT

This chapter sets out the features of excellence which we believe should apply across the totality of Scotland's childcare provision. This account is based on our engagements this year with parents, providers, employers and others. We provide a brief synopsis of the nature and scale of the childcare challenge which they identified for us. We summarise that challenge into six major issues needing reform, prior to outlining in chapter 4 the steps we think need to be taken to achieve change.

#### 3.1 Recognising What an Excellent System of Provision Looks Like

As set out in our interim report of March 2015, we consider that if our childcare system is to be excellent, it must have the characteristics noted here. Nearly all these qualities should be evident within individual services, and all of them should be observable locally across the system of provision as a whole.

**High Quality:** meaning children's learning, development and care needs are met over the course of the child's day, including in cases where the child attends more than one element of provision. Quality is tested, approved and monitored by suitable quality inspection frameworks. We discuss quality at section 3.2.1.

**Affordable:** meaning it is affordable for parents. It is also affordable for national government (Scottish Government and UK Government) and for local authorities.

**Responsive:** meaning it addresses the needs of individual children, including those with additional support needs, disadvantaged children etc. It also includes reasonable continuity of care and carers for the child.

**Available:** meaning services that meet the family's needs will exist close to where the family lives and/or where the parents work or study. It is not essential that every service in a local area should be open at all times, as long as there is sufficient flexibility within the local area to allow parents to access the service they need.

**Flexible:** meaning it is flexible and convenient for families. It is accessible when parents need it, including catering for variable work and study patterns and (subject to the child's best interests) for one-off events such as job interviews. Flexibility must not be at the expense of the child's need for stability. While it is reasonable to ask families, providers and employers/colleges to each act as flexibly as possible, it is not reasonable to expect this of the child.

**Seamless:** meaning (a) local coordination of the practical arrangements for care for the 0-5s, early learning, primary education and out of school care.

And (b) all based on the same approaches (principally GIRFEC, Curriculum for Excellence, Achieving Our Potential and Building on our Ambition).

**Equalising:** meaning it reduces rather than exacerbates the opportunity gap. It gives children the best possible experience, regardless of parental income, and it gives parents the ability to participate in employment or study, and to provide for their family.

**Sustainable:** meaning that parents, local authorities and providers can plan on the basis that (most) services are viable and will continue to provide the necessary range of services from year to year.

**Fair:** meaning funding arrangements (a) feel fair to the parents, the provider, the local authority and anyone else involved in the payment system such as the employer or the college and (b) are easy to understand and access, supported by full and accurate local information.

**Aligned:** meaning that for working parents (a) it is well coordinated with parental leave entitlements and family-friendly working arrangements and (b) financial support is easy to understand and access.

### **3.2 Why Consistent Excellence across Childcare Provision Is Not Yet Assured**

Over the last 15 months, we have met hundreds of parents, providers, employers and funders in person. Thousands of parents responded to our online survey. **Annex B** provides a note on our engagement and **Annex F** a summary of the survey findings. We heard many instances of skillful staff and responsive childcare services and of enlightened employers, colleges and universities who practice and promote family-friendly working. Six are them are provided as brief boxed inserts in section 3.2.1 below or at section 4.2.2.

However, for many families what is available to them does not meet enough of the features set out in 3.1 above. In particular:

#### **3.2.1 High Quality**

Securing a high-quality experience for the child emerges as the highest priority for everyone working in this sector.

Professionals and policy-makers tend to stress the dimensions of quality which relate to the positive child development outcomes gained from early learning and childcare. They highlight the importance of matching the form of childcare provision (including child-adult ratios, staff's skill and experience, etc) to the child's age and family circumstances.<sup>72</sup> Many also mention the value of group childcare to vulnerable families. These are services which are attended by

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<sup>72</sup> Stephen, C (2003) What makes all-day provision satisfactory for 3- and 4- year olds? Early Child Development and Care 173 (6)

parents alongside their children, and are a welcomed means of providing professional support, education and confidence to those parents.

**Case Study 1: Perth and Kinross Council**

As part of our written evidence gathered from local authorities, Perth and Kinross Council demonstrate how kids clubs, childminders, partner providers and wraparound care services are delivering high quality care in the region that is flexible, inclusive and provides specialist support to meet children's needs.

In relation to child-minding, the authority highlight 4 child-minding services in their region that are open early mornings, evenings and weekends, with school-aged children being collected by car or escorted from school by the child-minder. Childcare is available from these providers at different hours each week to meet work or study patterns, although of course the exact services vary between them.

Three local authority care services are highlighted for the wraparound care they offer. These cater for children aged from 3 to 12 years old and allow families to be cared for in the same service between 8am and 6pm during term time and school holidays. These services are also available for one-off provision (eg, to allow parents to attend medical appointments) subject to paying an annual registration fee.

In partial contrast, most parents stress the aspects of quality which relate to continuity of care for their child, and strongly value their child feeling settled and happy in a caring, safe and stimulating environment.

Given this difference in emphasis between the parent and the professional, it is positive that the aspect of quality which has been identified as most important for cognitive development in the pre-school years is “care and support”.<sup>73</sup> The drive for continuous improvement of quality standards can be pursued by the growing professionalism of the childcare workforce and those who regulate it. We welcome the recommendation of the workforce review, which reported recently for Scottish Government, which calls for a strategic group to be formed to oversee workforce reform.<sup>74</sup> However, as we highlight in our recommendations in chapter 5, we consider it is important for the Scottish Government not to tackle workforce issues in isolation when taking forward the recommendations of the workforce review.

Care Inspectorate and Education Scotland inspection makes clear that quality varies both across individual establishments and also across types of provider.

Higher quality is more consistently associated with local authority-run services. We have heard two views about this. First, it is not surprising since local authorities pay staff better and hence generate more competition for vacant posts, and tend to offer conditions of work that allow staff more time to support children. A second view is that inspection tends to focus on aspects that are easier to deliver in short periods of three-hour sessions than during an all-day session. We are not in a position to test either of these hypotheses.

Some parents mention that they were simply not aware of how variable different service providers could be unless/ until circumstances meant they had to change provider for some reason.

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<sup>73</sup> Growing Up in Scotland: Characteristics of Pre-School Provision and their Association with Child Outcomes, June 2014, Scottish Government

<sup>74</sup> Iram Siraj and Denise Kingston, Univ of London Institute of Education (June 2015) An Independent Review of the Scottish Early Learning and Childcare and Out of School Workforce

**Case Study 2: Flexible Childcare Services, Dundee**

Flexible Childcare Services (FCS) in Dundee offers a flexible and diverse range of support including Childcare@home, crèche facilities, Daycare and out of school clubs. Childcare@home combined with Daycare uniquely provides parents with wrap around care for their children from 7.00am to 10.00pm, and supports continuity in staffing for the children due to the fact that staff work flexibly over different services. Learning experiences and opportunities are transferred from service to service.

Childcare@home incorporates home-based care which is registered through The National Care Standards for Childcare Agencies, and the crèche service which is registered under the Early Education and Childcare up to the age of 16. The home-based service is registered to be used up to 10.00pm which allows children to follow their domestic routines in a familiar environment. The crèche facility supports agencies to hold sessions with parents and carers, secure in the knowledge that their children are being well looked after, and the children have an opportunity to socialise with other children.

The Daycare facility is open from 7.00am to 7.00pm, seven days a week. Childcare is charged on an hourly rate, making the price more affordable and manageable for parents and carers for high-quality childcare in a professional setting. FCS runs one Out of School Club in Longforgan and supplies workers to another one in Inchture. The manager of the service is on the FCS registration certificate. Both clubs are run with their parent committees.

All core FCS staff hold a childcare qualification and they must be willing to undertake further training as needed. In the Daycare setting, providing flexibility can sometimes be a challenge but solutions are always found that ensure staffing levels are correct at all times. FCS describe their services as raindrops falling off an umbrella into a puddle. When a child comes and splashes into it there is a ripple effect: all the services have a rippling effect, but all come together as one to provide a high quality standard of care for the children.

Professional practitioners, rather than parents, more often appear as the most articulate champions for continuous quality improvement of the services children receive.

It is excellent that such a degree of professional ambition is evident in Scotland, as quality is the single most important attribute to get right. The experience of Quebec and elsewhere suggests that growth of the childcare sector should never be at the expense of children's high-quality experience of it, nor exceed the capacity of the childcare workforce to keep pace.<sup>75</sup>

However, we also heard concerns that the bureaucracy and multiple inspection agencies associated with quality inspection in Scotland can be a distraction for providers. The more recent efforts being made by the Care Inspectorate and Education Scotland to align their inspection criteria and timetables are welcomed by the sector. We also welcome the recommendations of the recent workforce review commissioned by Scottish Government on formalising and simplifying the current inspection arrangements.<sup>76</sup>

There is still no system in Scotland of ensuring the quality of the child's overall experience of childcare, when they attend a number of different services across a single day or week. Considering how fragmented our childcare

<sup>75</sup> Pierre Fortin et al (May 2012) The Impact of Quebec's Universal Low Fee Childcare Program on Female Labour Force Participation, Domestic Income and Government Budgets, Universite de Sherbrooke, Working Paper 2012/02. This caution was also raised by Sandra Mather (Oxford University) about England's recent experience in expanding provision for vulnerable 2 year olds in her expert submission to us of Autumn 2014. [https://www.commissionforchildcarereform.info/?page\\_id=68](https://www.commissionforchildcarereform.info/?page_id=68)

<sup>76</sup> Iram Siraj and Denise Kingston, Univ of London Institute of Education (June 2015) An Independent Review of the Scottish Early Learning and Childcare and Out of School Workforce

system is, where so many parents must scramble for solutions to compensate for the absence of sufficient integrated provision, this is a significant gap.<sup>77</sup>

**Case Study 3: Dornoch Allsorts Out of School Childcare Social Enterprise**

Dornoch Allsorts is a community-run social enterprise, providing registered out of school childcare for 4-12 year olds in the rural seaside town of Dornoch, Sutherland, since 2002. Allsorts aims to provide access to affordable childcare for local families and opportunities for challenging and innovative child-led play for their young users.

Allsorts was set up to help the local economy flourish. It provides essential childcare for a number of families, but the staff and board have had to continually innovate in order to survive. Receiving funds and support from GoPlay in 2010 allowed Allsorts to become one of the first providers of regular outdoor play in Scotland. The project brought new children into the club, as families began to view Allsorts as a provider of outdoor experiences that they were willing to pay for, increasing fee income.

Running the holiday clubs is costly due to the additional staffing and venue costs. In response, Allsorts now run a daily minibus to and from Tain - a nearby market town with no holiday care – increasing footfall and allowing a number of children from even further afield access to holiday childcare, by linking up with the minibus. The holiday programme is rich in imaginative and cultural play, bringing gaming outside, and attracting children from far and around with their innovative play offerings.

Highland Council have awarded Allsorts an annual financial grant, as well as allowing access to facilities, transport and training. Highlife Highland share the planning, staffing, marketing and funding of the clubs. Without these, and other local partners and national funders, Allsorts would not manage. The costs of delivering high quality childcare are just too high to be met by parents alone.

We agree with professional practitioners that the child's experience of childcare is the most important set of characteristics to get right. But we also challenge the professionals, the policy-makers and the funders to take much more seriously those aspects of quality which relate to the system of provision as a whole and as seen from the working parent's point of view: its availability, its affordability, its responsiveness etc. (see section 3.1).

**Case Study 4: Bertram Nursery Group's Strawberry Hill nursery, Edinburgh**

Bertram Nursery Group's Strawberry Hill Nursery provides a light, airy and well-resourced learning environment with a home feel where children and families are at the heart of every action, decision and process. The nursery caters for children aged from 3 months to 5 years with six unique play spaces as well as two outdoor areas, including a wonderful eco garden. The nursery space is designed to promote children's learning and development at their own pace and as individuals.

Using the pre-birth to three framework in all of the under 3's playrooms, staff and parents work together to implement personal plans for the children to ensure their individual needs are being met while at nursery. Planning is based around the babies' own routines to ensure continuity of care.

The preschool playroom enables children to develop their independence while learning through play. Using the Curriculum for Excellence and the preschool teacher, the children enjoy stimulating experiences based on their interests. The team values the children's input and consults with them regularly. Innovative use is made of ICT. Online learning journals encourage the children to be actively involved in their own learning and to celebrate their achievements with parents.

A further aspect of quality which has not yet received sufficient attention in Scotland or the UK is ensuring/ regulating the transparency and fairness of how public money is spent on childcare. Simple reliance on childcare markets is a poor guarantor for ensuring that sufficient quality provision can be made available in deprived neighbourhoods, or rural areas, or for children with additional support needs.

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<sup>77</sup> Care Inspectorate and Education Scotland both report that they are starting to do more transition planning for children who move across services as part of their normal daily or weekly experience.

It is also a poor guarantor for ensuring parents can reliably access the quality provision they seek within a mixed economy. From the parent's point of view (and also indeed from the childcare employee's), it ought not to matter whether the childcare service is run by the private sector, or the not-for-profit sector, or by the local authority directly. The fact that it does matter indicates a problem.

### **3.2.2 Affordable and Available**

While quality is probably the most important consideration for parents, cost is the single biggest problem they raise (see **Annex F**). Parents in Scotland (and across the UK) generally pay much more for childcare than they do in other European countries (see section 2.2.1). The prices charged for childcare in the UK are reported to be rising faster than inflation, and the prices for Scottish parents were, until this year, reported to be rising faster than is found in the rest of the UK.<sup>78</sup>

Our discussions strongly indicate that parents do not see affordability as an isolated problem. It is most closely linked with availability.

The UK Government (through the introduction of 'tax free' childcare and increased support for some recipients of Universal Credit) and the Scottish Government (though the proposed expansion of the number of hours of free childcare for children aged 3 and 4 and some 2 year olds) will make significant inroads into the **affordability** challenge, over time. We recognise this and welcome it. For the first time, many middle-income families with children under 3 will get some financial support. These UK and Scottish Government plans are also likely to ensure some expansion of provision.

However, by themselves, these measures will not address the peaks and troughs of financial pressures on families.

While we do not doubt the intentions of both Governments, it is not clear that the net impact of the various changes will resolve existing inequalities and create a fairer distribution of support. The changes will also not do anything to address problems related to the availability of, and access to, all day/ all year childcare for those needing to work or study, or to meet employers' needs for a well-supported workforce.

While cost is the largest problem while the child is under 3, the problems of availability and convenience assume greater significance for the out of school and holiday care of that same child as they grow older.

Parents who have children at a mix of young ages – 0-3 and pre-school age and/or school-age - face the additional challenge of finding childcare that does not require them to solve complicated logistical problems. Families face problems when all-day care is not available and there is a gap between the

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<sup>78</sup> Family and Childcare Trust, Annual Costs Survey 2014, FACT London. It is important to note however that this finding is not found in the 2015 report, which suggests the notably higher fees reported for Scotland have more recently come into line with UK prices.

end of one element of provision and the start of another, or transport between providers is not available or is expensive.

Families who need childcare use as much of it as they can afford, and otherwise find alternative ways of coping including using grandparents and other informal networks. If more childcare were available (at current prices), it is uncertain how many parents would or could take it up, since cost is such a limiting factor. However, we suspect that many families would accept the extra cost as a price worth paying for increased flexible provision, but that others on low wages would still find it unaffordable.

If that were the case, increasing provision without addressing affordability would increase inequalities. Both aspects (affordability and availability) must be resolved together, and in a coherent way, if improved childcare provision is to achieve the aim of helping tackle inequalities.

Many families find it hard to access the pattern of childcare they need to suit their circumstances. In some cases, it has proved impossible for some parents to access all day childcare combined with the entitlement to free early learning and childcare.<sup>79</sup> See section 3.2.5 for a discussion.

Our local conversations strongly indicate that families do not expect – nor particularly seek – free childcare. They seek affordable childcare, whose cost “feels fair” and where poorer families will be the first to benefit from a fair allocation of cost. This suggests to us that targeted financial support, on a sliding scale, will not disappoint a majority of parents. (see also section 4.1.3 and Recommendation No 3 in chapter 5).

By contrast, our discussions suggest that families strongly value universal access if/ when they need to use childcare. Childcare does not necessarily need to be free, but it does need to be there. See also section 4.1.1 and Recommendation No 5 in chapter 5.

Many students face particularly difficult problems in managing both the affordability and the availability aspects of childcare provision. The discretionary and cash-limited childcare funds for colleges are welcome, but it may be difficult for the potential student to make firm plans for starting a course, especially if they are a late enrolment. (See **Annex E**, 1.3.3).

Some parents have suggested it would be helpful to have a national scheme for smoothing the costs of childcare over a longer period to manage known pressure points. Two of these are particularly acute. The first is when the child is one or two years of age. The parent is just returning from maternity or paternity leave; one of the parents is typically only doing so on a part-time basis; and the family as a whole is not yet at the peak of its earning power. This is a very difficult financial stretch for many young families. The second pressure point is for cover over the long summer break.

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<sup>79</sup> The parent group, Fair Funding for Our Kids, have campaigned on this issue. See <http://fairfundingforourkids.org>

### **3.2.3 Responsive and Flexible and Equalising**

There are specific difficulties in ensuring children's additional support needs are met in childcare settings. Families report that it is especially difficult to access out of school services.

For many parents, the rigidity of much of the local authority-run provision combined with their own sometimes inflexible working patterns, makes it hard to go to work without incurring high additional costs. Not infrequently, this also means that grandparents give up some of their working hours to help out with childcare.

Parents who do shift work or work on zero hours contracts face particular problems.

Childcare providers report the challenges in delivering the flexibility that parents ask for. Parents' expectations need to be managed. For example it is difficult for a child to settle quickly into a new setting, and it takes considerable staff time to help them do so. Accepting children into childcare settings at short notice for one-off parental appointments may be desirable for the parent but may not be good for the child unless they are already settled in that setting.

Where childcare is unaffordable or unavailable, then parents will be unable to access the labour market, thereby denying them access to employment as a route out of poverty, or a means to reduce its harsh effects.<sup>80</sup> A severe practical difficulty arises that many providers require a month's payment in advance. Finding this sum upfront is extremely difficult for poorer families.<sup>81</sup>

### **3.2.4 Seamless**

Some local provision demonstrates very high coordination across school education, early learning and childcare. In other areas arrangements are uncoordinated and very hard for parents to fit in with, especially if they are trying to work or study.

Many parents need to use friends and family not for childcare per se, but just to manage the logistics of dropping off and picking up different siblings at different places, or different times.

We recognise that many families choose to use informal care for positive reasons, and are willing to sacrifice income to enable extended family members to spend time with the children. However, it is not reasonable for families to have to give up income they can ill-afford because of poor coordination of childcare provision that could easily be made more convenient.

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<sup>80</sup> Citizens Advice Scotland (December 2014) "Working at the Edge" reports that the cost of childcare is a major contributor to in-work poverty for many of their clients.

<sup>81</sup> Citizens Advice Bureau, The Practicalities of Childcare: an overlooked part of the puzzle? (July 2014).



### **3.2.5 Sustainable and Fair**

There are two distinct but related concerns about the funding of the 600 hours per year of early learning and childcare that should be provided free to eligible 3 and 4 year olds, and some 2 year olds.

The first is that many local authorities restrict the number of places they fund or provide where the 600 hours is available as part of the package of all-day childcare that working families need. There is strong anecdotal evidence that many working families are unable to access that kind of package within a single service, and have to make a choice between:

- paying the full cost of the 600 hours themselves;
- arranging daily transport for their child between services; or
- giving up some or all of their work.

We have also heard of cases where providers share out the subsidy received for some children across all eligible children in their nursery, so that the financial pain is at least equally shared across the parents using that nursery.

The second concern is that many local authorities pay a subsidy for the 600 hours that providers claim fails to meet their costs.

The claim is regularly made by the National Day Nurseries Association (NDNA) that there is chronic underfunding (to the tune of hundreds of pounds per year, perhaps as much as £1,000, per eligible child) of the private providers who receive public subsidy from their local authority in Scotland to deliver the 600 hours entitlement.<sup>82</sup>

While it is for the NDNA to demonstrate that claim (and they have only done so in terms of averages), a recent England study also reports an average 17% funding gap between the hourly public subsidy paid to private providers in England for early learning and childcare and the actual delivery cost of that service.<sup>83</sup> UK Ministers have recently accepted there is a problem in England<sup>84</sup>, and we have no reason to believe it is not a problem in Scotland as well.

We have not succeeded in obtaining evidence from the NDNA about the specific funding gaps affecting individual providers. However, individual

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<sup>82</sup> The most recent NDNA report (January 2015) claims a shortfall of £1,100 per child per annum for 3 and 4 year olds, and of £1,050 per annum for 2 year olds for operating the 600 hours entitlement as part of their all-day childcare service. See National Day Nurseries Association (2015) Annual Nursery Survey 2015 – Scotland Report. The recent House of Lords report into the affordability of childcare accepted the general validity of this claim. See House of Lords, Select Committee on Affordable Childcare, Report of Session 2014-2015 (February 2015)

<sup>83</sup> 'Counting the Cost', CEEDA, (October 2014) reports that the average per hour cost of delivering early learning and childcare for 3 and 4 year olds in England is £4.53, and £5.97 for 2 year olds.

<sup>84</sup> See the 'Call for evidence: review of the cost of providing childcare' launched by the Dept of Education on 15 June 2015, Dept of Education London

providers have been open with us that they charge parents more per hour than they receive from local authorities, and say that they have to do that to balance the books because of chronic underfunding by their local authority. They have also been clear that they would be unwilling to accept a child who only required the 600 hours because that would not be financially viable on the basis of the funding they receive from the local authority.

We understand that local authorities are under financial pressure and therefore seek to maximise use of their own provision, which may account for the reduction in funded places for partner providers. We also understand that the relationship between authorities and providers is based on a procurement approach that is about agreeing a price, rather than agreeing a reasonable cost. We understand that providers are willing to accept contracts that fail to meet their full costs because most of the parents who can afford to pay are glad to get at least some subsidy and are willing to pay the difference. Finally, we recognise that because money for childcare is not ring fenced within the local government settlement, it is not possible to identify a specific allocation of funding for childcare from Scottish Government to local authorities.

While all of that is understandable, and we are confident that everyone has been acting in good faith, the outcome is that:

- Some working parents cannot access their free 600 hours and have no way of accessing money that was intended to be used to pay for that provision; and
- Other working parents have to pay part of the cost of what is supposed to be free.

We believe that is unacceptable, and that a fundamental review of the provision and payment for the 600 hours is required. Furthermore, if provision is to be increased towards 1,140 free hours and these issues are not addressed, the problems outlined in this section will become more acute.

We have asked both the Association of Directors of Education in Scotland (ADES) and NDNA for more detailed information about costs but have not succeeded in sourcing this. ADES have noted the full costs that local authorities incur in operating partnership arrangements with private or not-for-profit providers.<sup>85</sup> For their part, NDNA network members note the unique additional costs they incur in hiring premises (either school premises, or elsewhere), or the costs they fail to save as they do not qualify for the business rate reliefs and exemptions available to public and voluntary sector providers.<sup>86</sup>

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<sup>85</sup> Costs for authorities include offering private providers advice and support on learning and teaching through a Quality Improvement Officer and GTC registered teachers with early years experience; support with preparing for inspection and responding to follow up; access to CPD; and funding support for the private sector workforce to undertake basic and higher level (degree) certificated qualifications to meet SSSC requirements. Other costs borne by authorities relate to the business support functions to manage procurement contracts which can be worth several million pounds.

<sup>86</sup> National Day Nurseries Association (2015) Annual Nursery Survey 2015 – Scotland Report. This report points out that most private nurseries in Scotland have a rateable value above the threshold for the

In other words, the basis on which local authority and partner provider services operate are sufficiently different to make cost comparisons hard.

However, we note that an exercise was carried out to compare the cost of providing adult care in local authority and private provision that led to an agreed way forward on funding. We therefore suggest that the review of funding and provision draws on the lessons learned from recent work done with the adult care sector.

Based on the limited evidence we have been able to obtain from various incomplete sources, we suspect that the average cost of provision is around £4 per hour, and the average level of local authority payment is around £3.50 per hour. That suggests a funding gap of around 50p an hour, or £300 per child per year. That sum is not as much as suggested by NDNA, but still a significant cost that will ultimately be borne by parents through the fees they are charged for paid hours.

We believe that improving the funding and organisation of the 600 hours has the potential to engender provision that better meets parents' needs; that parents are willing to pay for; and that generates resources for both local authorities and the private and voluntary sectors to invest in childcare.

As a result of these complex funding and service planning issues remaining unresolved, and the lack of an agreed evidence base, a chronically difficult relationship appears to have arisen between many private providers and their local authorities in Scotland, characterised on both sides by a lack of trust. As well as resolving the practical issues related to funding, we believe there is an urgent need to rebuild trust between the providers and both national and local government.

A genuine commitment to an open exploration of the issues and to finding solutions that meet the needs of children and their families, address local community planning priorities, and enable providers to thrive, will be a necessary start to that process of building trust.

### **3.2.6 Fair and Aligned**

Both providers and parents are concerned with the lack of transparency and lack of fairness in the funding arrangements for childcare. Many (including ourselves) struggle to understand how the various streams of public money operate to help families meet childcare costs. See **Annex E** for an indication of their number and their complex interconnections.

Financial support for childcare is not provided in a simple and coordinated way that is easy for families to understand and access, with the effect that families can easily lose out on claiming their full entitlements.

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Small Business Bonus Scheme of £18,000. In January this year (2015), the England Childcare Minister (Sam Gyimah) called on Councils in England to offer private nurseries a discount on business rates, pledging that the UK Government would meet 50% of the costs to the Councils which did this.

### 3.3 The Six Major Challenges

As discussed in section 3.2.1, ensuring quality is the single most important aspect of registered childcare provision to get right. The primary factor that determines quality is the staff who work in the childcare setting. In light of the Scottish Government's recent workforce review and its recommendations, including on inspection and regulation of services, we accept that the basic mechanisms for assuring high quality are in place, assuming work is done to address the recommendations of that review. If those recommendations are met, there will be a high-quality and well-regulated workforce delivering the high-quality childcare which children need, and which their families want for them.

We believe that the recommendations made in our report will help to embed quality, and will certainly not damage it. We welcome and encourage our recommendations to be tested on that basis.

We also believe that our recommendations will improve equality as well as offer protection against some of the harsh effects of poverty. Again, we welcome and encourage the testing of our recommendations on that basis.

In order to support the quality and equality agendas, and to ensure that families have access to the kind of childcare described in section 3.1, we believe that there are six major challenges that need to be addressed.

We describe these below and propose solutions for them in chapter 4.

**Challenge 1: Affordability.** Using paid for childcare is expensive for all working families. In addition, it is a barrier to work and study for those unable to access highly paid work and/or unable to call on friends and family to provide informal childcare.

**Challenge 2: Availability.** Many parents find it hard to access childcare that meets the needs of their child and also matches their work and study patterns.

**Challenge 3: Funding Mechanisms.** State funding of childcare (through direct funding of services and the tax and benefits systems) is complicated, confusing, unfair and lacking transparency.

**Challenge 4: Narrow Focus.** The local authority focus has been on securing the delivery of 15 hours per week in term time (the 600 hours). The next phase of development needs to address the needs of working parents for much more childcare, all year round.

**Challenge 5: Care of the Youngest Children.** There is a lack of consensus across civic society on whether or not very young children should be in childcare; and whether or not that childcare should be subsidised.

**Challenge 6: Responsibility.** No single person or organisation has taken

responsibility for ensuring families have access to the affordable, high quality childcare they need. While a partnership approach will be required, strong focused leadership will be needed to drive forward the complex childcare agenda.

## **4 OUR PROPOSALS FOR CHANGE ACROSS THE SYSTEM OF PROVISION FOR CHILDCARE SERVICES**

Since the publication of our interim report, we have explored our draft recommendations through a series of city-based and other workshop discussions. This chapter updates those draft proposals and describes them in terms of meeting the six challenges.

Our interest is in mechanisms and processes which allow practical actions to be taken to fix broken aspects of the existing system and which lay the foundations for significant long-term investment in childcare.

We also wish to ensure that the risks of unacceptable consequences can be actively managed from the outset. In particular, we would wish to avoid threats to the anti-poverty agenda and to the drive towards improved quality of childcare services as well as improved gender equality within families, communities and workplaces in relation to the care of children.

A great deal of detailed technical work remains to be done, coupled with continued wide engagement and debate, to develop and cost the models which our proposals outline. The approach to implementation will be important.

### **4.1 Meeting the Affordability Challenge**

The challenge is that using paid for childcare is expensive for all working families. In addition, it is a barrier to work and study for those unable to access highly paid work and/or unable to call on friends and family to provide informal childcare.

The outcome we seek is that simple and fair systems are in place to ensure childcare is affordable to families, especially those on low incomes. These systems must also be affordable to the state, and must be sustainable over the next decade and beyond.

#### ***4.1.1 How much childcare should the state support?***

While parents will decide how much childcare they need to access and a limit should not be applied to the use of childcare, we believe there should be a limit on the total number of hours per week that is supported by the state. This is because we consider children should not spend too long away from their families, and state support should recognise this.

In discussions since the publication of our interim report, we believe there is a broad consensus that 50 hours per week looks a reasonable upper limit for

state support.<sup>87</sup> By ‘support’ we mean that the state takes steps to ensure both the availability and the affordability of that 50 hours of provision.<sup>88</sup>

We propose the state should continue to invest in current levels of universal free provision of early learning for 3 and 4 year olds, with targeted additional provision for those children who need it earlier in their life.

The model we suggest for state support consists of three segments, as set out in Diagram 4.1. We believe this model meets with wide in-principle approval across civic society and business interests.

The inner core is the segment that is fully paid for by the state. It is transparently free at the point of use, and is accessible to all who wish to take up their child’s entitlement. That core is currently 600 hours per year of early learning for pre-school children, as well as 6 hours per day of school education (including supervised breaks) in term time for school-age children.

**Diagram 4.1: The Outline Model for Public Funding**



The middle segment is the remainder of the average 50 hours per week, available across the year, to be guaranteed by the state. Where the family chooses to use some or all of this provision, there would be arrangements to ensure the costs to them would be affordable (see section 4.1.3 below on what ‘affordable’ is likely to mean).<sup>89</sup>

<sup>87</sup>This total is loosely based on an average 10 hours per day, which is the length of an 8-hour working day with some travel time either side, over a notional 5-day working week.

<sup>88</sup>Note that for school age children, the 50 hours includes time spent in primary education. For eligible pre-school children, it includes the 600 hours a year of free early learning and childcare.

<sup>89</sup>This excludes the separate arrangements some parents make for the education of their children in independent schools. When we refer to education here, or in any of our recommendations, we mean only state-provided education, recognising too the compulsory aspects of education for school-age children.

The outer segment is any time parents wish to purchase childcare beyond the 50 hours per week. We propose that the state does not normally provide a subsidy or control costs, but does regulate provision to ensure it meets quality standards.

Our recommendations on this aspect of our proposals are at chapter 5; Recommendation No's 1-4

#### ***4.1.2 Who should pay for this model of childcare?***

As Diagram 4.1 shows, the only segment which is both universally available **and** entirely free of charge is the innermost segment.

While the middle segment is universally available to those who want it, almost all families will pay something towards the cost of that segment. Depending on individual circumstances, the state will also contribute to the costs of the middle segment. Individual employers may also decide to contribute to the costs of the middle and outer segments as a benefit to their staff, as many do at present.

We recognise the pressure on public budgets over the next few years and that choices need to be made across the options of:

- a) Investing further in the fully paid-for provision; and/or
- b) Limiting the childcare costs for all families; and/or
- c) Subsidising the childcare costs of the poorest families; and/or
- d) Investing in provision for particular ages of child or at pressured times of year.

In discussions since the publication of the interim report, we found quite sharply divided views on the extent to which available new spend should reduce costs for all parents, or should concentrate on supporting families who are in or near poverty.<sup>90</sup>

By far the majority view over all our discussion groups was to focus any additional spend first on supporting poorer families, so that childcare ceases to be a barrier to taking up employment or starting a college or university course. This is our view also.

However, a significant minority, including a majority of private providers, also strongly felt that it is the somewhat better-off working parents, who are just about managing to afford registered childcare at present, who most need priority assistance. This group does not qualify for the various welfare benefits

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<sup>90</sup> Parents who have found difficulty in accessing their entitlement to the 600 hours are particularly clear that existing statutory commitments to the free 600 hours should be honoured in full before any new investment is made in any of the four options a-d above.



which support poorer families. They are already in gainful employment, and enabling them to resiliently remain so is a very legitimate objective of a reformed childcare system.

The provision of additional free childcare planned by the Scottish Government will reduce the amount of paid-for childcare that these families need to pay for when their children are aged 3 or 4, and the introduction of ‘tax free’ childcare by the UK Government should reduce the hourly cost to families of the remaining paid-for childcare. We welcome both of these commitments which will go a long way to meeting the concerns of those who feel that middle-income families do not get enough financial support.

Regardless of views on where additional investment in childcare should concentrate first,<sup>91</sup> we found a clear consensus that the state should also make a long-term commitment to limit childcare costs for all families, as soon as public funds can sustainably allow for this.

Interestingly, we found little appetite for investing further in expanding the number of free hours of provision for pre-school children. This seems the case even though current state investment in the free 600 hours clearly enjoys support for its early learning benefits, including being valued by those families who have a parent at home or have other informal care arrangements in place and do not need the childcare per se (see 2<sup>nd</sup> bullet for parents who use childcare at **Annex F**). There were two quite different reasons for this. First, we found strong support for additional money to be used to reduce the costs of childcare on families with younger children (under 3) when childcare costs are at their highest. Second, the experience of the introduction of the 600 hours has been that it appears to have been at the expense of securing provision of the all-day childcare that families need.

We commissioned some work on the support available to families from the state, and concluded that there is quite wide – and sometimes almost random – variation in the total support available to families in broadly similar financial circumstances. (See section 4.1.3). We heard about ‘magic numbers’: the levels of income at which entitlements to childcare-related support can quickly and significantly change.

We found strong support for establishing a long-term vision as well as taking practical, affordable steps towards it that meet the most significant needs.

Taking all of that into account, we believe that further policy debate is needed across civic society and business on where best financial support should be targeted. For our part, we believe that a fair approach would be as follows:

- a) Establish a long-term ambition for funding support to families. We

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<sup>91</sup> Other views expressed on priority investment choices included: that childcare costs should be made tax-deductible to support entrepreneurial activity; that the cost of offering at-home payments to grandparents or family who are currently providing childcare support for free should at least be modelled and debated; that support for the 0-3s needs urgent priority, even more so than the pre-school children who at least are entitled to the 600 hours; and that out of school and holiday cover for school-age children should be firmly captured within all future policy making and cost modelling on childcare support.

believe this ought to be based on net family contributions being capped at 10% of household income. (See section 4.1.3)

- b) Establish the current position for different groups of families, depending on income, and the age and stage of their children. Target most new money on supporting those families who find childcare costs hardest to afford as the first stage of a planned journey towards the long term ambition.
- c) Take action to ensure families get their full entitlement to childcare support, including the entitlement of eligible children to 600 hours of free early learning and childcare.

We recognise that the Scottish Government is committed to increasing the number of free hours for eligible 3 and 4 year olds, and some 2 year olds. While this would not be our first priority, nor that of many of those we have spoken to, we welcome that commitment of investment. If that is the approach that is adopted, we strongly urge the Scottish Government to complement it by:

- a) Taking action to ensure that working families can access that additional free provision as part of convenient all-day childcare; and
- b) Providing additional financial support to the poorest families with younger children who need additional childcare subsidy to enable them to engage in education or avoid exclusion from the labour market.

Our recommendations Nos 2-4 are at chapter 5.

#### ***4.1.3 On what basis should the state and parents pay for childcare?***

In our interim report, we proposed a model based on three broad principles:

- The state should continue to provide some childcare free to all families, at least the 600 hours currently available to eligible children.
- The state should make a contribution to meeting the childcare costs incurred by all families.
- The state should give targeted support to poorer families to ensure they are not excluded from education or the labour market because of the cost of childcare.

We have had strong support for these principles.

In our interim report, we proposed an approach to achieving this using a hybrid model of capping (beyond the already free 600 hours) up to a maximum of 50 hours per week.

Our interim report provided the following simple illustration.

Family A and Family B each have a child aged 3 who is eligible for the 600 free hours of early learning and childcare (ELCC). XYZ Nursery has agreed with its local decision-making body that it will charge £4 per child per hour for 3 year olds.

**Family A**

This family uses 40 hours of childcare per week for 45 weeks.

Total annual cost = 40 hours x 45 weeks x £4 = £7,200

Cost of 600 hours ELCC fully paid for by the state = 600 x £4 = £2,400

Balance to be paid = £4,800

Maximum payment by Family A is 40% of £4,800 = £1,920

Family A has a net income of £25,000. 10% of household income is £2,500, which is more than £1,920. So Family A would pay £1,920 per annum, or an average of £160 per month.

**Family B**

This family uses 50 hours of childcare per week for 48 weeks.

Total annual cost = 50 hours x 48 weeks x £4 = £9,600

Cost of 600 hours ELCC fully paid for by the state = 600 x £4 = £2,400

Balance to be paid = £7,200

Maximum payment by Family B is 40% of £7,200 = £2,880

However, Family B has a net income of £15,000. 10% of net income is £1,500, which is less than £2,880. So Family B pays £1,500 per annum, or an average of £125 per month.

Our hybrid model assumed:

- Existing free provision of 600 hours per year for eligible children would continue to be free.
- Parents would pay no more than a certain percentage of the costs of operating the 'paid for' component of the service. Pending further work to estimate accurately what the costs would be, and on whom the costs would fall, we suggested there should be a cap on the cost to parents of not more than 40% of the cost of the service.
- Parents would pay no more than a certain percentage of their net household income. We suggested a cap of not more than 10% of that net income.

Diagram 4.2 illustrates in schematic form the support currently received by some (imaginary) families from Scottish and UK Government, and the balance of support that would still be required from the state if a cap were introduced of no family paying more than 10% of household income on their childcare costs.

It is important to acknowledge that this schematic is based on the current situation, before the planned changes to UK Government and Scottish Government levels of investment have come into effect.

**Diagram 4.2 - Schematic: costs currently incurred by families with a three-year-old, and the difference additional public investment would make for those families set against a sliding scale of capped fees**

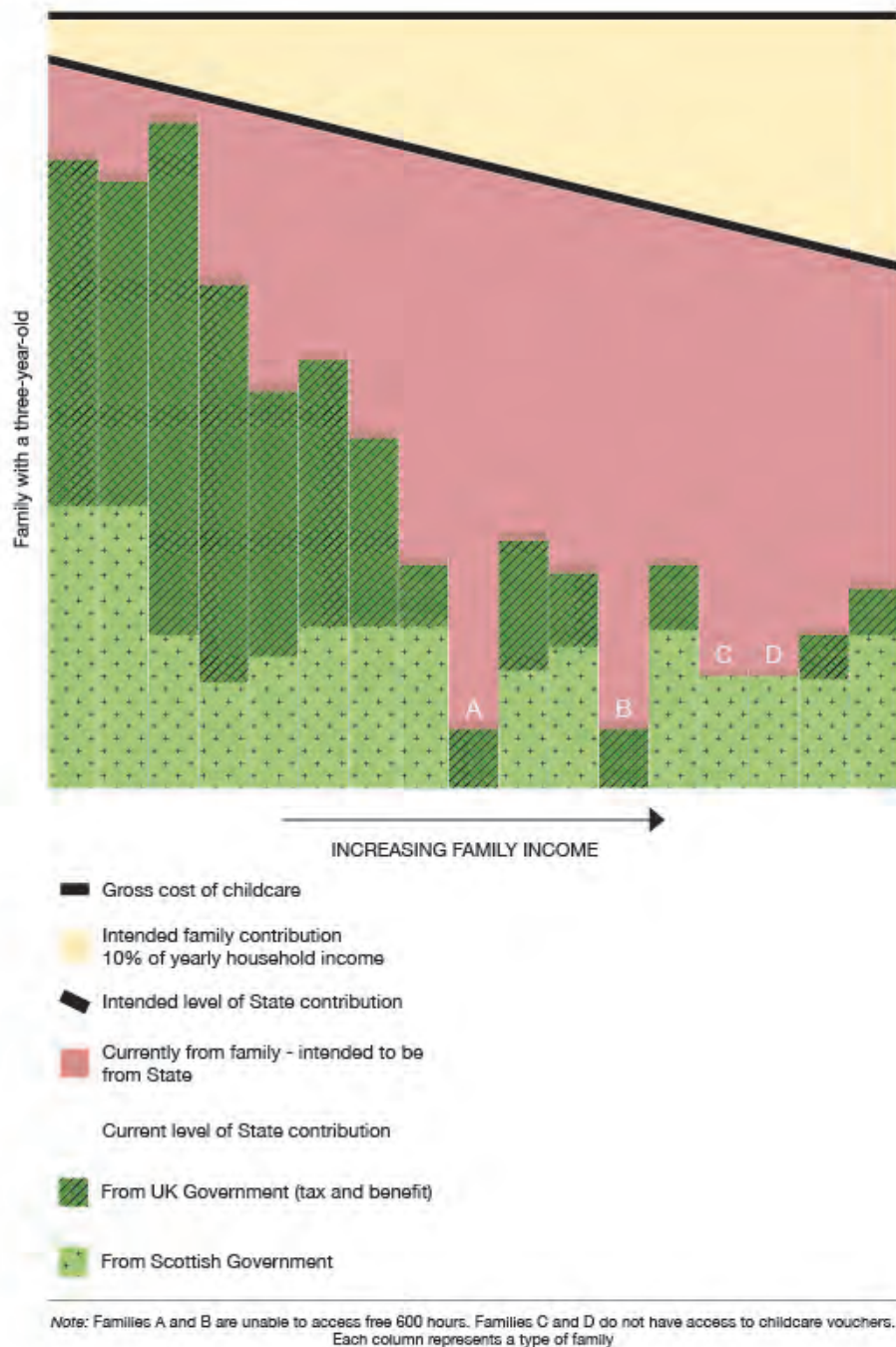


Diagram 4.2 is not based on real data, but is intended to show that costs are made up of:

- Support from Scottish Government in the form of direct service provision;

- Support from UK Government in the form of tax- and benefit-related support;
- An element that increases with income that the family would pay under our proposals; and
- A gap (the pink section) that represents the amount that needs to be found from public funding to implement our proposals.

The jagged shape of the existing government support is intended to illustrate the varying levels of support that families are entitled to, and show graphically that is not smoothly related to their ability to pay.

Based on the more detailed work we have done since our interim report was published, and the discussions we have had with stakeholders, we think there are three important issues that need to be taken into account.

The first is that, having looked at some detailed worked examples, it is clear that a much deeper understanding is required of the impact of capping proposals on families before specific decisions can be made. We emphasised that point in our interim report, and we remain convinced that considerable work is needed before firm decisions can be made about the particular levels of support to be provided.

Our second concern is that, while our capping proposal is much simpler than the current mix of funding streams, it is not yet as simple as it could be. Working out and understanding what a family would pay still requires quite a complex calculation. Once tax free childcare is introduced in the UK, and if there is an extension of universal free provision in Scotland, middle-income families will receive a substantial increase in state support for their childcare costs.

We therefore think that the 40% element of our capping model is no longer required and that our proposal can be simplified to a simple statement that: “No family pays more than 10% of their net household income on the costs of their 50 hours childcare entitlement”.

To illustrate how that proposal might apply to families in different circumstances, and how this compares with existing and planned support for families, we have selected five family scenarios. We have done some preliminary work on understanding their net costs for childcare against our capping proposals above, and in light of their current tax and welfare entitlements (see Table 4.1 below).

In each case, we have assumed childcare costs £4 per hour and is used for 45 weeks a year. Benefits costs have been roughly estimated and may vary depending on particular individual family circumstances.

At this stage it is not clear how the benefits entitlements of families 4 and 5

might change under current UK Government plans or any devolution of powers to Holyrood, so for simplicity we have assumed no change.

We have also assumed it is better for families 4 and 5 to opt for benefits rather than tax free childcare.

The impact of the Commission proposals is to significantly reduce costs for four of the five families, although the remaining costs for families 4 and 5 are probably still unaffordable.

The cost of introducing the Commission proposals (and thereby reducing and evening out costs across families) varies significantly depending on family circumstances, and is a reflection of the wide variation in support provided to families under current plans.

**Table 4.1 – 5 Family Scenarios: net costs for childcare against our capping proposals**

	Family 1	Family 2	Family 3	Family 4	Family 5
<b>Family income (not including childcare related benefits)</b>	30,000	30,000	40,000	16,000	16,000
<b>Hours of childcare per week</b>	40	40	40	40	50
<b>Number (age) of children</b>	1 (3)	1 (2)	2 (2, 3)	1 (2)	1 (2)
<b>Total hours per year</b>	1800	1800	3600	1800	2250
<b>Gross cost of childcare</b>	7200	7200	14400	7200	9000
<b>Current arrangements</b>					
<b>Free hours</b>	600	0	600	0	0
<b>Cost to Local Authority</b>	2400	0	2400	0	0
<b>Cost to UK Govt (benefits)</b>	0	0	0	5050	6300
<b>Net cost to the family</b>	4800	7200	12000	2150	2700
<b>Net cost as % family income</b>	16	24	30	13	17
<b>After introduction of 1140 hours free childcare and tax free childcare</b>					
<b>Free hours</b>	1140	0	1140	0	0
<b>Cost to Local Authority</b>	4560	0	4560	0	0
<b>Gross cost to family</b>	2640	7200	9840	7200	9000
<b>Tax free credit / benefits</b>	528	1440	1968	5050	6300
<b>Net cost to family (A)</b>	2112	5760	7872	2150	2700
<b>Net cost as % family income</b>	7	19	20	13	17
<b>On the basis of the Commission proposal to restrict costs to 10% of household income</b>					
<b>Maximum cost to family based on 10% of income (B)</b>	3000	3000	4000	1600	1600
<b>Cost to family = minimum of A and B</b>	2112	3000	4000	1600	1600
<b>As % family income</b>	7	10	10	10	10
<b>Levels of state support</b>					
<b>Existing system</b>	2400	0	2400	5050	6300
<b>Planned increases (1140 hours + tax free childcare)</b>	2688	1440	4128	0	0
<b>Cost of introducing Commission proposals</b>	0	2760	3872	550	1100

More work is required to test the implications across more family types and circumstances:

- to establish an agreed long term vision for the capping levels, and
- to estimate the costs of implementation.

The other main driver of total cost, of course, is the level of uptake. **Annex G** shows how the total cost to families and the state might vary depending on final levels of uptake.

Our 10% model would still deliver on the three principles outlined at the start of this section; represent a significant reduction in current costs for many families; and bring Scotland more in line with other countries.

Given the scale of investment required to reach that level of subsidy, this is a long-term ambition. We therefore believe two sets of decisions are required:

- that a long-term ambition is set for the upper limit on family contributions to childcare costs. If applying that limit imposes what are regarded as unaffordable financial pressures on the poorest families, then further support should be given to those families.
- that a planned journey towards the ambition is laid out that can be flexed on the basis of recognised financial and political realities, changing circumstances and developing understanding.

The third key issue related to the proposal to cap fees is that we need to make sure that the costs to the state, as well as to families, can be controlled and afforded while encouraging a thriving and growing childcare sector. There is evidence to suggest that simply subsidising the user leads to price inflation.<sup>92</sup> Allowing demand to be unrestricted can lead to unpredictable costs on governments. We therefore believe there need to be two approaches to addressing this issue:

- the pace of expansion needs to be limited to ensure state subsidy can be afforded. That has the associated benefit (discussed earlier in section 3.2.1) that reductions in quality as a result of over-rapid expansion can be avoided; and
- the state needs to maintain some level of influence and control over the rates charged by providers. If the total family contribution is cash limited, then the risks associated with price inflation are borne entirely by the state. Without underestimating the challenges involved, we believe that can and should be addressed through the local commissioning process discussed in section 4.2.1 below.

Many practical issues will need to be understood and addressed before firm decisions are made. Our recommendations on capping (see chapter 5, recommendations 3-4 and recommendation 7) reflect this.

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<sup>92</sup> Penn and Lloyd (July 2013) note the experience of Australia which, like the UK, relies heavily on the private market to deliver childcare and predominantly delivers its funding support through the route of the tax and benefits systems. The indication is that Australian government subsidies to parents to enable them to buy childcare in the market has had the effect of higher fees being charged. Penn and Lloyd (July 2013) The Costs of Childcare Childhood Wellbeing Research Centre Working Paper No 18.



## 4.2 Meeting the Availability Challenge

The challenge is that many parents find it hard to access childcare that meets the needs of their child and also matches their work and study patterns.

The outcomes we want to see are that:

- a) suitable and sufficient provision exists locally; and
- b) Employers, colleges and universities are engaged with their employees and with the communities where they are based, to meet the needs of their employees for family-friendly working.

### 4.2.1 *Ensuring suitable provision exists locally*

We propose that national and local government in Scotland should take responsibility for working with parents, employers and providers to ensure the availability of a range of suitable childcare to meet the needs of children, families and employers.

Decisions should be taken locally about how much of which type of provision is required in an area, its location and cost as well as its organisation and flexible design. Innovation may be needed to find different ways of reducing bureaucracy and eliminating the rigidities which are a barrier to delivering the effective and efficient services which meet families' needs drawing on best practice across the public, private and voluntary sectors.

Since the location of home, schools and workplace, and local road and public transport systems are all relevant to the decisions made by individual families, we consider that local decision-making must explicitly take travel-to-work issues into consideration, as well as the locations of all the schools and other educational establishments within that local area.

For this reason, we propose that local decision-making does not have to correspond exactly with local authority boundaries nor necessarily conform with either local authority or Community Planning Partnership (CPP) governance arrangements.

In workshop discussions since the publication of our interim report, of all our ideas for reform, our proposals for local decision-making have generated the most debate and the most publicly-articulated disquiet.

At the most basic level, our proposed focus on local decision-making enjoys clear consensus. It is widely understood and accepted that the current market for childcare services in Scotland is not working as it should.<sup>93</sup> The proposal

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<sup>93</sup> Some experts argue that the best way to meet most parents' needs is for governments to get out of the way so that local competitive markets can become stronger. See for example, Markets for Good: the Next Generation of Public Service Reform (Nov 2014) Reform Research Trust, Andrew Haldenby, Richard Harries, Jonty Olliff-Cooper. Others argue that more effective state organisation of the childcare

we advanced for discussion is that the state should enable local citizens and communities, including employers and colleges and universities, to have more direct control over their relationships with service providers and with funders. This was welcomed in principle as it means the right people are involved in local decision-making in a modern 'enabled state'.<sup>94</sup>

Strong differences began to emerge in discussion as to whether or not the local authority (or, as an alternative, the local Community Planning Partnership) could be encouraged to act in that more modern and participative way. Our interim proposal had called for the establishment of a new network of "local childcare partnership entities" with both the powers and duties to ensure suitable and sufficient provision is available locally. However, many of the people who have spoken with us have raised concerns that local partnerships have a poor record of delivery, and this approach – while it ought to be the way forward – might cause more problems than it would solve.<sup>95</sup>

We accept that it is essential that local decision-making does not itself become a further barrier to reform, and all local authorities and CPPs would need to ensure the local partnerships were effective.

Our proposal – revised and refined in light of workshop discussion – is that Scottish Government with local authorities and the Childcare Alliance develop a national framework of proposed duties, powers and functions to guarantee that sufficient and suitable childcare provision will be in place at local level.

We believe this should include establishing a network of local partnerships, which may but need not be local authority-led or CPP-led.

We propose that the following functions are included in the draft framework, for further debate and active innovative testing at local pathfinder level:

#### **4.2.1.1 Sufficiency and variety of local provision**

This function of the local decision-making body is to ensure the necessary amount and variety of local provision exists that meets the characteristics of excellence set out in section 3.1 of this report.

The associated local action planning will need to make predictions about

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market is needed because market competition has clearly not ensured the availability of affordable provision for all who need it, nor controlled reduced costs to parents or the state. See, for example, Institute of Public Policy Research (IPPR) No More Baby Steps: A Strategy for Revolutionising Childcare (June 2014), Dalia Ben-Galim, Nick Pearce, Spencer Thompson

<sup>94</sup> See for example, Carnegie UK 'A Route Map to an Enabling State' (June 2014), Sir John Elvidge, which sets out an approach to facilitating how decisions on key areas of social and economic policy can be made without mandating how they must be delivered.

<sup>95</sup> Fears were expressed of expensive or labour-intensive new bureaucracy; of recycling a half-failed idea from the 1990s (the childcare partnerships of old); of severely underestimating the difficulty of engaging parents and employers (e.g. evening meetings needed to suit parents, and very high turnover of parent membership) or of doing so representatively (eg. engaging parents from deprived communities); and of the difficulty in securing employers' time, in particular small to medium employers with very limited capacity for community/ corporate activity of this kind.

demand. It will need to develop contingency planning for parents (if supply proves insufficient, or insufficiently flexible) as well as for providers (if existing provision is significantly underused).

Local planning will also need to consider how to actively support an array of service providers – including private providers and registered child-minders - to offer childcare services in areas where parents struggle to meet childcare costs or have insecure employment.

A critical aspect of discharging this function will be to control the rate of expansion so that the quality of provision does not fall.

A further aspect will be to ensure that local childcare planning links coherently with local employability and regeneration activity.

#### ***4.2.1.2 Regulation of local provision***

This function is to ensure provision is delivered by regulated organisations. This may include local authorities and other public sector bodies as well as private and voluntary sector providers.

Regulation of some aspects of provision (e.g. relating to standards for staff, ratios, premises etc) is already established, and will improve further following the implementation of the recent workforce review recommendations.

We propose discussion and experimentation should take place which will ensure the child's overall experience across multiple services in that local area is high quality.

We strongly suggest that the process of commissioning suitable provision locally does not take a narrow view of what constitutes good value for money. Public spending should be able to properly support the system of provision as a whole in that locale, not just the portion of delivery which is at the local authority's own hand.

#### ***4.2.1.3 Charging of fees locally***

This function is to ensure the charging of fees locally is on a transparent, fair and affordable basis.

Our workshop discussions revealed quite considerable interest and excitement - and also some concern - that the state:

- play a role in setting fees (or advising on upper and lower parameters), and
- make that process transparent.

There was a divergence of views on whether fee-setting should be at national or local level. Some concerns were raised about 'post code lottery' while others felt it was essential to recognise the different conditions which apply to a region which would affect what would be considered an appropriate fee for that area.

We heard a further divergence of views on whether the same local fee (or local parameters for fees) should extend to expecting different types of provider to be required to charge the exact same local fee for the exact same publicly-funded service (e.g. for delivery of the 600 hours whether delivered by local authority or by partnership provider), and to be seen to do so.

As noted above in section 4.1.3, fee-setting may be the most appropriate mechanism for the state to use to control its exposure to the cost of subsidising childcare.<sup>96</sup>

While it might be controversial and also potentially difficult to manage, we think consideration ought to be given to the rate charged by providers to local authorities for the 'free' provision being the same as the rate charged by providers to parents for the remaining 'paid for' element of the 50 hours entitlement.

We propose national discussion, supported by local experimentation, in improving the transparency and fairness of fees charged.

#### **4.2.1.4 Local information to parents**

This function is to ensure that timely, accurate and full information is available to families about the amount and kind of provision potentially available to them locally.

#### **4.2.1.5 Governance and accountability**

We propose that discussion of the national framework (see section 4.2.1 above) includes debate, supported by local pathfinder experimentation and innovation, on the governance and accountability of the body charged with delivering the national framework at local level.

We would not necessarily expect the same forms of governance, or choice of top priorities for action, to emerge in every part of the country. However, we propose that the Scottish Government works with its stakeholders, including the Childcare Alliance, to establish a regime for assuring clear and consistent local accountability for delivering on the functions above.

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<sup>96</sup> Penn and Lloyd (July 2013) note that many countries exercise fee capping for childcare and have regulations that specify that fee charges must be related to household income, generally set at around 15-20% of household income. Those countries which do use fee capping actively regulate childcare fees at the point of use. See Penn and Lloyd (2013) *The Costs of Childcare, Childhood Wellbeing Research Centre Working Paper No 18*

This may require the Scottish Government to take action on related issues around the legal and financial status of the local governing entities.

Our recommendation (Recommendation No 5) is set out in Chapter 5.

#### **4.2.2 Engaging Employers, Colleges and Universities**

Parents, employers and childcare providers all need to be flexible about working patterns, and about the hours when childcare is available.

Subject to further discussion, employers may want to explore how the Scottish Government's proposed Business Pledge might best promote change within workplaces to make fair jobs more innovative and inclusive.

##### **Case Study 5: Scottish Council for Voluntary Organisations (SCVO)**

SCVO provides its employees with a range of childcare support policies, underpinned by a culture of understanding and on-going support. Around 14% of SCVO employees access the organisation's childcare voucher scheme, which was introduced more than ten years ago, to pay towards nursery and after school care. SCVO also appreciates that childcare arrangements can sometimes break down without prior warning. Employees are actively encouraged to leave work to attend to family matters or to bring their children to work in cases of emergency. SCVO has an adverse weather conditions policy which allows parents to work from home if schools are closed.

The organisation also provides time off in lieu and flexitime systems to enable employees to access leave for school events and family occasions. In addition, SCVO accommodates short-term changes to working patterns and offers up to three days' paid leave per year to deal with unexpected matters. SCVO ensures that staff training and other mandatory events are arranged to fit in with employees' family commitments and pays for additional childcare if employees are required to attend events outside their usual hours. The family friendly environment at SCVO is further enhanced by a series of inclusive events which children and partners are invited to attend.

We propose that employers (including colleges and universities) introduce or continue to expand progressive workplace policies for childcare which exemplify the ambitions of the Scottish Government's refreshed national economic strategy. We consider that an improved system of local childcare provision, linked to local employment and business development, provides a superb test case for demonstrating the national economic strategy's ambitions for inclusive growth.

Improving parents' resilience in managing childcare provides employers with immediate benefits. It enables employers to retain high quality staff and to improve productivity by increasing staff motivation and loyalty, reducing absence levels and turnover, and widening the pool of labour potentially available to that employer.<sup>97</sup> At the essential but less tangible level of workplace culture, a positive culture around family-friendly working supports the emergence of mutually sensible flexible working arrangements between the employer and employee.

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<sup>97</sup> A third of UK organisations report that absence has been affected by their employees' caring responsibilities. Only 16% of organisations report that they have specific policies or guidelines to support employees who are carers beyond the statutory minimum. Absence Management Survey Report 2014, Chartered Institute of Personnel and Development

Recognising the differences in capacity between large corporate employers and many SMEs and all micro businesses, we propose that employers will see direct business benefits by participating in most or all of the following areas:

- Planning for local childcare infrastructure by taking part in local decision-making on childcare, and acting as a link to other key business development programmes underway in that area;
- Investing (financially or in kind) to improve that infrastructure in communities;
- Contributing to the training and development of childcare staff, including mentoring and expert assistance with business planning and management, and leadership of a childcare establishment<sup>98</sup>;
- Introducing or further embedding family-friendly working policies and practices in employers' own workplaces; and
- Where feasible, for larger employers to provide in-kind support to their local SMEs in an area, which supports flexible working to the benefit of other employees in that locale.<sup>99</sup>

#### **Case Study 6: Wheatley Group**

Wheatley Group employs more than 2,100 staff across about 100 offices in central Scotland. It offers a range of benefits - financial and non-financial - to recognise, reward and develop staff during their career. These benefits not only involve working life but also cover lifestyle planning for the future as well as looking after staff's general wellbeing.

Flexible working arrangements are offered to staff, such as term-time, condensed hours, job-share, home-working, flexi-time, and purchased leave. Employees are also able to save up to £933 per year on their childcare costs using childcare vouchers, a salary sacrifice scheme. These can be used for nurseries, breakfast clubs, after-school care, child-minders, and holiday clubs. Employees who have been in the scheme continuously for at least 6 months are also gifted an additional £400 of childcare vouchers each year.

Employees' feedback on childcare vouchers includes: "The childcare vouchers are a great benefit. I find them easy to use and very efficient. The saving made through the tax benefit is excellent." "I've just come back to work after maternity leave and the vouchers are definitely a huge benefit!" "So grateful for the assistance with these vouchers. I only started using them last year and what a great difference it's made to me!!! Would recommend them."

Employers have a direct interest in ensuring that our tax and benefits systems work much better than at present, including how they relate to funding support for childcare. We propose they work actively with UK and Scottish Government, as well as with local government, to improve the balance of direct and indirect spending on childcare in local areas.

<sup>98</sup> The scope of the childcare leader's job has become more complex. A modern leader has to be an expert in a wide variety of tasks: keeping abreast of current childcare research and practice; complying with regulations; working with budgets; embedding an evolving curriculum; managing staff who are undertaking highly responsible and sometimes stressful roles; building the wider relationships needed to successfully run the business, including with parents; and ensuring children are safe and thriving while in childcare.

<sup>99</sup> An example of such in-kind support might be for the larger employer to take steps to include the employees of smaller local SMEs in certain benefits they offer their own staff such as access to emergency or out-of-hours agency cover for childcare. This would be in agreed circumstances and probably negotiated through an appropriate memorandum of understanding or service level agreement.

We propose they become more involved in the development of social policy on childcare, to ensure that such policy (and its related funding) provides the right incentives at local level to people wanting to work or study in that area and/or to local business development.

By taking a greater role in childcare planning and delivery in their local area, employers can not only gain direct business benefits for themselves, but also support the community in which many of their staff live.

Universities and colleges will want to consider their own schemes for improving childcare provision across multiple sites, and between different educational institutions. They will also want to continue the work that many already have in train to develop and implement a wider array of routes to support potential students who are parents to take up further and higher education opportunities.

### **4.3 Meeting the Challenge on Funding Mechanisms**

The challenge is that state funding of childcare (through direct funding of services and the tax and benefits systems) is complicated, confusing, unfair and lacking transparency.

The outcome we want to see is that there is an effective mechanism to route funding to registered childcare service providers.

#### ***4.3.1 How should public money be distributed for childcare?***

As we saw throughout section 2.2, many of the problems with the routing of public money into childcare relate to the interaction between:

- The tax and benefits systems. This is currently a UK-level issue, although some of the relevant powers may transfer to the Scottish Parliament following passage of the current Scotland Bill;
- Family income. This is an issue for the Scottish as well as the UK Government, across a wide range of social policy and also economic policy activity; and
- Childcare costs. This is an issue for all three levels UK, national and local government. There is a particular role for local authorities in determining the costs of its own childcare services, and to some extent indirectly influencing the price parents pay when using private or voluntary sector services located in their authority area.

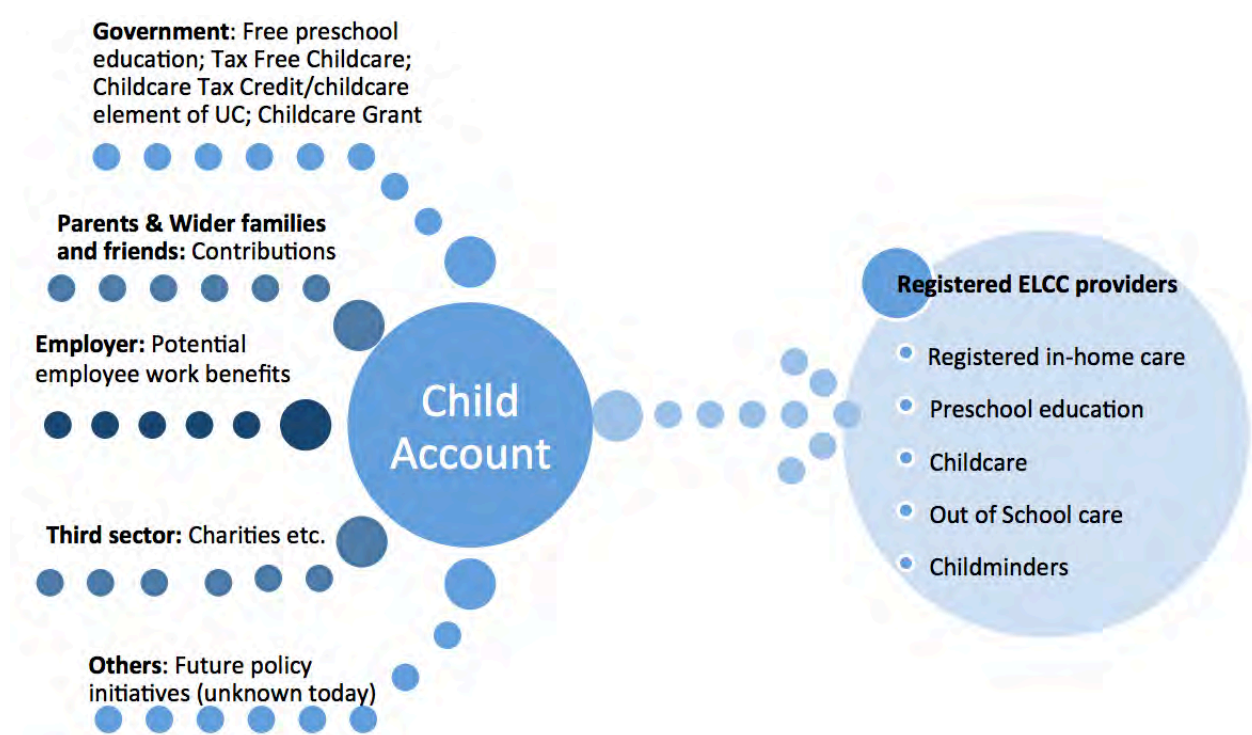
Our proposal comes in two parts.

The first part is to review all the funding streams, with the aims of creating a

simpler and more coherent rationale for funding and agreeing a fairer flow of funding to the intended beneficiaries as a result. See **Annex H** for a suggested remit for a recommended Childcare Funding Review.

The second part is to consider what route might work best for enabling the flow of monies as intended. In this regard, our proposal is for the establishment of a new single mechanism – a Child Account - that is designed to be simple, give greater control and visibility to parents and providers alike, ensure quality and help the state control costs. Diagram 4.3 provides an illustrative schematic.

**Diagram 4.3 – A Schematic of the Expanded Child Account (for Scotland)**



In workshop discussion, we offered the idea of building on the Child Account mechanism being set up by the UK Government to channel tax relief.<sup>100</sup> We found very wide support for properly investigating making expanded use in Scotland of this UK-level mechanism. From early exploratory discussion with HMRC, we feel assured that the current design of the account means there is no impediment in principle:

- To expanding the Child Account to include those families who would not be eligible for tax free childcare;
- To routing all relevant monies (whether from HMRC, DWP, Scottish Government for the 600 hours, or from parents or others) through that mechanism in an auditable and managed way; and

<sup>100</sup> See HM Revenue and Customs, Tax-free Childcare, draft guidance (October 2014)



- To ensuring all money in that account was reserved exclusively for childcare purposes, and was payable exclusively to registered and approved providers in Scotland (whether in the private, public or voluntary sector) for suitable year-round childcare for ages 0-12+. <sup>101</sup>

We propose that Scottish Government take action to explore how such an expanded tool might be used in Scotland, against the objectives of simplicity, control, quality and cost containment.

Our recommendations 7-9 are set out at chapter 5.

#### **4.3.2 Who should control the spending of the Child Account money?**

Our proposal for the Child Account makes no assumption about who might own or administer it. It could be given to parents to spend directly on childcare, selecting across the childcare market for care for their children. It could equally be given to the local partnerships to administer on behalf of the named children in their areas.

We consider both parents and the local partnerships must be meaningfully involved in key decisions about spending the child account monies, such as the choices parents have in an area for availing of suitable childcare, or for setting the going rate for those services. Thereafter, it is a simpler administrative issue as to who actually operates the child account(s).

We believe the decision-making on childcare spending, as well as the most appealing administrative processes relating to the control the child account, should be explored as part of the pathfinding work to be undertaken on the functions of the local partnership bodies (see section 4.2.1).

We expect there may be a divergence of opinion which will need explored. In workshops, we heard some strongly-held views in favour of the principle of parental control, but it was also widely acknowledged that in practice the childcare marketplace does not adequately or equitably support parental choice. Many noted the importance of the state's continued role in ensuring services are available to deprived communities; to rural communities; and to support some children's specialist needs. As we saw in section 2.3, the market does not serve these interests well. <sup>102</sup>

At the administrative level, many considered that routing the ring-fenced child account monies through the local partnerships would provide them with the assured, transparent and full local resourcing they would need to discharge their responsibility to ensure sufficient provision exists locally to meet families'

<sup>101</sup> We suggest an upper age limit for subsidised childcare of 12 years because almost all children need full supervision and care till that age. In addition, some children may need registered childcare when they are over 12 years, and all children may need it in some circumstances. We realise that at some point the state will need to consult on an upper age limit and reach a view, as this affects the costs it might incur.

<sup>102</sup> In addition, many noted the pragmatic difficulties that arise if all parents are expected to be equally confident or knowledgeable about selecting suitable high-quality childcare for their child.

needs.

Pending detailed discussion and development of how the scheme might operate, a majority of those we spoke with supported the prospect of local partnerships having administrative control of the child accounts for their area, providing this was sufficiently transparent, consultative and 'power-shared' with those using or providing services in that area.

A particular advantage was noted that the increased transparency of the flow of monies into childcare through the child account, coupled with better information to parents about the criteria and processes for spending that money, should provide parents with a greater degree of the oversight and accountability they need.

Our recommendation on this issue – Recommendation No 11 – is at chapter 5.

#### **4.4 Meeting the Challenge on Narrow Focus**

The challenge is that the local authority focus has been on securing the delivery of 15 hours per week in term time (the 600 hours) of early learning and childcare at the expense of broader childcare provision. Working parents need much more childcare, all year round.

The outcome we want to see is an average of 50 hours per week of high-quality affordable childcare being reliably available, across the year, for all families who want it.

In section 3.2.5, we set out the difficulties that appear to exist between local authorities and their partnership providers in the delivery of the free 600 hours, resulting in very poor consequences for parents and posing risks to the financial health of the partnership providers.

Separately, and throughout this report, we have noted that too much of local authority provision of the 600 hours entitlement is still only offered in blocks of 3 hours at a time (morning or afternoon) over a 5-day week. While this may suit families where one parent does not go to work, or families that can make their own informal childcare arrangements, too often, working parents are not able to access their entitlement because of this limited format.

A major cause of authorities' historical rigidity when they deliver the statutory entitlement at their own hand, or with their commissioning processes when they procure it through partnership, is that their focus has been on delivering their statutory duty. This duty – as set by Scottish Government – is very narrowly defined. At present, it relates principally to the delivery of 15 hours per week in term time for a particular group of pre-school children. We believe delivering the 600 hours has been a worthwhile achievement. It continues to bring early learning benefits to pre-school children. But it is not enough. Now that this has been achieved, attention needs to shift to meeting the needs of working parents who require childcare for children of all ages, all

year round.

The Scottish Government commitment to invest the resources required to provide up to 30 hours per week in term time of free universal childcare will undoubtedly make childcare more affordable (see section 4.1.2), and is welcome.

However, if local authorities are set the task of delivering 30 hours per week in term time, experience suggests they will deliver that requirement but that is all they will do. Parents will still not be able to access affordable childcare at the times and places they need it. We believe the current distortions in early learning and childcare planning and delivery will be compounded if the free entitlement is simply scaled up by a further number of free hours.

Whether or not the number of free hours for 3 and 4 year olds is increased, we believe that the Scottish Government should use at least some of any additional resources to secure the availability and affordability of up to 50 hours of high-quality childcare for all children, available across the year.

Our recommendations 12 and 13 are at chapter 5.

#### **4.5. Meeting the Challenge for Youngest Children**

The challenge is that there is a lack of consensus across civic society on whether or not very young children should be in childcare and whether or not that childcare should be subsidised.

The outcome we seek is that babies receive the care they need in whatever settings are most likely to allow them to form close and secure attachments to their parent or other loving adults or carers. This can include the parent remaining at home for that period.

The skills required for caring for babies in registered childcare settings are of a high order. The staff ratios required for the baby room are necessarily stricter than for toddlers or for pre-school children, and reasonable continuity of the same care staff in the baby room is likewise important for the baby's wellbeing.

In section 1.6, we pointed to the debate amongst early years experts about care for the under ones. In our interim report we noted the divergence of views across civic society on whether or not the state should be seen to encourage parents to return to work in their baby's first year of life by offering subsidy for registered childcare for the under ones. We provided three options for discussion, and have since been taking straw polls on these across all our engagements.

There appears to be no clear consensus one way or another for what stance the state ought to adopt towards care of the very youngest children. For that reason, we propose an approach that respects the variety of strongly held views on this personal choice for families.

Regardless of whether families use childcare, some families need additional help coping with the challenges of bringing up very young children.

Whether or not the state encourages or subsidises childcare for very young children, clearly some parents will want or need to work or study while their child is still under one year old. The needs of these young children for high-quality childcare must be met.

We recognise that families in Scotland (as across the UK) receive less paid parental leave than in other countries.

We have therefore concluded that the state should make it financially easier for families by providing financial support to families with very young children that does not depend on whether the parents are working or studying, nor does it depend on whether they are using registered childcare.

Our recommendation (No 14) is at chapter 5.

#### **4.6 Meeting the Challenge on Responsibility**

The challenge is that no single person or organisation currently has taken responsibility for ensuring families have access to the affordable, high quality childcare they need.

The outcome we seek is effective leadership of the system change needed to achieve this.

Throughout this report, and in several different ways, we have highlighted the 'ownership' gap that exists in national policy, in organisation and delivery, in funding arrangements, and in cultural work/ life norms, for delivering childcare which meets families' needs.

As this report makes clear, there are complex and difficult issues to be addressed. Resolving them means the Scottish and UK Governments must work closely together, and must involve local authorities, providers, parents, employers and wider civic society interests in reaching solutions.

We propose that the Scottish Government takes responsibility for developing a strategy to ensure families have access to the affordable high-quality provision they need.

We propose that the network of local partnership bodies must take responsibility for delivering that strategy locally.

We propose that the UK Government, with Scottish Government, must ensure that coherent funding arrangements for childcare are available to Scottish families to support the change. We consider the Scottish Government must hold itself responsible for securing the kind of relationships with the UK

Government which will lead to this result.

Our recommendations (No 8 and also 15-17) are at chapter 5.

## 5 WHAT NEXT?

We consider that our proposals for change will encourage reform of childcare provision in Scotland in ways which will result in a more affordable, flexible and convenient means for parents to access the high-quality childcare they need.

We recognise that public finances, at present, constrain the rate at which reforms may be introduced. We see some benefits in this, in fact. It provides time for all of us – government and civic society interests alike – to make progress together towards an expanded system of provision whose quality is not threatened by a rate of growth which exceeds the capacity of the workforce to grow commensurately in size, skills and experience.

Even in a period of constrained public finances, it is essential that we make concerted progress now. The time is right to get all the fundamentals into reasonable alignment, drawing on the vigorous support for reform which all political parties espouse.

That in turn allows us to plan and implement a coherently linked series of reforms leading towards a shared and ambitious vision.

We believe our recommendations provide both the long-term vision and the pragmatic template needed to generate transformative change in this vital area of public service.

### 5.1 Our Recommendations

#### VISION

**RECOMMENDATION 1: That the Scottish Government endorse our long-term vision for childcare and take both immediate and medium-term steps to see it implemented.**

Our vision is that:

- Every child up to the age of 12 (and in some cases perhaps beyond 12) is entitled to up to 50 hours of high quality childcare and education per week throughout the year;
- Within that entitlement, primary schooling and the 600 hours of early learning and childcare per year for eligible children is free at the point of delivery;
- The balance of the 50 hours is accessible and affordable for all families; and

- The 50 hours is provided using arrangements that enable parents to work or study.

In taking forward this recommendation, all relevant parties will need to be clear about which services are within the scope of 'registered childcare' and would qualify for state support. In agreeing the scope, the opportunity may be taken to agree the status of currently non-registered provision (for funding purposes) such as holiday activity clubs or nannies working in the child's home.

Planning and delivering on this vision cannot be done by looking at any given aspect in isolation. A wide-ranging and coherent programme of work needs to be established, probably led by Scottish Government, and involving all key stakeholders.

**RECOMMENDATION 1a: We welcome the recent recommendation of the Scottish Government's workforce review for a strategic group to be established. We recommend that its remit and membership is widened from the outset to deliver on the vision set out in this report.**

A planned journey towards delivering the vision should be laid out. That programme of work can be flexed on the basis of recognised financial and political realities; changing circumstances; innovative experimentation and progress by local pathfinders; and developing understanding and learning from those pathfinders.

## **AFFORDABILITY**

**RECOMMENDATION 2: All families should be entitled to up 50 hours per week throughout the year of free or subsidised childcare for each child (approximately 20 hours per week outside school hours during term time for school age children).**

**RECOMMENDATION 3: The net cost to parents should be on a sliding scale that takes account of income to ensure affordability for all families. In the long term, no family should spend more than 10% of their net household income on the costs of their 50 hours childcare entitlement.**

Depending on their circumstances, some families may need support to reduce costs below 10% of their net household income.

The state should make a long-term commitment to limit childcare costs for all families as soon as public funds can sustainably allow for this.

**RECOMMENDATION 4: In the short term, priority should be given to smoothing cost burdens for all families (who face the highest costs when**

**their children are very young) and to supporting those families who live in or near poverty.**

We assume that the state cannot afford to subsidise all families to the same extent as it supports the poorest families, although we have no objection in principle if that is what the state chooses to do.

A complex set of family circumstances and public funding routes need to be understood in considering, and costing, how best to smooth and ease the cost of childcare for all families (prioritising those with children aged under 3), and to significantly lift the burden for poorer families. See Recommendation 8 below.

## **AVAILABILITY**

**RECOMMENDATION 5: The state should take responsibility for working with parents, employers and providers to ensure the availability of a range of suitable childcare to meet the needs of children, families and business in Scotland. Decisions about local provision should be taken locally. Decisions about whether to use childcare, and which provider to use, should continue to be taken by parents.**

**RECOMMENDATION 5a: The suite of high-quality services in a local area must be both sufficiently numerous to meet the needs of families, and sufficiently diverse to cater for the needs of all the children who wish to attend.**

This will include children with additional support needs; children from BME backgrounds; and children from low-income families or deprived communities.

**RECOMMENDATION 5b: Local authorities (and CPPs) need to actively plan with each other around proposed improvements and reforms of local childcare services.**

Decision-making on local provision must be mindful of current and anticipated future demand. This must include recognition that many commuters (students as well as employees) will regard their travel-to-work area, rather than their local authority area, as the natural sensible boundary for coherent local planning.

**RECOMMENDATION 6: Parents, employers and childcare providers all need to be flexible about working patterns and about the hours when childcare is available.**



## **FUNDING MECHANISMS**

**RECOMMENDATION 7:** Scottish Government, working with local authorities and providers, should specify, and ensure rapid collection of, the robust and comprehensive data on the provision, uptake and funding of childcare that is needed to inform debate and decision making.

**RECOMMENDATION 7a:** An immediate data priority is the evidence required to support Recommendation 9 below, relating to the 600 hours of free early learning and childcare for eligible children. We recommend the Scottish Government, working with local authorities, gives this their urgent attention and publishes the findings which ensue.

**RECOMMENDATION 7b:** We recommend the Scottish Government give immediate attention to generating and publishing data and modelling of the net income position for a wide array of different families, depending on their income and circumstances, and the age and stage of their children.

This work may already be underway, and we welcome this if so. Improved evidence on this difficult and complex data area will comprise part of the delivery of Recommendation 8 below, and will closely inform Recommendations 10, 11 and 13.

**RECOMMENDATION 8:** Scottish Government, working with UK Government, local authorities and providers, should commission a fundamental review of all aspects of the funding of childcare.

This review should address two distinct issues. The first thread should review how the decision-making and related funding supports from UK Government and Scottish Government take account of each other (or fail to do so) with a view to establishing an optimal and coherent balance of the 4 objectives for childcare provision in Scotland set out in section 1.5 of this report.

The second thread should review how Scottish Government, local authorities and services providers understand, negotiate and administer funds for free universal entitlement for eligible children, both now and for any future free hours, so that all working parents can easily and fully access their entitlement. This relates to how Recommendation No 9 below may be met.

**RECOMMENDATION 8a:** The remit of the funding review should be wide-ranging.

There is the immediate challenge of delivering the promised increase in free universal early learning and childcare to 1,140 hours per year for eligible pre-school children in term time (if the current Scottish Government is re-elected following the 2016 Scottish elections). Beyond that, there is the long-term challenge of delivering the full vision set out in this report.

In order to address both the immediate and long-term challenges, we propose a remit for this review which is set out at **Annex H**. The key ambition is to ensure that the total cost of public funding into childcare – from whatever sources, and towards whatever beneficiaries – should be sustainable, progressive, fair, transparent, accountable, and amenable to the state being able to know and control its costs.

**RECOMMENDATION 9: Scottish Government and local authorities should ensure that working parents do not have to pay any of the costs of the 600 hours per year of free early learning and childcare.**

**RECOMMENDATION 10: Scottish Government, the UK Government and local authorities should work together to simplify the funding of childcare to ensure it is clear, simple and fair for both families and providers.**

It is essential that this recommendation is progressed and implemented in ways which enable, encourage and facilitate the active engagement of parents, providers, employers, business development interests, trade unions, and other members of civic society.

**RECOMMENDATION 10a: The local strategic planning authority should ensure that parents receive information not just about local services in their area but also about the financial support that is available to them (guided and described in terms of their particular circumstances).**

This recommendation is to address the common difficulty that even when families are entitled to claim benefits, the processes for doing so are often so complex and off-putting that families fail to take up their financial entitlements.

**RECOMMENDATION 11: A child account should be established for each child, to provide a transparent route through which all money (public or private) that is used to pay for, or subsidise, childcare is channelled to providers. HMRC are planning to establish such an account for routing tax free childcare and related parental contributions. We suggest that the HMRC child account for tax free childcare is expanded for Scotland to act as the vehicle for all state and private funding used to pay for childcare.**

In Recommendation 8a above, we recommend that the funding review includes in its remit a consideration of who should control and administer the child account.

## **WIDENING THE FOCUS**

**RECOMMENDATION 12:** There should be a duty, probably on local authorities or community planning partnerships, to act as the strategic planning authority for childcare, and ensure the availability of the childcare required locally to deliver the 50 hour per week commitment.

**RECOMMENDATION 12a:** The local partnership authority should plan for a sustainable rate of expansion of services in their area based on assuring high-quality provision is available and is continually improved on, and on sustainable increased annual funding for childcare.

The funding review (see recommendation 8 and also **Annex H**) should assess the sustainability of funding at both national and local authorities levels. This does not diminish the requirement on the local partnership authorities to actively manage both the rate, and the types, of expansion and development of high-quality childcare services in their area.

**RECOMMENDATION 12b:** The Scottish Government, with the local partnership authorities, should develop a national framework of duties, powers and functions to inform, and provide a national context for, the operation of the local partnerships.

The extent to which fees should be set locally can be determined following the funding review (recommendation 8).

**RECOMMENDATION 13:** As part of the funding review proposed above, the Scottish Government and local authorities should agree the basis on which additional resources are used to subsidise and support delivery of that entitlement.

## **CARE OF VERY YOUNG CHILDREN**

**RECOMMENDATION 14:** Families with a very young child should receive a cash sum equivalent to the childcare subsidy they would be entitled to if that child was older.<sup>103</sup> That cash sum can be used to cover

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<sup>103</sup> We suggest this means a child under the age of one, but that is for debate.

**the costs of childcare and/or to help parents afford to stay at home with their child for longer.**

We recognise that this will be expensive, but families in the UK with very young children receive significantly less paid-for parental leave than in most other countries and many come under real financial pressure at that critical point in their child's life.

## **RESPONSIBILITY**

**RECOMMENDATION 15: Scottish Government should take responsibility for establishing, and ensuring delivery of, the comprehensive strategy required to ensure families have access to the affordable, high quality childcare they need.**

Our recommendation 1a calls for a suitably widely constituted strategic group to be convened to meet not just the recommendations of the recent workforce review but also the wider issues identified in this report.

The comprehensive strategy adopted by the Scottish Government and its partners, including the Childcare Alliance, should ensure the strategy is implemented in a way which makes a positive contribution to anti-poverty activities and supports, and to improving equalities and improving quality.

**RECOMMENDATION 16: Local partnerships should be responsible for securing delivery of that strategy in their area. We believe that it would be appropriate for the Community Planning Partnership to take on that function, but have no principled objection if a different approach is taken, as long as it is effective.**

**RECOMMENDATION 17: UK Government should either work with Scottish Government to ensure the tax and benefits system operates smoothly to support that strategy or take action to ensure the devolution of responsibility for the relevant tax and benefits areas to the Scottish Parliament.**

It is more difficult for two administrations than just one administration to take steps to support coherent and sustainable reform of childcare provision in Scotland.

We believe it would make the childcare funding challenge easier to address if all relevant tax and benefits associated with the funding of childcare were devolved to the Scottish Parliament. That is, of course, a wider political question. Unless and until that happens, we believe the UK and Scottish Governments will only achieve their declared ambitions to improve childcare if

they both take active account of what each is spending, or planning to spend, in improving childcare provision and childcare costs for families in Scotland.

**Commission for Childcare Reform**  
**June 2015**

## ANNEX A COMMISSION FOR CHILDCARE REFORM – MEMBERSHIP AND TERMS OF REFERENCE

### Membership

**Colin MacLean (Chair):** former Director of Financial Strategy at the Scottish Government

Alison McRae – Projects Director, Glasgow Chamber of Commerce

Christine Pollock CBE – former Executive Director of Learning and Leisure Services at North Lanarkshire Council

Clare Simpson – Project Manager at Parenting Across Scotland

Kenny Forsyth – Interim CEO of Streetwork and independent management consultant

Satwat Rehman – CEO of One Parent Families Scotland

Yvonne Anderson – owner of Melfort House Hotel, Oban, and former childcare business manager

Maggie Tierney is Secretary to the Commission, on secondment to Children in Scotland from Scottish Government

Biographies of Commission members are available at  
[www.commissionforchildcarereform.info/?page\\_id=2](http://www.commissionforchildcarereform.info/?page_id=2)

The Childcare Alliance Steering Group invites the Commission:

#### **Remit:**

To engage widely with Scottish civic society and business, and consider evidence from within Scotland and other countries, to identify and explore issues related to childcare.

To deliver advice on the key features of an excellent system of childcare provision for Scotland, and make recommendations on how such an excellent system might be established and sustainably funded.

To regard excellence as referring to:

- The quality of the pre-school **child's experience** of early learning and care, and the school-age child's experience of wraparound care, and how that experience meets the needs of the individual child; and
- The quality of the **arrangements for delivery and funding**, including the implications for the childcare sector and those who work in it. In particular, how the provision meets the needs of the family through being flexible, accessible, affordable, sustainable and convenient; and how such provision supports parents to secure learning and/or employment opportunities, which in turn contributes to improved workforce resilience to benefit employers in Scotland and promote economic growth.

Where arrangements for delivery and funding have a potentially adverse impact on the quality of the child's experience, to make recommendations on how to prevent or mitigate that impact.

**Objectives:**

1. To build on the case that is being made in Scotland for significantly expanded and improved childcare provision, and further develop an approach to investing in childcare (whether with public funds or otherwise) which:
  - Meets children's development needs;
  - Enables and sustains a viable childcare delivery sector;
  - Helps tackle embedded inequalities in Scottish society;
  - Improves lives and choices for parents and contributes to more stable families and flourishing communities; and
  - Promotes a fair, sustainable and efficient use of public and other funds.
2. To engage innovatively with civic society, families and employers:
  - To help generate well-informed, challenging and enthusiastic support for a transformed model of childcare provision; and
  - To identify, and help build, consensus around the forms, levels and sources of funding needed to build and sustain this, as part of securing Scotland's long-term prosperity.
3. To deliver a report to the Childcare Alliance Steering Group which:
  - Provides options which model in outline how childcare services might be delivered and paid for in ways which reasonably balance the various outcomes sought; and
  - Makes recommendations for how childcare provision in Scotland may best be funded and progressed in ways which will engender transformative change to the primary benefit of children and their families.

**Timing:**

The Commission will deliver its report to the Childcare Alliance Steering Group by Summer 2015. It may also issue an Interim Report at an earlier point.

**Evidence:**

The Commission will adopt an approach to its work that is informed by evidence. Using available factual data, it will aim to understand and analyse current provision and public and other investment (both direct investment and other relevant forms of support to families) in Scotland and elsewhere. This approach will help ensure that, as far as possible, discussions, options and recommendations are offered on a sound factual base.

**Scope:**

The Commission will in most cases be concerned with provision for children up to early secondary school age, but will also consider within scope continued childcare services for older children and young people where this is needed or where there is parental demand.

The Commission will presume that provision for pre-schoolers will deliver early learning and childcare, as set out in the Scottish Government's Draft Guidance on Early Learning and Childcare (April 2014).

The Commission will take a holistic view of all childcare provision. This is against the context that certain areas of childcare reform are already being vigorously progressed by the Scottish Government and Parliament, through the CYP Act and other initiatives such as the Early Years Collaborative. The current and proposed future increases in hours of statutory provision for pre-school children will be of interest to the Commission for their wider impacts on the flexibility, accessibility, sustainability and affordability of the system of provision taken as a whole.

The Commission will necessarily have a core interest in what size and kind of childcare workforce is required to support a transformed system of provision. The Commission recognises however that the Scottish Government's Workforce Review is already addressing much of this agenda. The Commission may wish to comment on the Review's findings and recommendations on workforce planning and development, and will aim to ensure there is coherence between the Commission's emerging or interim findings and the findings being reported by the Workforce Review (due March 2015).

The Commission's interest in the quality of provision will, in most respects, be confined to the rules and practice found on the frontline which are intended to ensure that the child receives a high-quality experience, as opposed to any direct consideration of any particular early learning activities or care offered to that child.

The Commission will investigate a variety of potential and actual sources, levels and means of funding for childcare. Its interest is not confined to publicly-funded provision.

The Commission will be interested in informal childcare only for its effects on the larger market for formal childcare. The Commission will not make recommendations about the prevalence, suitability or implicit costs of informal arrangements that families routinely make within their own kinship networks.

The Commission will take a particular interest in childcare provision for families living in deprived areas; in rural areas; and with children with additional support needs. It will also have a particular interest in provision for school-age children; for children at risk; and for one-parent families.

The Commission will take a particular interest in understanding and taking account of the needs of employers for a flexible and reliable workforce, and the needs of workers for fair and progressive family-friendly policies.

**Jackie Brock – Chair, Childcare Alliance Steering Group**

**Colin MacLean – Chair, Commission for Childcare Reform 29 May 2014**



## ANNEX B

### THE COMMISSION'S ENGAGEMENT WITH CIVIC SOCIETY AND BUSINESS - ACKNOWLEDGEMENTS

Thank you to Children in Scotland and the Scottish Council for Development and Industry for their invaluable assistance and support to the Commission throughout.

Thank you to the experts who spoke with the Commission and offered us the opportunity for close discussion in person: Dr Alison Koslowski; Boyd Murdoch; Dr Dalia Ben-Galim; Dr Eva Lloyd; Dr Ingela Naumann; Dr Jana Javornik; Purmina Tanuku; Rob Gowans; and Sheena Lowes. A particular thank you also to Kim Tewnion and Susan Rew for their expert assistance.

We received 16 written submissions in our call for expert evidence and their contributions are found at

[https://www.commissionforchildcarereform.info/?page\\_id=68](https://www.commissionforchildcarereform.info/?page_id=68) Thank you to: Aberlour Childcare Trust; Barnardo's; Capability Scotland; Child Poverty Action Group; Children 1<sup>st</sup>; Prof Chris Pascal, Centre for Research in Early Childhood; Early Years Scotland (formerly SPPA); Fair Funding for Our Kids; National Day Nurseries Association; One Parent Families Scotland; Dr Sandra Mathers, Oxford University; Save the Children; Scottish Out of School Care Network; Scottish Social Services Council; The Poverty Alliance; and Women in Scotland's Economy. Thanks too to Dr Christine Stephen (Stirling University), and Jean Carwood-Edwards (CEO Early Years Scotland) for expert discussion and advice by email.

Thank you to all the organisations and individuals who organised local events or held conversations with us. Particular thanks to: Aberlour Childcare Trust; Action for Children; Allsorts Out of School Club, Dornoch; Association of Directors of Education in Scotland (ADES) Executive team; ADES Early Years Network; Anderson Strathern; Barclays Bank; Barnardo's; Bertrams Nursery Group; Bright Horizons; Brodies solicitors; Care and Learning Alliance; Care Inspectorate; Citizens Advice Scotland; Confederation of British Industry; Convention of Scottish Local Authorities (COSLA); Dad's Rock; Early Years Scotland (formerly SPPA); Education Scotland; Educational Institute of Scotland (EIS); Fair Funding for Our Kids; Family Friendly Scotland; Fathers Network Scotland; Flexible Childcare Services, Dundee; for Scotland's Disabled Children; Glasgow Employers Forum; Improvement Service; Joseph Rowntree Foundation Scotland; Local Authority Childcare and Early Years Network; Lothian Association of Youth Clubs; Marriott Hotel Group; National Parents Forum for Scotland; National Day Nurseries Association; National Union of Students; One Parent Families Scotland; Peace Recruitment; Parenting Across Scotland; ParentsparK; Royal Bank of Scotland Parent and Carers Network; Save the Children; School's Out, Edinburgh; Scottish Business in the Community; Scottish Childminding Association; Scotland's College Development Network; Scottish Council for Development and Industry North East Forum; Scottish Council for Independent Schools; Scottish Family Business Association; Scottish

Funding Council; Scottish Out of School Care Network; Scottish Trades Union Congress; Scottish Women's Convention; Society of Local Authority Chief Executives (SOLACE); UNISON; Wheatley Group; Woodlands Nursery, Methil, Fife; and Women's Enterprise Scotland;

Thank you to the MSPs who participated at our political panel event on 21 August 2014 at Holyrood and to Ian Wall for chairing that event, and thank you also to the speakers at our launch conference and to Sally McNair for chairing: Aileen Campbell MSP (SNP); Alison Johnstone MSP (Greens); Kezia Dugdale MSP (Lab); Liam McArthur MSP (Lib Dem); Mary Scanlon MSP (Con). Also, Anand Shukla (Family and Childcare Trust UK); Ann Henderson (STUC); Jim McCormick (JRF); and Ryan Shorthouse (Bright Blue, UK).

Thank you to Scottish Government and local authority officials who were generous with their time and expertise throughout, as were UK Government officials including the Scotland Office.

Finally, thank you to the hundreds of participants in our local conversations, workshops and discussion events.

### SCOTLAND'S MAJOR LEGISLATION AND POLICY PROGRAMMES RELATING TO CHILDREN'S EARLY AND SCHOOL YEARS, AND EARLY AND SCHOOL LEARNING AND CARE

#### 1. Key Legislation

##### ***1.1 The Children and Young People (Scotland) Act 2014***

The Act which came into effect in Scotland last year has 18 parts.<sup>104</sup> Parts 6-8 relate to early learning and childcare. Their aim is to “improve and integrate the role of early years support in children and families’ lives by increasing the amount and flexibility of early learning and childcare; as a significant step towards wider ambitions to develop a high quality and flexible system of early learning and childcare which is accessible and affordable for all children, parents and families.”<sup>105</sup>

Under section 47(1), local authorities must secure the mandatory minimum hours of 600 hours of early learning and childcare for each eligible young child in its area. The CYP Act increases the number of children eligible for early learning and childcare to include the most vulnerable 2 year olds who are looked after, under a kinship care order; or, with a parent appointed guardian.<sup>106</sup> This is in addition to the 3- and 4-year olds previously eligible for 475 hours of free early learning and childcare.

Local authorities are required to consult with parents at least once every two years on patterns of childcare provision. The Scottish Government announced in its press release of February 2015 that all councils started doing this in advance of the new legislation and that engagement is continuing.<sup>107</sup>

The guidance for the CYP Act is being issued by the Scottish Government in stages.<sup>108</sup> As part of the early learning and childcare guidance, it is expected that local authorities will have to plan and implement more flexible and varied models of service provision to support families into work or study.

##### ***1.2 Additional Support for Learning Act 2004***

The Education (Additional Support for Learning) (Scotland) Act 2004 provides the legal framework for the provision of additional support for learning. The Act is structured around the concept of support being needed for any reason, and

<sup>104</sup> <http://www.legislation.gov.uk/asp/2014/8/contents/enacted>

<sup>105</sup> Scottish Government, Children and Young People (Scotland) Act 2014, Early Learning and Childcare Statutory Guidance (August 2014)

<sup>106</sup> Scottish Government, Children and Young People (Scotland) Act 2014, Early Learning and Childcare Statutory Guidance (August 2014)

<sup>107</sup> Scottish Government, Press Release, Early learning and childcare to double (25/2/15)

<http://news.scotland.gov.uk/News/Early-learning-and-childcare-funding-to-double-1667.aspx>

<sup>108</sup> <http://www.gov.scot/Resource/0045/00452065.pdf>

for short or long term periods which are determined by the individual learning needs of the child or young person. The key duties on education authorities are to identify, make provision for, and review provision for the additional support needs of children and young people for whose education they are responsible.<sup>109</sup>

### ***1.3 Proposed Expansion of Free Universal Entitlement to Early Learning and Childcare for Eligible Pre-School Children in Term Time (through CYP Act Statutory Guidance)***

If the current Scottish Government is re-elected at next year's Scottish elections, it has announced it proposes to expand the entitlement of free universal early learning and childcare for eligible children.<sup>110</sup>

This proposal, if delivered, will expand the hours of free entitlement to 30 hours per week in term time (1,140 hours per year). Eligible children are the same children currently entitled to the 600 hours provision. The expected timetable for delivery is by the end of the next parliamentary term. The Scottish Government anticipates its annual revenue spend will reach around £880 million at that point (2019-20). This is in addition to the capital funding that is planned for delivering the expansion.

The requirement on local authorities is expected to be delivered within the terms of the guidance on the early learning and childcare requirements of the CYP Act.

### ***1.4 Building the Ambition – national practice guidance***

In addition to the Statutory Guidance published under part 6 of the CYP Act, the Scottish Government also published Building the Ambition. This is a set of national practice guidelines for practitioners working with children delivering the 600 hours of free early learning and childcare.<sup>111</sup>

## **2. Key Policy Frameworks**

### ***2.1 Getting It Right For Every Child (GIRFEC)***

GIRFEC sets out guidelines for every practitioner and policy maker working with children and families. Getting it right for every child (GIRFEC) is founded on 10 core components which can be applied in any setting and in any circumstance, and pursues a vision for children based on the SHANARRI

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<sup>109</sup> Education (Additional Support for Learning) (Scotland) Act 2004  
<http://www.legislation.gov.uk/asp/2004/4/contents>

<sup>110</sup> Scottish Government, Press Release, Early learning and childcare to double (25/2/15)  
<http://news.scotland.gov.uk/News/Early-learning-and-childcare-funding-to-double-1667.aspx>

<sup>111</sup> Scottish Government, Building the Ambition, National Practice Guidance on Early Learning and Childcare, Children and Young People (Scotland) Act 2014

indicators of wellbeing. These are: *Safe, Healthy, Achieving, Nurtured, Active, Respected, Responsible and Included*.<sup>112</sup>

## **2.2 Curriculum for Excellence**

Curriculum for Excellence aims to achieve a transformation in education in Scotland by providing a coherent, more flexible and enriched curriculum for children aged 3 to 18. The curriculum includes the totality of experiences which are planned for children and young people through their education, wherever they are being educated.<sup>113</sup>

## **2.3 The Early Years Framework and Early Years Collaborative**

The Early Years Framework was launched in 2008 as a guide for partnership working between the Scottish Government and COSLA to maximise opportunities for children to have an equal start in life, and to seek early intervention to reach families before crisis point.<sup>114</sup> The Early Years Taskforce was established to take forward a significant change programme to deliver the priorities set out in the Framework.<sup>115</sup>

The Early Years Collaborative (EYC) is an outcome- focused, multi-agency quality improvement programme that aims to deliver nationally on the vision and priorities of the Early Years Taskforce and bring focus and clarity to agreed objectives, outputs and outcomes.<sup>116</sup>

## **2.4 National Parenting Strategy**

The National Parenting Strategy was launched in 2012 as a programme to support parents and families in Scotland so that they can give the children and young people of Scotland the best start in life.<sup>117</sup> Its focus is on strengthening existing supports to parents, and to work with parents and third sector providers to improve access to support.

The implementation programme includes linkages to employers to encourage more family-friendly working.

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<sup>112</sup> Scottish Government, Getting it Right for Every Child <http://www.gov.scot/Topics/People/Young-People/gettingitright/background>

<sup>113</sup> Education Scotland, Curriculum for Excellence

<http://www.educationscotland.gov.uk/learningandteaching/thecurriculum/whatiscurriculumforexcellence/>

<sup>114</sup> Early Years Framework <http://www.gov.scot/Resource/Doc/257007/0076309.pdf>

<sup>115</sup> Early Years Taskforce – Vision and Priorities <http://www.gov.scot/Resource/0038/00389841.doc>

<sup>116</sup> Early Years Collaborative <http://www.gov.scot/Topics/People/Young-People/early-years/early-years-collaborative>

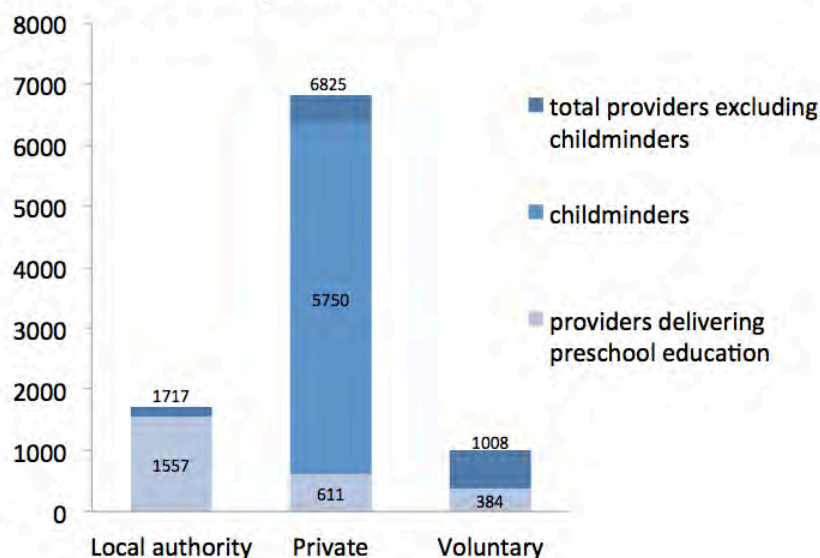
<sup>117</sup> National Parenting Strategy: Making a positive difference to children and young people through parenting <http://www.gov.scot/Resource/0040/00403769.pdf>

## ANNEX D

### CHARTS AND TABLES ILLUSTRATING ASPECTS OF CHILDCARE PROVISION IN THE UK (AND TO A RELATED EXTENT, SCOTLAND)

**CHART 1**

**The number of all active registered childcare providers for children aged 0-16 and estimated proportions of providers delivering pre-school education by local authority, private and voluntary sector in 2012**



**Source:**

Childcare Statistics Supporting tables 2012, Care Inspectorate

**Data comments:**

\*Pre-school education referred specifically relates to local authority or partnership funded pre-school education.

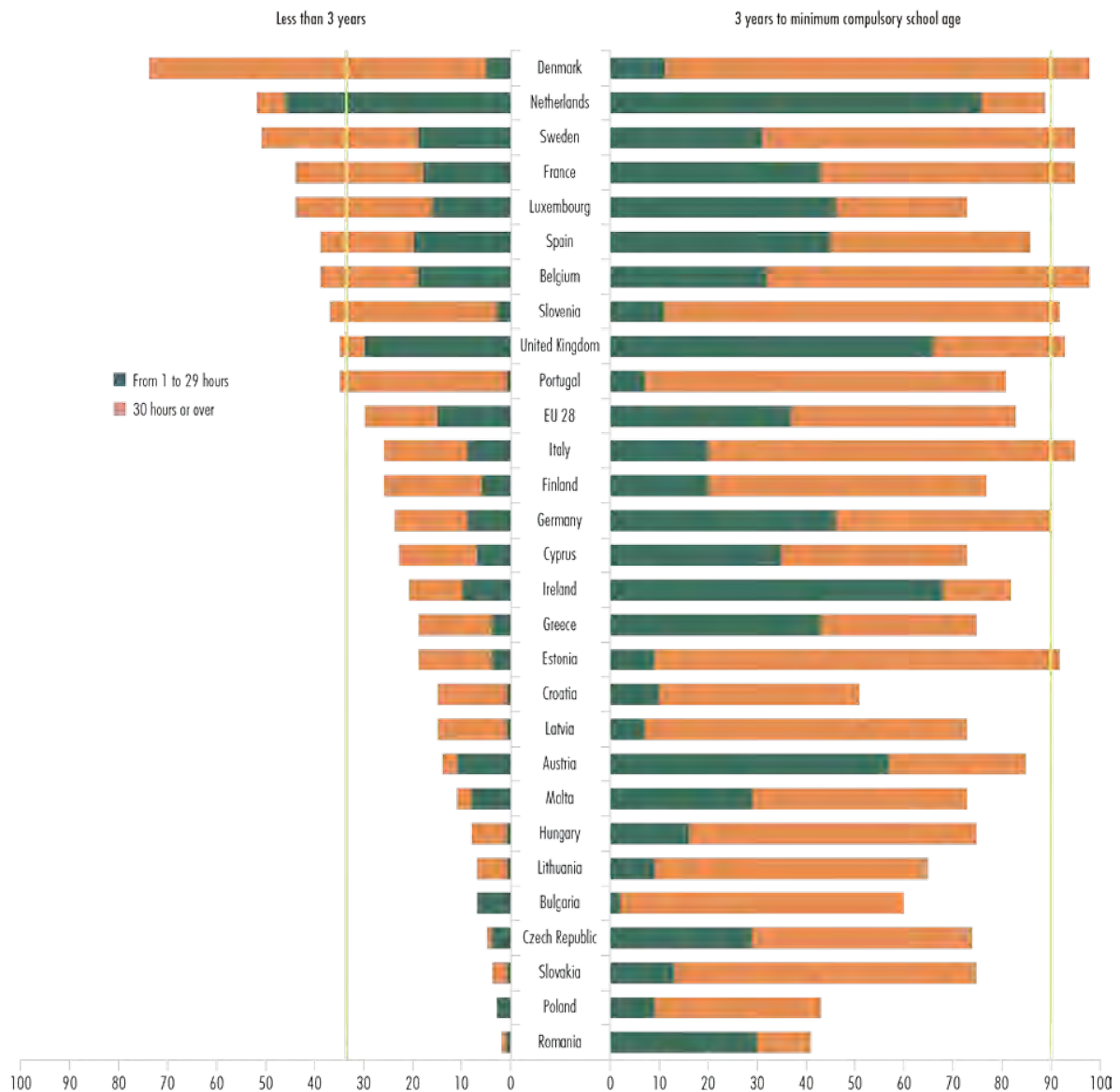
This chart shows that of the total 9,550 providers for childcare services for children 0-16, nearly 7,000 are private and another 1,000 voluntary. More than 80% of private provision is offered by child-minders who have 6 places on average. There are more than 1,550 local authority providers offering the 600 hours early learning and childcare, as well as 600 partner providers drawn from the private and voluntary sectors.

Places are offered in 2,400 nurseries or in the nursery classes that offer free early learning and children; in 350 pre-schools; in 90 sessional crèches; and by 5,700 registered childminders. There are also about 1,000 out of school clubs (including breakfast clubs and holiday play schemes) offering childcare to school-age children.

See Care Inspectorate (2014) Childcare Statistics December 2013; and Scottish Government (2015) Summary Statistics for Schools in Scotland, No 5 2014 Edition

## CHART 2

**Percentage of children up to 3 years of age and from 3 years of age to mandatory school age cared for by formal arrangements (by weekly time spent in care, 2010)**



Source: Barbara Janta (The European Platform for Investing in Children) *Caring for children in Europe* 2013 P.4

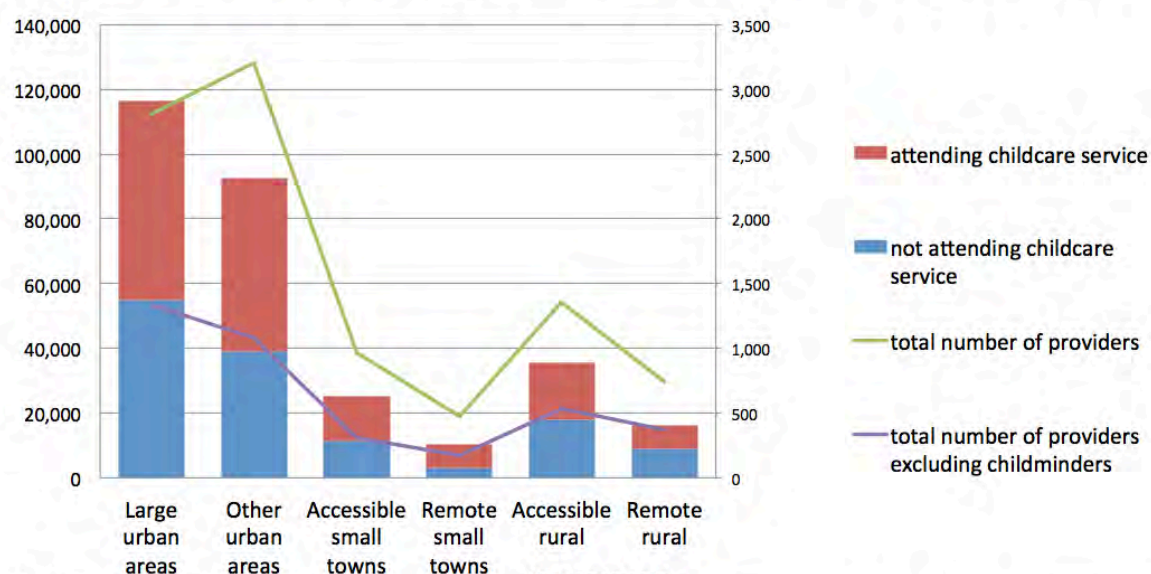
The UK is above the EU average but some distance behind the Scandinavian countries.

As we saw in section 1.4.1, Scotland's use of informal childcare is higher than the UK's as a whole, suggesting that Scotland's profile of use may be culturally closer to Ireland's.



## CHART 3

The total number of children aged 0-5 attending all kinds of childcare services and the total number of providers (public, private and voluntary) in rural and urban area in 2012 in Scotland



### Source:

- Population estimates for 6-fold Urban Rural classification 2012, General Register Office for Scotland
- Childcare Statistics Supporting tables 2012, Care Inspectorate

### Data comments:

\*The number is estimated by the total number of children aged 0-16 attending childcare services in 6-fold urban rural classification and average proportion of children aged 0-6 in different kind of childcare services; the number of children aged 0-5 attending childcare service are not available, which might be slightly lower than aged 0-6 due to deferred entry.

## Compiled by: Commission for Childcare Reform

This shows the proportion of children (0-5) attending childcare rises from just 45% in deprived areas to nearly 70% in more affluent areas. There are fewer providers operating in deprived areas, serving a larger population of children in those areas. More affluent areas have more child-minders offering services.

## Table 1 – No of Active Registered ELCC Services per head of population by urban/rural and by deprivation

Number of active registered early learning and childcare services per 10,000 head of population by urban-rural category and deprivation category, as at 31 December 2013

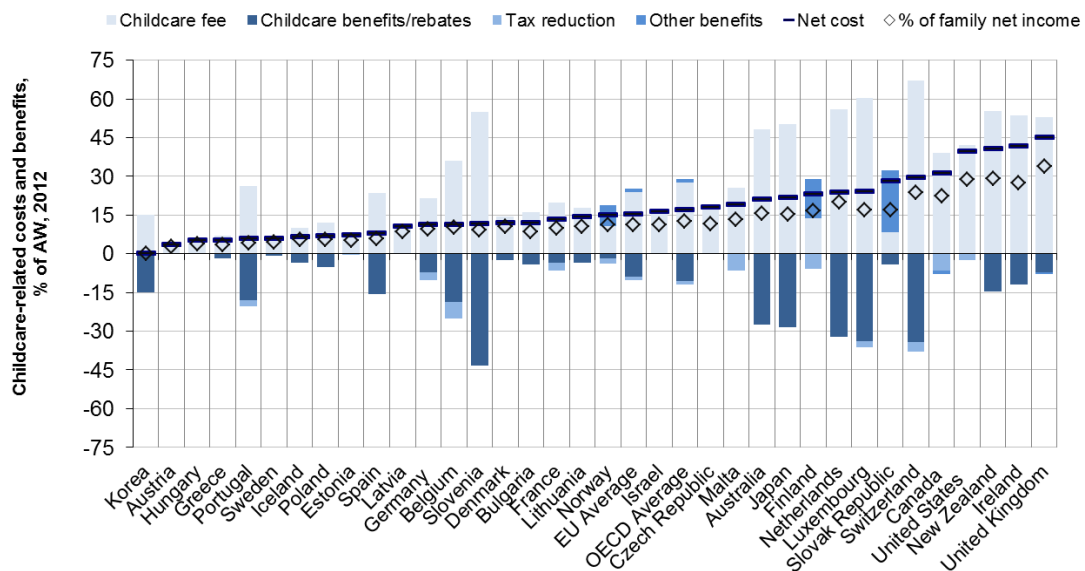
	Number of childcare services per 10,000 head of population, by main service type									
	All active childcare services	All active childcare services excluding childminding	Childminding	Children/ family centre	creche	holiday/play scheme	nursery	Out of school care	playgroup	Other services
<b>Urban-rural category:</b>										
Large urban areas	82.8	39.5	43.3	2.3	1.4	0.7	23.8	9.1	1.9	0.5
Other urban areas	111.0	37.3	73.7	1.5	0.9	0.6	23.9	7.1	2.7	0.5
Accessible small towns	122.3	38.4	83.9	0.9	1.0	0.2	24.6	6.8	4.5	0.4
Remote small towns	138.6	50.0	88.6	2.5	0.3	1.5	31.0	4.9	8.9	0.9
Accessible rural	110.5	44.0	66.5	0.1	0.6	0.3	28.9	7.5	6.3	0.3
Remote rural	122.6	62.8	59.8	0.3	0.3	0.0	50.9	3.1	7.1	0.9
Scotland	103.3	41.2	62.2	1.5	1.0	0.6	26.5	7.5	3.5	0.5
<b>SIMD category:</b>										
1 - most deprived	54.3	34.4	20.0	4.3	1.7	0.9	19.1	7.1	0.6	0.8
2	77.4	39.1	38.3	2.4	1.5	1.4	24.5	7.3	1.3	0.7
3	89.0	36.6	52.4	2.2	1.3	0.5	24.8	5.8	1.5	0.6
4	103.9	43.8	60.1	1.7	1.7	0.5	29.5	7.4	2.5	0.5
5	115.2	50.6	64.5	1.6	1.1	0.7	32.6	9.4	4.5	0.7
6	116.2	46.3	69.9	0.6	0.3	0.3	33.3	7.3	4.0	0.4
7	123.1	43.3	79.8	0.3	0.3	0.1	30.6	6.7	5.0	0.3
8	126.1	44.5	81.6	1.1	0.5	0.4	27.1	8.4	6.6	0.3
9	123.5	35.7	87.8	0.1	0.6	0.2	22.4	7.3	4.9	0.2
10 - least deprived	109.9	38.2	71.8	0.6	0.8	0.6	22.4	8.9	4.7	0.2
Scotland	103.3	41.2	62.2	1.5	1.0	0.6	26.5	7.5	3.5	0.5

Source: Care Inspectorate service-lists and annual return data. National Records of Scotland 2013 mid-year population estimates



## CHART 4

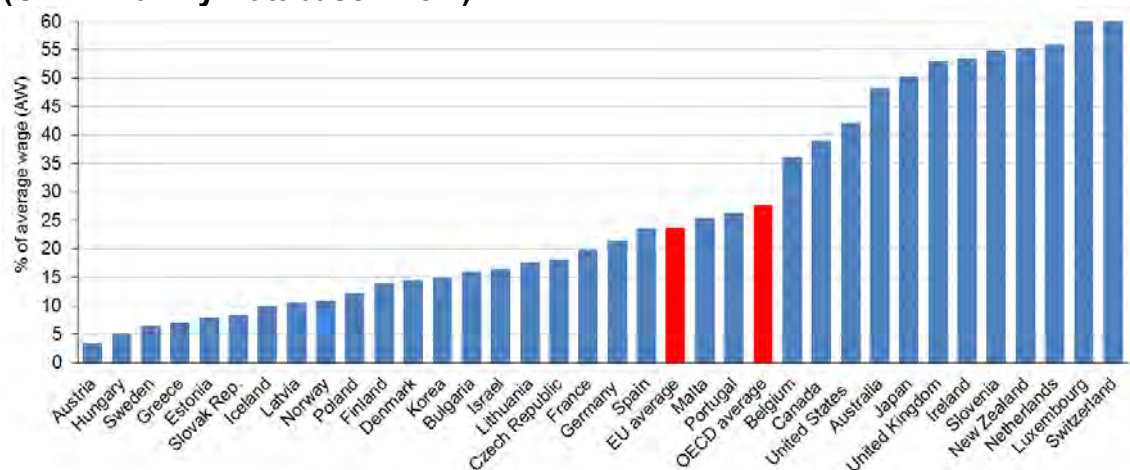
### Net Childcare Costs for a 2 year old and 3 year old as a percentage of average family net income (OECD Family Database, PF3.4B, panel B)



As discussed by Penn & Lloyd in their 2013 report, this table calculates typical fees as a percentage of average family income. In this table, UK costs appear as the highest of the OECD countries, at around 33% of family net income.<sup>118</sup>

## CHART 5

### Childcare Costs and Benefits in % of Average Wages (OECD Family Database PF3.4)



As Penn and Lloyd discuss, following from Chart 4 above, this chart shows childcare fees as a percentage of the family income of a dual family household, earning 167% of average wage. That category of household pay a very high

<sup>118</sup> Penn and Lloyd (July 3013) The Costs of Childcare Childhood Wellbeing Research Centre, Working Paper No 18

percentage of their income – around 43% of the average wage which is around 26% of the family income - on childcare costs. This is the case even where tax and benefit support is given.<sup>119</sup>

Penn and Lloyd note that because the amount of offset is minimal for this category of earner, it may constitute a disincentive to work. However, the UK Government's forthcoming tax free childcare scheme (see section 3.4 of **Annex E**) should benefit earners in this category.

The Commission's estimates suggest, in addition, that in the UK, fees account for 53% of the average wage, as compared with 6.5% of Sweden's and 14.4% of Denmark's.<sup>120</sup>

Net childcare costs (ie, the fees paid by families, minus any childcare benefits or tax relief they receive) are:

- 46% of the average wage for high-income;
- 45% of the average wage for mid-income couples;
- 23% of average wage for a low- income couple;
- 10% of average wage for an average-income lone parent; and
- 6% of average wage for a low-income lone parent.

These percentages apply if other benefits are actually being claimed by eligible families via Childcare Tax Credit. The 'other benefits' category is dependent upon each family both spending on childcare and then proactively making the appropriate claim for Childcare Tax Credit from HMRC. It is the family's responsibility to initiate this process.

Families that are eligible to apply for Childcare Tax Credit, but for whatever reason fail to do so, find that other of their benefit entitlements are effectively not available to them. This then presents a picture that net childcare costs for high- and mid-income couples remain high , at 46% of average wage. But the costs for low income couples rises to 41% of average wage, and for average-income lone parents the cost rises to 35% of average wage.

The low income lone parent who claims and receives the full range of benefits entitlements is the only type of parent in the UK to enjoy a relatively low net childcare cost (6% of average wage). However, even this cost – which may be over 10% of their net income – may be unaffordable.

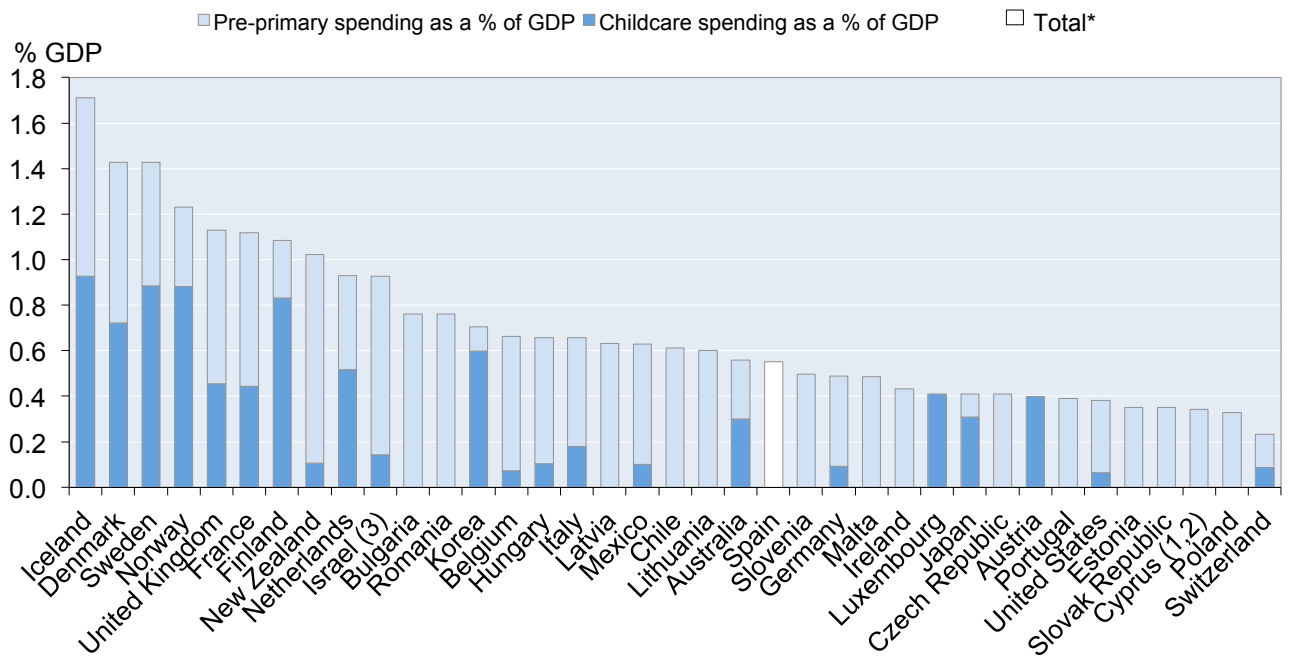
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<sup>119</sup> Penn and Lloyd (July 3013) The Costs of Childcare Childhood Wellbeing Research Centre, Working Paper No 18

<sup>120</sup> The difference relates to Sweden's and Denmark's investment in supply-side funding of childcare which is far less prevalent in the UK (see section 2.3.2).

## CHART 6

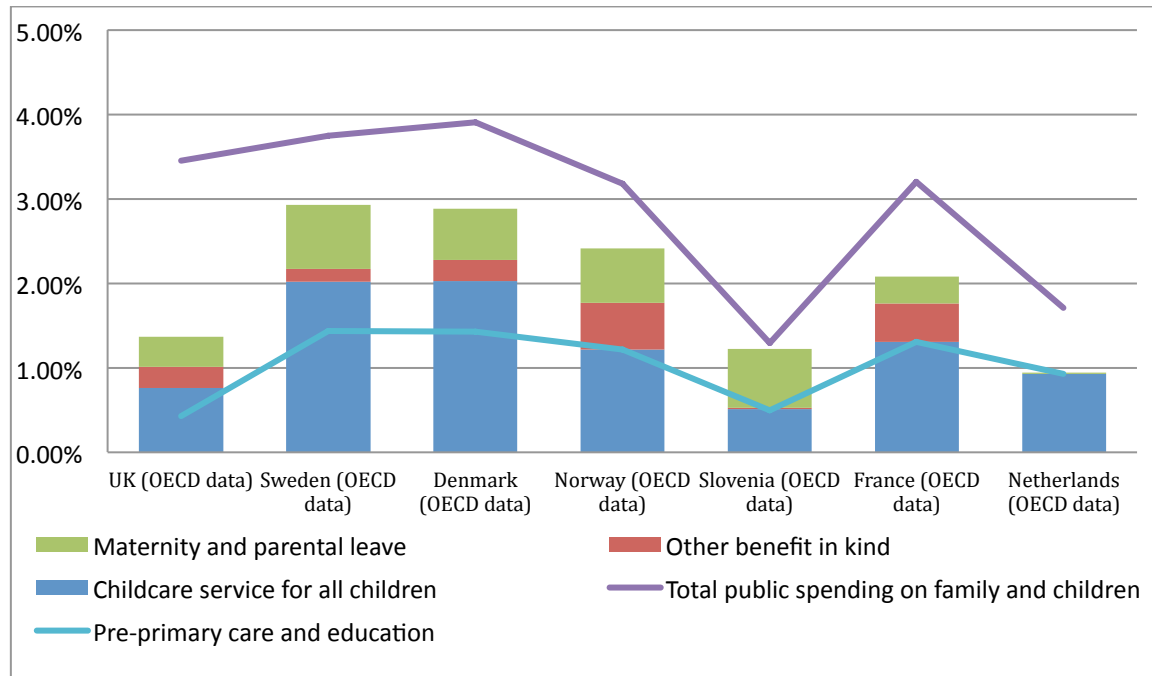
### OECD Chart PF3.1.A Public expenditure on childcare and early education services, percent of GDP, 2009<sup>121</sup>



<sup>121</sup> The estimates in this OECD table do not include financial contributions from families or employers so they do not show the full resource committed by countries.

## CHART 7

**Public spend on families and children including childcare services, other benefits in kind, maternity and parental leave and other cash benefits in different countries as a % of GDP, at current prices in national currency, 2009<sup>122</sup>**



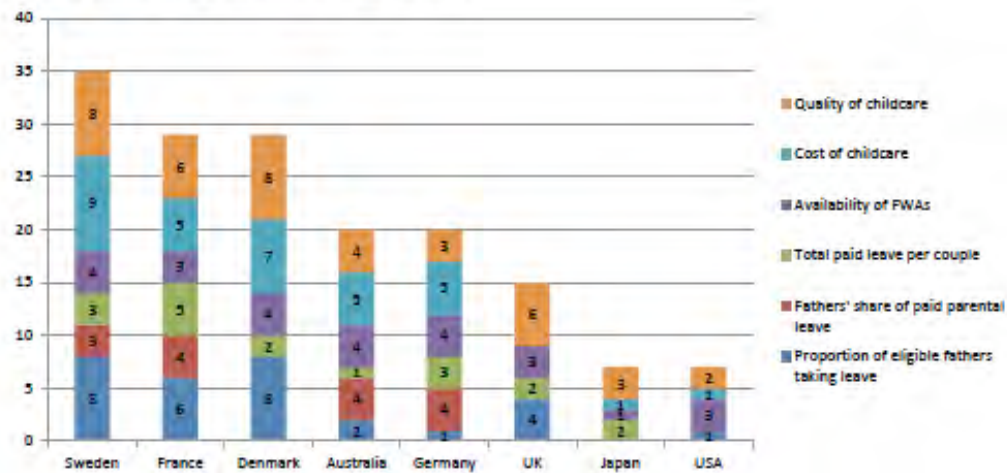
Compiled by: Commission for Childcare Reform

<sup>122</sup>(OECD) Social Expenditure database 2013; (OECD) family database 2013.

## CHART 8

### COMPARATIVE SUPPORTS OFFERED TO WORKING MOTHERS

*Index of overall support for working mothers*



The index measures each country on a 41 point scale; the marking criteria are given in the table below:

% of men taking paternity leave	SCORE	Fathers' share of paid leave (%)	SCORE	Total paid leave per couple (weeks)	SCORE	% of businesses offering FWAs	SCORE	Cost of childcare (net % of income for family)	SCORE	Quality of childcare (spend as % of GDP)	SCORE
90-100	9	90-100	5	100+	5	90-100	5	0-5	9	1.4+	8
80-90	8	70-90	4	80-99	4	70-90	4	5-10	7	1.1-1.4	6
70-80	7	50-70	3	60-79	3	50-70	3	10-15	5	0.8-1.1	5
60-70	6	30-50	2	40-59	2	30-50	2	15-20	3	0.5-0.8	4
50-60	5	10-30	1	20-39	1	10-30	1	20-25	1	0.4-0.5	3
40-50	4	0-10	0	0-19	0	0-10	0	25+	0	0-0.4	2
30-40	3										
20-30	2										
10-20	1										
0-10	0										

*Mothers on Board* by 30% Club (figures obtained from a variety sources including OECD. "OECD Family Database." OECD. 2012. <http://www.oecd.org/els/family/oecdfamilydatabase.htm>

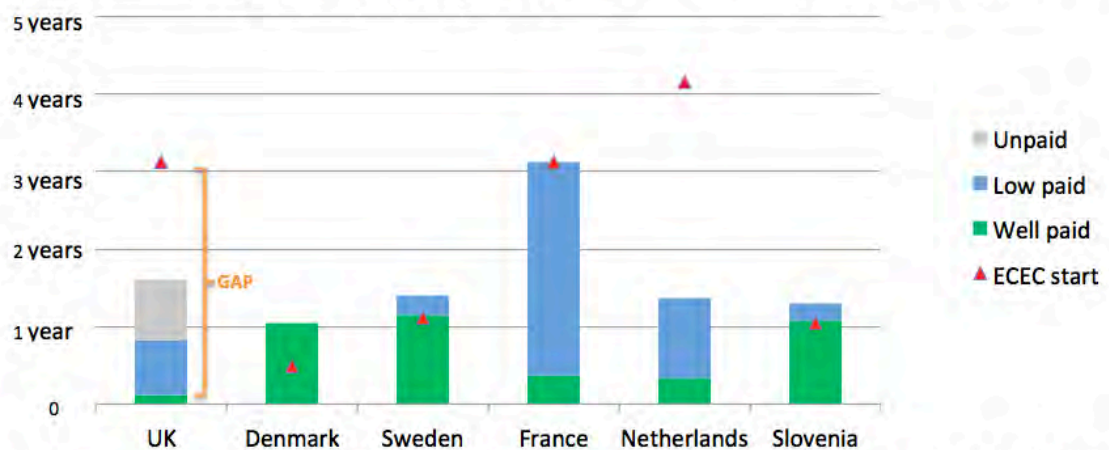
## CHART 9

### Understanding the gap between child-related leave and ECEC entitlement in UK/ Scotland and other OECD countries.

The table below provides a breakdown of maternity, paternity and parental leave across a range of OECD nations. The table highlights:

- Although the total length of statutory maternity, paternity and parental leave is the longer in the UK (80 weeks), only half is 'low-paid' and 6 weeks are 'well-paid'.
- The total length of leave is shorter in Denmark (52 weeks) and Sweden (69 weeks), but almost all leave is well-paid.
- UK focuses on maternity leave (52 weeks) and give parents less parental leave (13 weeks).
- Families get less maternity leave in Denmark (18 weeks) and Sweden (2 weeks) but much more well-paid parental leave (32 and 52 weeks).
- There is no gap between the end of well-paid leave and ECEC entitlement in Denmark, Sweden and Slovenia while the gap is nearly 3 years in the UK.

**The length of well-paid, low-paid, unpaid leave and the start point of ECEC entitlement.**



Source: International Review of Leave Policies, International Network on Leave Policies and Research, June 2012

Compiled by: Commission for Childcare Reform



TABLE 2

The length of statutory maternity, paternity and parental leave and the gap between the end of well-paid leave and ECEC entitlement.

	The length of Statutory Maternity Leave (week)					The length of Statutory Paternity Leave (week)					The length of Statutory Parental Leave (week)					Total length of leave (week)					Gap between well-paid leave and ECEC
Country	Unpaid	Paid			Total	Unpaid	Paid			Total	Unpaid	Paid			Total	Unpaid	Paid			Total	
		Low paid	Well paid	Total paid			Low paid	Well paid	Total paid			Low paid	Well paid	Total paid			Low paid	Well paid	Total paid		
UK	13	33	6	39	52	0	2	0	2	2	13 per parent	0	0	0	13	39	35	6	41	80	Nearly 3 years
Denmark	0	0	18	18	18	0	0	2	2	2	0	0	32 per family	32	32	0	0	52	52	52	0
Sweden	0	0	2	2	2	0	0	2	2	2	0	13 per family	53 per family	66	66	0	13	57	70	70	0
France	0	0	16	16	16	0	0	2	2	2	0	138 per family	0	138	138	0	138	18	156	156	More than 2 years
Netherlands	0	0	16	16	16	0	0	0.5	0.5	0.5	0	26 per parent	0	26	26	0	52	16.5	68.5	68.5	Nearly 4 years
Slovenia	0	0	15	15	15	0	11	2	13	13	0	0	37 per family	37	37	0	11	54	65	65	0

Source: International Review of Leave Policies, International Network on Leave Policies and Research, June 2012

Comments:

\*Maternity leave: just before, during and immediately after childbirth available for mother; Paternity leave: soon after the birth available for father; Parental leave: after the end of maternity leave available to both father and mother.

\*\* Low paid: <66% of wage; Well paid: ≥66% of wage.

## **ANNEX E**

### **SCHEMES PROVIDING PUBLIC FUNDING SUPPORT OF DIFFERENT KINDS TO FAMILIES WITH CHILDREN IN SCOTLAND - CURRENT AND PLANNED**

#### **1. CURRENT BENEFITS FOR FAMILIES WITH CHILDREN**

##### **1.1 Relevant Schemes Currently Administrated by HMRC and applicable across the UK including Scotland**

###### ***1.1.1 Child Benefit***

A set amount can be claimed for each individual child in a family, £20.50 per week (£1066 per year) for first children and £13.55 per week (£704.60 per year) for all subsequent children. Any child 'normally resident' in the household can be claimed for, meaning that kinship carers can claim Child Benefit.

There is no means test in place. All carers of children aged up to 16 (or young people aged up to 20 and in full time non-advanced education) are eligible to claim. However, if any parent or carer's salary exceeds £50,000 per year then payments begin to be clawed back as tax. If any carer in the household earns more than £60,000 in a year then the family's child benefit payments are returned as tax in their entirety.

###### ***1.1.2 National Insurance Credits***

For any week in which a parent claims Child Benefit for a child aged up to 12 years, they automatically qualify for a National Insurance Credit that can help them meet the contribution conditions for receiving the basic state pension.

From April 2016 persons need to have made 35 years' worth of National Insurance contributions to receive the full pension, with a minimum of 10 years' worth of contributions to receive any state pension at all, so this is of particular importance for carers with no other earned income.

National Insurance Credits can also be claimed from HMRC by family members who help with childcare. National Insurance Credits for parents and carers apply only to state retirement pensions, widowed parents allowance and bereavement payments – they do not apply when considering eligibility for contribution based working age benefits.



### **1.1.3 Child Tax Credit (CTC)**

CTC can be paid to any family that has responsibility for a child or qualifying young person who normally lives with them. There are no contribution conditions, and CTC can be paid to families in work or families without employment.

The amount of Child Tax Credit paid to a family depends on household circumstances and income. The benefit is made up of a series of premiums. There are elements for each child, with extra amounts for disabled children and a single family premium, totalling a maximum applicable amount. This total amount is then reduced depending on household income and the relevant income threshold for the family circumstances to calculate the payment owing. For example, households with one child will probably get tax credits if their income is not above £26,000, or £32,000 for two children.

Recipients of income related benefits such as Income Support or Jobseekers Allowance are automatically passported to the maximum applicable CTC for their family.

### **1.1.4 Working Tax Credit (WTC) - and related WTC Childcare element**

WTC is not a family specific benefit. It is a benefit that tops up the income of any low earners that work a minimum amount of hours, depending on personal circumstances. Over 60s and disabled people have a lower minimum threshold of working hours applied.

Like CTC, WTC is made up of a series of premiums that total a maximum applicable amount that is then reduced depending on household income. One of the premiums that can be included in a WTC claim is the Childcare Element.

An individual child can only attract one tax credit claim, so separated parents must decide who will claim this element.

If a parent meets the working conditions for their household, then they may be able to access **the childcare element of WTC**. To qualify, the parent must regularly use registered or approved childcare such as a childminder, nursery or registered babysitting service. The childcare premium is calculated as 70% of your total average cost of childcare, up to a maximum premium of £122.50 per week for one child or £210 a week for two or more children.

This premium is included with other applicable premiums in the WTC calculation, before being reduced depending on household earned income.

It is expected that Working Tax Credit and Child Tax Credit will close to new claimants at some point in 2017, to be replaced by Universal Credit.

### **1.1.5 Statutory Maternity Pay (SMP)**

SMP is a taxable payment for employed pregnant women and new mums on maternity leave (paid for up to 39 weeks), administered through payroll. SMP is £139.58 per week – or 90% of average earnings if less- for 2015-15, although the first six weeks of SMP is paid at 90% of average earnings.

The claimant has to meet qualifying conditions - being in 26 weeks' continuous employment and collecting an average pay of at least £111 a week (2014-15) in the period preceding the qualifying date.

Maternity pay is an in-work benefit, funded by the employer unless the business is too small to fund it, in which case the payment is funded by HMRC.

Workers who are not eligible for Statutory Maternity Pay may be eligible for Maternity Allowance, but this is administered by the Department for Work and Pensions and is paid by Job Centre Plus. It must be claimed separately.

### **1.1.6 Paternity Pay**

This is a taxable payment for a new-born's biological father or adopter, the mother's partner, or someone expected to have responsibility for the child's upbringing. It is administered through payroll. Paternity pay is £139.58 per week. There is no six week enhanced period.

The claimant has to meet qualifying conditions - being in 26 weeks' continuous employment and collecting an average pay of at least £111 a week (2014-15) in the period preceding the qualifying date.

Paternity pay is an in-work benefit, funded by the employer unless the business is too small to fund it, in which case the payment is funded by HMRC.

### **1.1.7 Shared Parental Pay**

This is a taxable set of payments with the same eligibility criteria and rates as Maternity and Paternity Pay.

Shared Parental Pay works in a similar way to Paternity and Maternity Pay in that it allows both parties to claim leave and payments prior to and following the birth or adoption of their child. One advantage of Shared Parental Leave is that it can be divided into blocks between both parties and their employers.

This allows more flexibility and, by returning to work in between, more money for the family over the first year of the child's life.

### **1.1.8 Guardian's Allowance**

This is available to families bringing up a child whose parents have died, or in some circumstances where one parent has died. Guardians allowance is payable when the family receive child benefit for the eligible child, and incur expenses relating to the upbringing of that child. The Guardian Allowance rate is £16.55 a week per child tax-free, paid in addition to child benefit.

## **1.2 Relevant Schemes Currently Administrated by JobCentre Plus/ Dept of Work and Pensions and applicable across the UK including Scotland**

### **1.2.1 Income Support**

There are no specific income replacing benefits for carers of children aged over one year. Single parents of children aged up to five years can claim Income Support if they have low or no income and limited savings. Parents can work up to 16 hours a week, but their benefit payment will be reduced pound for pound by their earnings, although the first five pounds can be kept. Income support is a maximum of £73.10 (reduced to £57.90 for 16-17 year olds) per week.

Claiming Income Support acts as an automatic passport to full Housing Benefit and full Council Tax Reduction – reducing housing costs to nil.

### **1.2.2 Maternity Allowance**

This is a non-taxable benefit for workers or self-employed persons who are pregnant or have just had a baby, but are not entitled to Statutory Maternity Pay. To qualify the mother must have been working during the Maternity Allowance period (calculated on estimated due dates) and have met the minimum earnings threshold of £30 per week, averaged.

Maternity Allowance is paid for 39 weeks and is £139.58 per week or 90% of the mother's average weekly earnings, whichever is less.

### **1.2.3 Sure Start Maternity Grant**

This is available to parents expecting their first child, or multiple births. It is a non-repayable one-off grant of up to £500 paid to parents to help with the cost of a first baby. Applicants are usually eligible if they are in receipt of income related benefits. This benefit can only be claimed within 11 weeks of the baby's due date or within 3 months of their birth. This grant does not affect other benefits or tax credits that the parent(s) may receive.

#### **1.2.4 Widowed Parents Allowance**

This is A contributory benefit for widowed parents, based on contribution record of deceased spouse. It is payable only if parents were married and the surviving spouse is under the state pension age. The payment is made for as long as the claimant receives Child Benefit for qualifying children, currently £112.55 per week.

#### **1.2.5 Disability Living Allowance (DLA)**

This is awarded to children who need care because of a disability or health condition that affects quality of life. DLA is a disregarded additional payment that does not affect entitlement to means tested benefits. Claimants qualify for differing rates depending on how their condition hampers their quality of life through the day or night or both. Payments range from £21.80 per week to £139.75.

#### **1.2.6 Personal Independence Payment (PIP)**

This is the disability benefit for working age claimants. Parents or carers can claim this benefit for themselves if they have a disability or condition that affects quality of life. PIP is a disregarded additional payment that does not affect means tested benefits. Claimants qualify for differing rates depending on how their condition hampers their quality of life through the day or night or both. Payments range from £21.80 per week to £139.75.

### **1.3 Direct funding of Childcare by Scottish Government (via GAE settlement to local authorities or employers or Scottish Funding Council)**

#### **1.3.1 Funded early learning and childcare**

Under the Children and Young People (Scotland) Act 2014 the Scottish Government expanded the hours of free childcare provision available to 3 and 4 year olds and vulnerable 2 year olds from 475 hours to 600 hours of free provision per child per year. There are current pledges from the SNP to increase this further to 1,140 hours, roughly equating to 30 hours of funding per week per child during term time, if elected for the next Parliamentary terms.

#### **1.3.2 Childcare vouchers**

Parents and carers can each receive childcare vouchers of up to £55 a week (or £243 a month) from employers, depending on earnings.

Basic rate tax payers can receive a greater amount of vouchers than additional rate tax payers, so that the tax benefits are the same for all.

Childcare vouchers are usually received instead of part of a parent's salary, through a system known as 'Salary Sacrifice'. No tax or national insurance is paid on childcare vouchers - equating to a potential saving of £900 a year for basic-rate taxpayers, so a two parent family can save around £1,800 a year. There is also a national insurance saving for employers that will not be present under the new Tax Free Childcare Scheme.

Any childcare paid for with childcare vouchers cannot be included in a working tax credit claim. Parents have to work out which scheme they are better off in by using an online calculator or getting benefit advice.

The childcare voucher scheme will close to new claimants in September 2015

### **1.3.3 Student Childcare Fund (SCF)**

A payment to help towards the cost of registered or formal childcare costs for parents. Each learning institution is responsible for deciding which students should receive payments and how much each payment should be.

Not all eligible students get money, as the fund is limited. Eligible student lone parents with formal registered childcare costs can expect an entitlement payment of up to £1,215 from the Childcare Fund. Childcare costs covered by the SCF cannot be included in a working tax credit claim.

## **1.4 Schemes Currently Funded by Local Authorities and Applicable in Scotland to support costs for children (but not specifically childcare)**

All Local Authorities now provide free school meals for all children in classes Primary 1 – Primary 3 who want them. From Primary 4 there is a means test in place to allow children from lower income families to apply to receive free school meals.

Local Authorities must provide free school transport if there is no safe or feasible walking route for children to get to their nearest local school.

Many Local Authorities in Scotland provide a uniform voucher or grant scheme that allows low income families to apply for help to cover the cost of clothing their children for school. Schemes vary from area to area, but are usually restricted to families that are entitled to free school meals, and provide payments or vouchers once or twice a year.

Means tested, families with low incomes are entitled to apply to the Local Authority for help with housing costs. Housing Benefit (or Local Housing Allowance for private renters) and Council Tax Reduction can meet all of a claimants housing costs or a portion depending on household income. Families are entitled to larger amounts of Housing Allowance than single claimants, as each child is apportioned a bedroom, or a share in a bedroom and applicable amount of maximum benefit payable increases.

Funding for those in emergency circumstances. To be eligible, claimants are usually need to have exhausted all other income streams. Community care grant can be paid to families under exceptional pressure, at risk from using care services. Crisis grants can be paid to help with basic living expenses in an emergency, but only through local authority discretion. The Scottish Welfare Grant will pay out a limited amount of times per claimant, but money does not have to be repaid.

Local Authority social services are bound by government to provide appropriate help to those in need, including families, the young, the vulnerable and asylum seekers. Help can be practical or financial or both

## **1.5 Other Support Schemes Relevant to Families with Children in Scotland (which may be used to offset childcare costs if wished)**

### **1.5.1 Child Maintenance**

Child maintenance is financial support towards a child's everyday living costs in the event of parental separation. Paid to the primary carer by the non-resident parent/ secondary carer - a family-based arrangement can be privately set up through parental agreement. The Child Maintenance Service can intervene in circumstances where this is not possible and calculate how much Child Maintenance is applicable.

The amount agreed is dependent on the financial circumstances of the secondary carer.

The Child Maintenance Service have the power to enforce payments by law.

## **1.6 Additional Child-related Funding Schemes in Scotland**

### **1.6.1 Healthy Start Food Vouchers**

These are available to pregnant women and new parents on income related benefits, or if under 18 years of age. Applicants must be least 10 weeks pregnant or have a child under the age of four. There are vouchers available every week for free milk, fresh fruit and vegetables, infant formula, and vitamins.

### **1.6.2 Nursery Milk Scheme**

This scheme enables children under 5 to receive free of charge 189 ml (1/3 pint) of milk for each day they attend approved day care facilities for 2 hours or more. Babies aged under 12 months may instead receive dried baby milk made up to 189ml (1/3 pint). This is a voluntary scheme with eligible childcare

providers being able to claim reimbursement for children in their care for more than 2 hours.

### **1.6.3 Book Bug**

This is a national scheme available to all children up to Primary 1 through the Scottish Book Trust. It funds the cost of books and materials for each household, and access to reading schemes in the locality.

### **1.6.4 Real Nappy Projects**

This is available in some local authority areas. Parents can get help towards the cost of buying real nappies, hire nappies or receive an amount of kit to get them started using real nappies.

## **2. PLANNED CHANGES TO FAMILIES' ENTITLEMENTS**

### **2.1 Universal Credit Child Element**

Universal Credit is made up of a number of elements, and will roll up all 'income replacing' benefits and all tax credits, as well as some other benefits into one monthly payment per household.

The applicable Universal Credit payment is made up of a number of elements, reduced depending on income and capital.

One of these elements is the child element – the replacement for child tax credits.

A separate child element will be paid for each child that is normally resident in a house, with a higher element (277.08 per month) for the first child (£231.67 per month for second and subsequent children). Only one payment is allocated to each child, so separated parents must decide who will claim.

When a child lives in separate households, claimants will be expected to agree who has main responsibility and claim accordingly. The DWP will arbitrate if no agreement can be made.

Additional premiums for disabled children are also available, depending on level of disability.

Full roll out of Universal Credit for families is expected from 2017.

## **2.2 Universal Credit Childcare Costs Element**

Families on a low income with childcare costs may be able to get this element if they meet the work and childcare costs qualifying criteria. The Childcare costs element is worth up to 70% of childcare costs – to a limit. This is set to rise in 2016 to up to 85% of childcare costs – to a limit.

- To meet the work condition a claimant must be in paid work or have an offer of paid work that is due to start before the end of the next assessment period. Where the claimant is a member of a couple, both members have to be in paid work unless the other member has limited capability for work, has regular and substantial caring responsibilities for a severely disabled person or is temporarily absent from the claimant's household.
- To meet this condition, childcare costs must be paid for a child or qualifying young person (until 1 September following their 16th Birthday) that the claimant is responsible for.

The childcare costs must be incurred for the purposes of enabling the claimant to take up paid work or continue in paid work. Childcare must be declared to the Jobcentre Plus before the end of the assessment period following the assessment period in which they are paid in order to be included. Only childcare that is registered or approved can be claimed for. Childcare costs judged 'excessive' by the DWP will not be covered.

## **2.3 Tax Free Childcare Scheme**

From autumn 2015 parents and carers will be able to pay into a childcare account, to be topped up by the government. For every 80p contributed by a parent, 20p will be added by the government – up to a maximum top up of £2000 per year (£4000 for disabled children.)

Children will only be eligible to have payments made in their name up until the September following their 11<sup>th</sup> Birthday. (16<sup>th</sup> birthday if disabled.)

You must be working to join the scheme. For couples both must be in work.

Parents that register for the Tax Free Childcare Scheme will no longer be allowed to participate in the Childcare Voucher scheme.



### **3. IMPACT OF RECENT CHANGES AND LIKELY IMPACT OF PLANNED CHANGES**

#### **3.1 Child Benefit**

The recent changes to child benefit that allow payments to higher rate taxpayers to be clawed back have prompted HMRC to offer parents the chance to stop claiming Child Benefit—relieving them of the need to complete an annual self-assessment, if they are not doing so for other reasons.

It is important that parents only make this choice if they are sure that they do not benefit from the National Insurance Credit applied to the claimant's record – otherwise future income from the basic state pension or bereavement payments could be reduced. The consideration is not relevant where both parents work and earn above the lower earnings limit, or where the child benefit is claimed for an older child.

#### **3.2 The Benefit Cap**

No household with children can receive more than £500 per week (£26000 per year) in benefit income, no matter how big the family. This has particular impact on larger families who may find it difficult to live in properties or areas with higher housing costs. It is widely expected that the benefit cap will be further restricted again, in the near future.

#### **3.3 Universal Credit (UC)**

Official plans for the roll out of Universal Credit, including who can claim and when they can make a claim are subject to change. As yet very few families are able to claim UC as this option is only available in one or two digital trial areas.

However, once a claimant has a live claim for UC, the general assumption is that they will stay in that system – so a UC claimant who has children, or moves in with someone who has children, will get the increased UC elements, and will not be eligible to claim Tax Credits.

It is expected that UC will be rolled out to current claimants of tax credits and other benefits from 2017.

Universal Credit will not be paid to families that have more than £16,000 capital – including savings, investments and the value of properties or land other than the family home, but not money saved in children's accounts. This will mean there are claimants currently receiving tax credits who will not be eligible for Universal Credit (there are no capital restrictions on claimants of Tax Credits)

Universal Credit will not be paid – at all- to people who are enrolled on the Tax-Free Childcare scheme

### **3.4 Tax Free Childcare**

From autumn 2015 parents and carers will be able to pay into a childcare account, to be topped up by the government. For every 80p contributed by a parent, 20p will be added by the government – up to a maximum top up of £2000 per year (£4000 for disabled children.)

Children will only be eligible to have payments made in their name up until the September following their 11<sup>th</sup> Birthday. (16<sup>th</sup> birthday if disabled.)

You must be working to join the scheme. For couples, both must be in work.

You cannot claim Tax Credits or Universal Credit when you are registered for tax free childcare. As the Tax Free Childcare Scheme only provides childcare related benefits, and Universal Credit contains elements for housing, family, employment, children, and disability then most UC claimants would see financial detriment by joining the Tax Free Childcare Scheme. Online calculators will be provided by HMRC for families on the margin – those that receive a very small amount of UC every month – to calculate which system they should choose.

There will also be restrictions on the amount of times you can move between the Tax-Free Childcare scheme and Universal Credit.

If you join the Tax Free Childcare scheme, then you are no longer eligible to be in the Childcare Voucher scheme – and your employer will lose their national insurance salary savings.

### **SURVEY OF PARENTS ON USE AND EXPERIENCE OF CHILDCARE SERVICES**

We launched this survey in late August 2014, and promoted it through our local conversations and other presentations and briefings. The survey, which closed in February 2015, was intended to find out about parents' use of childcare, and their needs and experiences of it.

In total the survey received 2,592 responses. Of those responding, 73% used registered childcare services; 22% did not; and 5% partly used these services.

The survey split into two parts with the first section being completed by parents who said they use or partly use childcare and the second section by those who do not.

#### **Findings from Parents who Use or Partly Use Childcare**

65% said they used childcare services to enable them to work, and 6% to enable them to study.

37% reported that they also use childcare because they value its intrinsic benefits to their child (i.e., giving their child the opportunity to learn and socialise). This strongly suggests that parents do not adopt a solely functional view of childcare.

Only 62% of respondents said they were happy with the quality of local provision in their area – which suggests a very significant minority of parents are unhappy. However, a majority of the comments provided with this question suggested that parents include considerations such as availability of provision within their account of quality. We consider this is likely to account for the surprisingly high proportion of dissatisfied parents.

52% of respondents using childcare reported that their top priority for reform would be to make it more affordable. No ready ranking emerged between the other desirable qualities offered. Qualities such as availability, proximity, integration of service etc appear to be seen by parents as equally essential. This indicates to us that it is the whole system of provision which needs to be improved, not just any one particular aspect.

60% of parents using childcare agreed with the proposition that “childcare should be available to all parents for free between 9-3pm during term time”. 25% disagreed. However, it is very clear from the additional comments provided to this question that parents generally want their childcare to be affordable, not necessarily free. Commentary provided does not indicate whether parents would distinguish between regarding it as fair that a certain

level of core provision should be free, even if the remainder of provision is subsidised or paid for.

### **Findings from Parents Who Do Not Use Childcare**

17% reported that their reasons for not using childcare are either because they choose to stay at home themselves (10%), or they prefer to use family or friends because this is in the best interests of their child (13%). A further 7% report that they are at home but not completely from choice.

16% reported that they do not use childcare because it is too expensive. This proportion increases to 26% when you include the respondents who have more than one child.

42% ranked their top priority for reform to be “making it cheaper”. However, this compares with the score of 52% from working parents responding on this same question. As the working parents are paying for childcare already, the 42% finding perhaps indicates that there are other equally pressing considerations (e.g. see first bullet above) in addition to affordability that combine to persuade a proportion of parents to stay at home with their children.

50% of parents not using childcare agreed with the proposition that “childcare should be available to all parents for free between 9-3pm during term time”. 38% disagreed (compared with 25% disagreement amongst parents currently using childcare). The comments provided from this group of parents indicate, again, that the issue for parents is affordability and available or services, rather than necessarily seeking free provision.

### **General Comments**

Several comments were made on the priority that should be given, when allocating places, to parents who work or study. A number of comments also suggested that there should be a preference for places to be given to those on low wages.

Some commentators expressed concerns around the time that children spend in childcare settings rather than being with their family, while others added comments that they were required to work long hours to support the family and therefore needed childcare to be available for these longer hours.

There were some comments offered about children with additional support needs, with a number of respondents saying that they could not put their child into childcare as there was no local provision that met their needs.

## ANNEX G

### TOTAL COST OF CHILDCARE PROVISION AGAINST ASSUMPTIONS ON UPTAKE

The following table illustrates the gross costs associated with two different sets of assumptions about uptake.

To set these figures in context, we estimate that the current level of state spending on childcare (through direct provision and tax / benefits) is around £600m and that this might rise to around £1bn with the introduction of tax free childcare and the 1,140 hours.

We have based the calculations on a maximum of 50 hours a week for 45 weeks a year (20 hours a week in term time for school age children).

We have assumed the cost per hour is £5 for children aged under 3, £4 per hour for three and four year olds and £3 for school age children.

We have assumed, in line with population projections, 60,000 children in each age cohort.

Age	Ave hours per week	Ave cost per child	Uptake rate (%)	Gross cost
0 – 2	25	£5625	40	£405m
3 - 4	35	£6300	90	£680m
5 to 12	12	£1620	20	£136m
<b>Total</b>				<b>£1,221m</b>
0 – 2	30	£6750	60	£729m
3 – 4	40	£7200	95	£820m
5 to 12	18	£2430	30	£306m
<b>Total</b>				<b>£1,856m</b>

### ISSUES FOR INCLUSION IN THE REMIT OF THE RECOMMENDED CHILDCARE FUNDING REVIEW

In order to address both immediate and long-term challenges, we propose the remit of the recommended Childcare Funding Review should include, but need not be limited to, investigating:

1. fair criteria for allocating costs between the state, providers, employers and families;
2. investigating and modelling the costs of introducing a cap for parents' contributions to the costs of childcare, as set out in Recommendation No 3
3. whether formal regulation of public funding of childcare is desirable for improving the transparency and accountability of public spend to Scottish civic society;
4. if so, how best improved regulation and oversight of public spend on childcare might be managed;
5. how funding support can be improved and made more coherent, streamlined and fair for families on similar incomes or in reasonably similar circumstances;
6. how funding reforms can be targeted to provide priority support to parents working on zero hours contracts, or on low incomes, or parents with children with additional support needs, or other high-priority families;
7. how public funding might be mobilised to help smooth the costs of childcare for families, in particular for managing the acute pressure points when children are aged under 3, and when parents are needing holiday cover for children of all ages over the summer period;
8. consideration of non-business rates relief and use of schools premises by private providers, as well as consideration of the array of less visible financial costs incurred by local authorities in supporting their local partnership nurseries;
9. consideration of funding for the capital costs of coping with the expansion of existing provision as well as supporting new start-ups as demand for childcare grows;
10. assessment and budgetary forecasting of the sustainability of a manageable rate of growth per annum which does not compromise the

quality of the service the child receives, and builds in an expectation of continuous improvement of the skills and experience of the childcare workforce;

11. review of how the costs of adult care were compared, and how an agreed approach to funding providers was established, and how that might inform the childcare funding review; and
12. a consideration of who should control the decision-making and also the administration of the child account recommended in Recommendation No 11.

In recommending his long list of items to be captured in the funding review, the key ambition is to ensure that the total cost of public funding into childcare – from whatever sources, and towards whatever beneficiaries – should be sustainable, progressive, fair, transparent, accountable, and amenable to the state being able to know and control its costs.