

INTERIM REPORT OF THE COMMISSION FOR CHILDCARE REFORM: AN OVERVIEW OF OUR PROPOSALS FOR CHANGE AND DRAFT RECOMMENDATIONS

1 Introduction

For the last year, the independent Commission for Childcare Reform has been investigating how best childcare provision in Scotland might be organised, delivered and paid for.¹ Our interest is in ensuring that families who wish to, can access high-quality, affordable, flexible and convenient childcare, which in all circumstances meets the needs of the child.

This interim report sets out our high-level proposals for change. These proposals are firmly rooted in the discussions we have had over the last year with parents, providers, employers and other key interest groups across civic society, business and government in Scotland.

Our report is deliberately provisional at this point and includes draft recommendations. We are providing it as a focus for debate. We will be seeking to consult widely over coming months on its contents, to help establish where consensus most firmly lies across civic society as to how best to deliver the changes needed.

We expect to publish our final report this summer which will include, at that point, our firm recommendations for reform.

2 Our Starting Position: where we stand on the care of children

We believe that the primary responsibility for children's care and development lies with parents². However, parents are not with their children at all times. This report is about the arrangements made when parents entrust their children to others outside their own family or informal networks. Our Commission is exclusively concerned with the paid-for and registered childcare provision which many families need to access to meet the needs of their children, themselves and the wider economy.

Whatever the reason for the child being away from the parents, the needs and interests of the child must remain central.

¹ For background on the Commission for Childcare Reform, including detail on our remit, membership and reporting arrangements, see www.commissionforchildcarereform.info See also the facebook page of the Childcare Alliance, led by Children in Scotland and the Scottish Council for Development and Industry (SCDI), to whom the Commission reports, at <https://www.facebook.com/pages/Childcare-Alliance/70825229224094>

² When we refer to 'parents' we mean, unless we specify otherwise, those who have primary guardianship of the child including carers or those with corporate parenting responsibilities.

We recognise and respect the wide range of views on childcare and early learning. Parental choice is fundamental to how families decide whether, and to what degree, and through what means, they will make arrangements for others to care for their children when they do not.

Some parents do not need to use registered childcare because they, or other family members, choose to look after their children until they start nursery or primary school and are available to look after children out of school hours. However, many parents need or want to work or study and they rely on some amount of registered childcare to enable that.

We believe that it is an essential public good for Scotland that **all** families who want it can access high-quality, affordable and flexible childcare, and that the system of provision therefore deserves adequate public investment.

We consider that a major element of the public good test is the degree to which a radically improved childcare system helps to close the opportunity gap for the poorest or more disadvantaged families and children in Scotland. Throughout this report, we refer to a number of specific measures that we believe should be priority interventions to support Scotland's anti-poverty ambitions. While significantly improved childcare provision will not, of itself, overturn many of the effects that poverty has on families' lives and children's life chances, we believe the absence of sufficient affordable high-quality provision aggravates those worst effects. An adequate system of high-quality affordable childcare provision is a prerequisite for supporting inclusive economic growth.

Registered childcare has the characteristic of generally being optional: not all families want it, and not all families need it in the same way or for the same purposes.

Our proposals for reform derive from our sense of registered childcare as an essential public good where service design needs to be based on:

- acknowledgment of parents' primary responsibility for the care of their children;
- respect for the choices parents make in discharging that responsibility; and
- ensuring that affordable and available high-quality childcare plays its full part in tackling inequalities.

The remainder of this report sets out our definition of 'childcare'; our understanding of what high-quality childcare looks like; and our draft recommendations for how a Scottish system of registered childcare might be organised, delivered and paid for.

3 What We Mean By 'Childcare'

The term childcare is used by different people to mean different things, and people use a variety of different words and phrases to describe it.

Our first decision was that we would review provision for both pre-school and school-age children, so we need language that covers that broad scope. We recognise too that terminology in this area has changed over the last two decades, reflecting growing ambitions for what we expect for our children. It is excellent to see care being taken to select phrases which accurately describe certain kinds of provision which ambitiously support children's development: for example, 'early learning and childcare' to signify what is offered in the free 600 hours entitlement. But there is lots of other common usage too: 'early childhood education and care', 'wraparound care', 'out of school care' and so on. Such overlapping language can sometimes appear confusing and awkward to use.

We have reached three conclusions about the exact scope of our work and what we will call it:

First – we believe that we need to consider 4 overlapping types of provision:

1. provision for pre-school children that enables parents to work or study;
2. provision of early education;
3. provision of care before and/or after school hours for school-age children during term time; and
4. provision of holiday care when normal school or pre-school provision is not available.

We are not including provision of school-age education, residential care, hospital care by the NHS, foster care, etc³.

Second – by provision we mean provision offered by organisations and individuals who are registered (currently by the Care Inspectorate) to take care of children while their parents do not.

Third – 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 4 types of registered provision described above. Throughout this report, please read the term 'childcare' with this meaning.

We consider that the overall system of childcare provision should be designed to meet 4 objectives:

- meeting the child's daily and weekly needs, across the full range of those needs;
- enabling parents to make choices such as working or studying;

³ We assume of course that the care, development and safety of children are being ensured in all of these settings.

- helping to 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 believe that **all** childcare should provide children with care and learning opportunities including activities and experiences which support the child's needs for safety, social development, learning, care, play, meals and rest. At different points during the day, different of these activities will be prominent, but we do not think it is good for the child if the day is artificially divided into 'care' and 'learning'.

We recognise that there are some children and families whose needs and vulnerabilities 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.

4 The Features of an Excellent Childcare System

Based on our discussions with parents, providers and employers this year, and drawing on the recommendations recurrently made in the childcare literature, we believe there are features of excellence that should apply across the totality of Scotland's system of provision. Most of these features should apply to each individual establishment offering registered childcare. However, there are some that need to be considered across the full range of provision in a locality. For example, it is not essential that every provider in a local area is open at all times, as long as there is sufficient flexibility within the local area to allow parents to access the provision they need.

4.1 *Recognising excellence when we see it*

Our first draft recommendation below provides a summary of what we believe an excellent childcare system should look and feel like. The draft recommendations that follow in the remainder of this interim report are designed to ensure that our childcare system has these characteristics.

Draft Recommendation 1: that action is taken to ensure individual providers and the overall provision for childcare is:

- **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. It also includes reasonable continuity of care and carers for the child. Quality is tested and approved by suitable quality inspection frameworks.

- **Affordable:** meaning it is affordable for parents. It is also affordable for national government (Scottish Government, working with the UK Government), and for local authorities.
- **Responsive:** meaning it addresses the needs of individual children, including those with additional support needs; disadvantaged children etc.
- **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. There is comprehensive and up-to-date local information about the childcare that is available.
- **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 for one-off events such as job interviews.
Note: 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 etc 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 pre-school care, early learning, primary education and out of school care. And (b) all based on the same approaches (principally GIRFEC, Curriculum for Excellence and Achieving Our Potential).
- **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 range of services from year to year.
- **Fair:** meaning funding arrangements 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.
- **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.

4.2 Why consistent excellence across childcare provision is not yet assured

We will publish our evidence, findings and conclusions in more detail in our final report, but the following summary provides a basis for understanding why we are making our recommendations.

There is a great deal of excellent childcare delivered by committed staff which is meeting the needs of children and their families, but for many families what is available to them does not meet enough of the criteria listed above. In particular:

- **High Quality:** while there are systems to ensure the quality of individual elements of provision, quality does vary. In addition, there is no system in place for ensuring the quality of the child's overall experience when they attend several different providers in one day.
- **Affordable:** the cost of childcare is the biggest single issue raised by parents. Parents in Scotland (and the rest of the UK) generally pay much more for childcare than they do in other European countries. The prices charged for childcare in the UK are rising faster than inflation, and the prices for Scottish parents are rising faster than is found in the rest of the UK.
- **Responsive:** there are specific difficult issues about how to ensure children's additional support needs are met in childcare settings.
- **Available:** many families told us they found it hard to find the pattern of childcare they needed to suit their particular circumstances. In some cases, it was impossible to access all day childcare combined with the entitlement to free early education.
- **Flexible:** many families have found a way of combining the adaptable hours offered by their childcare provider with their own working arrangements, supported by the family's own willingness to be flexible. In these situations, parents have been able to work or study, confident their children were in a high quality childcare setting. But for too many others, rigidity of childcare provision and inflexible working patterns made it very hard or impossible to go to work without high additional costs and/or some family members giving up some or all of their working hours.
- **Seamless:** some local provision demonstrated very high coordination across school education, early learning and childcare. In other areas arrangements were uncoordinated and very hard for parents to fit in with, especially if they were trying to work or study. We struggle to understand why the best arrangements have not been replicated across local authorities and across the country.

- **Equalising:** 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. A particular practical difficulty arises too that many providers require a month's payment in advance. Finding this sum upfront is extremely difficult for poorer families, when they first enter the labour market.
- **Sustainable:** we are still exploring the assertion that local authorities do not pay partner providers the full cost of delivering the 600 hours of early learning. If that proves to be true, and given the struggle many families have to meet their share of the costs, we think there are risks to the financial health of businesses in the sector.
- **Fair:** major concerns have been raised with us about lack of transparency and lack of fairness in the funding arrangements.
- **Aligned:** we have struggled to understand how the various streams of public money operate to help families meet childcare costs. They are not provided in a simple and coordinated way that is easy for families to understand and access, with the effect that families can lose out on claiming their full entitlements.

5 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. We have therefore developed a set of recommendations for change based on the needs of the child at different life stages, and these are set out in this section.

We recognise that not all children will progress through these stages at the same pace and that individual needs and circumstances will need to be taken into account.

5.1 *Children aged under one year*

At what age might the child's development needs be met best by being solely or mainly cared for at home by their parent? For the Commission this is an open question at present, and a key issue on which we seek further views and debate.

Early years experts agree that a baby's attachment to their parent in the first year of life matters profoundly, and that this relationship needs closely protected. This is not to suggest that the child's attachment to their parent or carer does not matter throughout their whole childhood. It is to assert that the primary attachment formed in the baby's first year is crucial to the child's long-term wellbeing and development.

Where these experts do not agree amongst themselves is on whether this means it is always better for the child for one of their parents to be able to remain at home during the very early stages of their baby's life, without needing to access much or any registered childcare.

There is a gap between the end of paid parental leave and the commencement of universally available subsidised provision for pre-school children. Current parental leave entitlement in the UK is set at a financial level which often requires parents (mothers⁴), for financial reasons, to return to work sooner than some would like.

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 state subsidy for childcare during this period.

Our second draft recommendation is therefore expressed as 3 different options, which are offered in this interim report as a basis for debate and discussion:

Draft Recommendation 2A: that the state should focus its financial support for families with very young children (aged under one year) on enabling a parent to remain at home, if they wish.⁵

Draft Recommendation 2B: that the state should provide childcare support for families with children aged under one on the same basis as for children aged one and over.

Draft Recommendation 2C: that the state should provide support to families with a child aged under one in a way which allows families to choose between staying at home or using childcare.

Section 7.3 below explores how these different types of financial support might be organised.

Whether or not families use childcare, some families need additional help coping with the challenges of bringing up very young children. To complement our proposals on childcare, we also propose:

Draft Recommendation 3: that parenting/ family support is provided, where necessary, to maximise the benefits to the child during the child's first year of life.

⁴ We understand that childcare is a whole family responsibility. We mention mothers here as the evidence on maternal labour market participation indicates that many women seek to avoid returning to work full-time at this juncture. We suspect many would prefer not to return at all for some further number of months, were financial support for parental leave more generous than it currently is in the UK.

⁵ For this proposal, and all others in this report, we assume that a 'no detriment' principle should apply. That is, nobody would lose entitlement to any state support they currently get if that level of support is currently more than is implied by any of our draft recommendations.

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 children for excellent childcare must be met, which brings us to our next proposal:

Draft Recommendation 4: that action is taken to ensure childcare provision for very young children is available, flexible and of high quality for all parents who want it.

5.2 Children aged over one year and up to school age

We recognise and respect the different views taken by families about whether or not a parent should remain at home with pre-school children after the age of one. However, many parents will chose to work or study and we accept the argument that the economy needs many parents to do so⁶.

There is also powerful evidence that children benefit from the early learning currently provided to 3- and 4-year olds, and that some children benefit when that provision begins at an earlier age.

Draft Recommendation 5: that in order to meet the needs of children, families and the economy, including the need to reduce inequality and maximise opportunity, the state⁷ should:

- ensure the availability of the childcare needed to enable parents of pre-school children (aged one and over) to work and study, if they wish;
- take steps to ensure that provision is affordable for families; and
- continue to invest in universal provision of early learning opportunities for 3- and 4-year olds, with targeted additional provision for those children who need it earlier in their lives.

5.3 School-age children

Working parents of school-age children need to deal with two challenges:

- accessing out of school care during school term time that is affordable and convenient; and

⁶ There is a well-articulated case made in Scotland at present that the economy needs more women, in particular, to be able to access the labour market to help drive inclusive economic growth and wealth creation, and to promote greater gender equality.

⁷ This is a report about Scotland, not just the Scottish Government. So when we refer to 'state' or 'government' in this document, unless we specify otherwise, we mean the Scottish Government working with the UK Government and, as appropriate, with Scottish local authorities.

- accessing childcare during school holidays (and days when the school is closed for staff development, etc) that provides the same hours of childcare as the term time combination of school education and out of school care.

Parents who have both school-age and pre-school children face the additional challenge of finding childcare that does not require the family to solve complicated logistical problems. Families face problems when all-day care is not available and there is a gap between the end of one element of provision and the start of another, or transport between providers is not available or is very expensive.

In order to meet these challenges, parents need to know that suitable childcare will be available throughout the year.

Draft Recommendation 6: that action is taken to ensure childcare is available for school-age children that is:

- Available throughout the year, providing before- and/or after-school care during term-time and providing all-day care on days when the schools are not open, and
- Co-ordinated with local provision for primary education and pre-school childcare.

We recognise the pressure on public budgets over the next few years. Whether public investment in childcare is growing or contracting⁸, difficult choices will have to be made across the following options:

- Investing in the fully-paid-for provision;
- Limiting the childcare costs of all families;
- Subsidising the childcare costs of the poorest families; and/or
- Deciding whether to focus investment in provision for particular ages.

We explore these choices in section 7 below.

6 Local Decision-Making

We make a number of recommendations in this report that we believe should apply across the country. However, we also believe that in order to ensure that provision meets the needs of local families, decisions should be made locally about how much of which type of provision is required, its location, cost and organisation.

⁸ Some spending decisions are made at the level of the UK Government, and others at Scottish Government level. At the moment, those decisions are made separately. Having two different administrations making separate decisions about public investment in childcare in Scotland can lead to policies and priorities being inconsistent; inefficient use of total investment; and confusion for providers and families alike.

Since location of home, schools and workplace, and local road and public transport systems are all relevant to the decisions made by individual families, we also believe that local decision-making should take explicit account of travel-to-work factors and school or other educational locations.

Draft Recommendation 7: that Scottish Government and local authorities agree a network of local entities that have responsibility for local decision-making related to childcare.

We will bring forward more detailed proposals for the remit of these local entities in our final report, following our discussions with interested parties over the next few months. However, our central proposal is that the core functions of these local bodies will be:

- to ensure the necessary amount and variety of local provision that meets the characteristics set out in draft recommendation 1,
- to ensure provision is delivered by regulated organisations (which may include local authorities and other public sector bodies as well as private providers),
- to ensure the charging of fees locally is on a transparent, fair and affordable basis, and
- to ensure that timely, accurate and full information is available to families about the amount and kind of provision potentially available to them locally.

These partnership-based entities would be expected to engage with each other to share ideas and experience on how they have constituted themselves and how they are delivering on their responsibilities. They would also explore whether and how they might coordinate provision in neighbouring areas (e.g. across a travel-to-work area).

7 How Much Childcare and Who Should Pay?

As noted in section 5.1, we are proposing a debate on whether the state should subsidise childcare for children aged under one year. If it is decided the state should not subsidise childcare for children aged less than one year, sections 7.1 and 7.2 would not apply to these youngest children. The implications for how those families are supported are explored in section 7.3 below.

7.1 How much childcare should the state support?

We believe it is important that there is a limit on the total number of hours per week that children spend in education and childcare. This is to ensure they do not spend too long away from their families. However, we recognise that

individual circumstances vary, and that lack of flexibility is a problem for many working families.

We do not intend to suggest a maximum amount of childcare that should be available to families. However, we do think that it is appropriate for the state to place a limit on the support it provides, and to do so on child wellbeing grounds.

We believe that an average of 50 hours per week⁹ is a reasonable upper limit for state support. To note that by 'support' we mean that the state takes steps to ensure both the availability and the affordability of that 50 hours of provision.

Draft Recommendation 8: that families should be guaranteed up to 50 hours per week, throughout the year, of suitable and affordable childcare and/or education¹⁰. It is up to families themselves to decide whether they wish to use more or less than that amount.

At present, each eligible pre-school child is entitled to 600 hours per year of free 'early learning and childcare' (ELCC). Each school-age child is entitled to approximately 6 hours per day of free school education, including supervised lunch and breaks, during term time.

In considering entitlement and funding arrangements, we think it is helpful to set out the time devoted to childcare / education under 3 headings:

1. The segment that is fully paid for by the state, and free at the point of use – currently 600 hours per year of early learning and 6 hours per day of school education in term time;
2. The remainder of the guaranteed 50 hours per week. 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. (We discuss in section 7.2 what 'affordable' might mean); and
3. Any time used beyond 50 hours per week. We propose that the state does not normally provide a subsidy or control costs, but does regulate provision to ensure quality.

The relentless focus of the Scottish Government and local authorities on establishing and expanding the free provision (the Type 1 segment above) has resulted in universal, high quality provision for 3- and 4-year olds in

⁹ This suggestion is loosely based on an average 10 hours per day, which is the length of a 8-hour working day with some travel time either side, over a notional 5-day working week.

¹⁰ This explicitly excludes the separate arrangements some parents make for the education of their children in independent schools. The education element referred to in recommendation 8 relates solely to state-provided education, and takes account of the compulsory aspects of education for school-age children.

Scotland, and increasingly for vulnerable 2-year olds. This is valuable. We believe that this free provision should continue to be available.

However, that sharp focus has not been matched by coordinated investment in, and attention to, the needs of working families for pre-school childcare, out of school care and holiday provision.

Funding support from UK Government (ie various direct cash supports to families) and from Scottish Government (ie, directly funded provision) are not designed together to provide coherent support for families. Many working parents struggle to meet childcare costs. Many families struggle to understand and access their full tax and benefits entitlement. The vagaries of the various funding systems create perverse incentives against some parents being able, in practice, to take up work or study as they would otherwise wish to do.

Funding and commissioning arrangements for the free (type 1) element means that some working parents appear to have to pay for part of the 600 hours entitlement which ought to be free, and some are unable to access it at all.

Draft Recommendation 9:

- that the Scottish and UK Governments and Scottish local authorities work together to establish a coherent approach to the funding of childcare;
- that the total costs associated with childcare, and the various government contributions to meeting those costs, should be considered together, not dealt with as separate issues as they are at present; and
- that the system for providing financial support for families is simple and easy to access.

Across the political spectrum, commitments have been made to increase the amount of funding support provided for childcare, either by paying for more free provision and/or by increasing the amount of tax and benefits support for families. We welcome the commitment to increased public investment. However, we also set out a proposition for discussion below (draft recommendation 10) which suggests some different choices for where best to spend what additional public monies become available, beyond a narrow focus on expanding free provision.

At present, the amount of provision and state support varies considerably depending on the age of the child.

- School-age children receive 6 hours a day/ 30 hours a week of free education/ supervision during term time. This totals approximately 1,150 hours per year.

- Eligible 3- and 4-year olds currently receive 600 hours per year of free early learning and childcare provision, for families that wish to avail of the offer.
- Younger children receive no free provision, apart from the eligible 2-year olds receiving the 600 hours of early learning and childcare.

A complex variety of tax and benefit mechanisms provide additional cash support to parents. For example, the new tax relief proposals would provide up to £2,000 a year for some families.

The element of costs that parents are left to meet must fit around these various systems, and this varies significantly across families, across the year, and depending on the age of the child.

Draft Recommendation 10: that, as additional resources become available, they are used to:

- Establish the much simpler system of financial support proposed in recommendation 9;
- Provide targeted support to families living in or near poverty; and
- Even out the financial burden of childcare costs on individual families.

An immediate consequence of accepting that recommendation would be that a first priority for investment is:

1. to address the childcare costs faced by families with children aged one and two, since children of that age receive the lowest level of state provision/ support (see also section 7.3); and
2. to maximise support for Scotland's poorest families.

7.2 Who should pay for childcare?

We envisage that however much state support there is, parents will still pay something – and will still want to pay something – towards the cost of provision.

This is the case in all other countries that Scotland may wish to compare itself against, and our discussions with parents in Scotland suggest that their primary call is for childcare to be affordable and for charging to feel fair, not necessarily for it to be free. In practice, we consider that the distinction between 'paid for' and 'free' provision is meaningless for parents who use both. Parents, we believe, are only really interested in the total cost to them.

There are several different approaches to managing the cost to parents for their childcare:

- The state provides some hours which are free at the point of use, and the parent pays in full or in part for the other hours used;
- The state subsidises the provider, and the parent pays a reduced cost per hour to cover the difference; and
- The state provides an allocation of money to the parent (currently through the tax and benefits system) and the parent then pays the full cost.

There are elements of each of the above approaches in the existing system. The result is a system that appears unhelpfully complex; where the market does not operate well in many localities; where funding arrangements have been described by many providers as unfair; and where many parents can neither find nor afford the childcare they need.

We propose a number of recommendations in this section to simplify what parents are expected to pay and make it affordable. In section 7.4 we also make proposals for a clearer mechanism for routing public money to providers.

Draft Recommendation 11: that the 600 hours of early learning and childcare, as well as the provision of term-time local authority-provided school education¹¹, remain entirely and transparently free at the point of delivery.

Draft Recommendation 12: that parents pay only a contribution towards, but not all of the cost of any provision used beyond the free element, up to a total of 50 hours per week. For any childcare used beyond 50 hours, parents would normally pay full costs.

Parents' contribution towards the "up to 50 hours" element can be capped in two ways, both of which are used in a number of other countries. First, parents pay no more than a certain percentage of the costs of operating the service. Second, parents could pay no more than a certain percentage of their net household income. We think the best model involves a combination of these two approaches where, for individual families, the cap on their contribution would be whichever was the lower of those two.

We are currently investigating what the estimated costs would be, and on whom the costs would fall, if there were to be a cap on the cost to parents of 40% of the cost of the provision or 10% of net household income. This would be for provision which is beyond the free 600 hours element, up to a total of 50 hours per week. By way of illustration, here are two very simple examples of how such a hybrid capping mechanism might apply:

¹¹ This recommendation does not assume any re-routing of public spend on education.

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.

Before decisions are made on a capping system, and on the particular percentages that should be used, several important pieces of work are required. Any system of subsidy has an influence on how the market operates. It is important to ensure the approach taken enables the state as well as families to control and manage their costs, while encouraging a thriving and growing childcare sector. It will be difficult to design a system that involves:

- trying to control supply and demand;
- managing costs and prices;
- interacting with tax and benefits systems; while also
- appearing simple and easy to use to parents.

Many practical issues will need to be understood and addressed. We therefore make the following proposal:

Draft Recommendation 13: that before detailed decisions are taken about how best to cap costs, detailed work is carried out to develop and test:

- how a capping mechanism based on restricting parental payments to the lower of a percentage of costs or a percentage of net household income would affect families;
- how much it would stimulate demand, and hence cost the state in subsidies;

- how it could be implemented;
- how it might interact with local systems to ensure childcare exists; and
- how to ensure costs can be controlled while also ensuring the childcare sector can thrive and grow to meet demand.

There are two further issues to be considered in relation to guaranteed provision and levels of subsidy. The first is the rate of expansion of provision and subsidy. The second is the ultimate ambition for how much support to give to help meet childcare costs.

On the rate of expansion, there are three limiting factors:

- The rate at which childcare businesses can develop, which is limited by the supply of suitably trained and experienced staff. Expansion which is too rapid can lead to loss of quality;
- The rate at which new public money comes available to pay for additional subsidy; and
- The rate at which families' demand for childcare increases. This rate depends in turn on the state of the labour market, the affordability of childcare, and growing confidence that suitable and affordable childcare exists.

Draft Recommendation 14: that plans are developed to implement childcare reforms on a timescale that ensures quality can be maintained, and that these plans are aligned with availability of new trained staff and public money, and estimated increases in demand.

The question of the ultimate ambition is for debate, and does not need to be decided immediately. We think it is important to strike a balance between families taking responsibility for the costs of looking after their children and these costs being held to a level that enables parents to access and participate productively in the labour market. We suggest the following, subject to the work to be done under recommendations 13 and 14:

Draft Recommendation 15: that, over time, the state increases the financial support available to childcare. This is with the view of reaching the point where parental costs are limited to 40% of the costs (above the 600 hours) or 10% of net household income. (Note: these percentages are subject to more detailed modelling work). This state support should be restricted to a total of 50 hours per week of either free or subsidised provision.

Draft Recommendation 16: that in order to support the poorest families and enable them to access the labour market and/or secondary, further or higher

education, priority should be given initially to making progress against the 'household income' element of the cap.¹²

7.3 Should we subsidise childcare for the under-ones and, if so, how?

In section 5.1, we offered for discussion the proposition that the state should not routinely subsidise childcare provision for the under-ones, except where this is in the best interest of the child. Our recent conversations suggest there is disagreement across the different interests in children's services organisations on this point of principle, although there does appear to be support for the view, which we strongly share, that extending financial support during periods of parental leave would be highly desirable.

In the light of our proposals for increased state investment when it becomes available (section 7.1) and for capping costs for parents (section 7.2), we offer 3 ideas for debate as we develop our final report.

- **Option 1:** childcare provision is not subsidised for children under the age of one. This is based on the view that the youngest children will thrive best when they are at home with their family. Under this option, any additional investment to support parents and families is provided through enhanced parental leave payments and/or through enhanced parenting and family support.
- **Option 2:** childcare funding support for children under the age of one is exactly the same as we are suggesting for children over one. We should subsidise the costs to parents for children under one on exactly the same basis, using money that can only be used to meet childcare costs (as would occur when the proposed Child Account was in place, see section 7.4 below). This is based on the view that it is for parents to decide the age at which it is appropriate to use childcare.
- **Option 3:** the subsidy that would be available if the family were to use registered childcare is provided as cash to the family on an unrestricted basis, so that parents of very young children can decide whether to work or study or to stay at home with their child or children during that period before the child turns one.

7.4 How should public money be distributed?

There have been major concerns about the lack of transparency of public funding, and the confusing mix of funding streams. Concerns have also been raised about the potential for increased subsidy to parents to lead to rapid

¹² An example of priority assistance that might be offered to poorer families is where a parent is entering the labour market for the first time, or is re-entering after a break. For their first fortnight or first month of working, their childcare costs might be covered by the state. This assistance would remove the hurdle of the parent having to find a large upfront fee for childcare in advance of receiving their first pay cheque.

price inflation. We propose a new system that is designed to be simple, give control to parents, ensure quality and control costs. It might build on the Child Account mechanism being set up by the UK Government to channel tax relief. We consider it would be helpful if we could make expanded use in Scotland of this UK-level mechanism, including for those families who would not be able to use it to access tax relief.

Draft Recommendation 17: that a Child Account is established for every child in Scotland who could potentially be a user of childcare. The money in that account may be used only to pay for registered childcare delivered by a provider registered in Scotland.

Draft Recommendation 18: that all state support in Scotland for childcare (including spending on direct childcare provision) is routed through this account.

These draft recommendations make no assumption about who might ‘own’ the Child Account. The account could be used to give parents more direct access to how and where they spend on childcare (ie, what economists refer to as a “demand-side” funding mechanism). In our view, it could equally be used as a means for the state to channel resources directly to providers on behalf of that child (ie, as a “supply side” funding mechanism).

We appreciate that setting up and using such a system would not be simple. If there are better ways of securing the objectives of simplicity, control, quality and cost containment, the Commission would have no objection to these other systems being adopted.

8 Childcare Workforce Issues

There are a number of workforce related issues to be addressed:

Current funding systems and terms and conditions mean that local authority childcare staff are generally better paid and have better terms and conditions than private / voluntary sector childcare staff. In consequence, there is a tendency for experienced, well-qualified staff to transfer to local authority work.

Thinking about provision as being either ‘early education’ or ‘childcare’, with historically different workforce structures, and the distinction between ‘free’ early learning and ‘paid for’ childcare has left a legacy of different cultures and values within the sector, although our impression is that that separation is now much reduced.

Generally, in common with much of the care sector, the sector is relatively poorly paid, with limited career structure and opportunities for most staff.

Increasingly, managers of childcare provision have to manage complex businesses where income as well as expenditure has to be managed, as well

as a large number of relationships. The importance of leadership, management and business acumen, as well as ensuring very high quality provision for children, is ever more critical.

We look forward to seeing the report from Professor Iram Shiraj who has been tasked by the Scottish Government with addressing childcare workforce issues. When that report has been published (if it is in advance of our final report), we will then decide if any of the above issues have still to be addressed and, if necessary, we will deal with them in our final report.

9 More Detailed Recommendations

In our final report, we expect to make specific recommendations in at least the following 7 areas. Some of these have been outlined in broad terms in Sections 5-8 above.

1. ensuring **suitable provision exists locally** that meets the needs of working parents and also of those who only want their children to use the free early learning element (the 600 hours)
2. ensuring **the quality of the child's overall experience**, including through effective inspection and through good use of national and local evidence
3. ensuring there are **simple and fair systems to ensure childcare is affordable for families**, especially those on low incomes
4. ensuring that there is an **effective mechanism to route public funding** to those organisations who are providing services
5. ensuring a **quality workforce**
6. **engaging with employers**, and with the providers of further and higher education, on how best to meet the needs of employees and of students with children, while also considering employers' needs
7. **ensuring leadership**, both of the overall system of provision and of individual establishments

10 Conclusion

This report sets out a number of proposals for change. In combination, we believe these will encourage reform of the childcare system in Scotland in ways which will gradually produce 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 and scale at which reforms may be introduced. However, even in a period of constrained public finances, it is essential that we make concerted progress now.

This interim report will, we hope, provide the basis for wide debate across a range of interests over the next few months. We welcome your continued contributions and feedback.

Please contact Lesley Warren at lwarren@childreninscotland.org.uk if you wish to offer comments or to participate in one of our next series of workshops or comment through our facebook page or website.

**Commission for Childcare Reform
27 March 2015**

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