Financial Sustainability Health Check of the Childcare Sector in Scotland

July 2023

Scottish Government
Riaghaltas na h-Alba

Contents

Executive Summary

1. This update of the Financial Sustainability Health Check has collected evidence on the sustainability of the childcare sector, in particular relating to the impacts of the costs crisis, workforce pressures and the lasting effects of the pandemic.

2. It builds on the evidence and findings from the first Financial Sustainability Health Check published in Summer 2021.

3. It is important that we understand the impact of recent economic developments on childcare providers, to ensure that both national and local policy is informed by up to date evidence about the health of the sector.

4. This update has been informed by detailed surveys of childcare providers and analysis of trends in Care Inspectorate registration data.

Key Findings from the Analysis and Evidence

5. The Health Check update highlights that the childcare sector, like many other parts of Scotland's economy, is currently facing real challenges due to the ongoing costs crisis, workforce pressures and the lasting impacts of the pandemic. Some types of services have been disproportionately impacted due to their business models and changes in demand for different types of childcare provision.

6. In addition, this update emphasises that financial and workforce issues within the sector are closely linked. These will also constitute key considerations as we develop and implement our new policy commitments over the coming months and years.

Trends in service registrations

7. Analysis of Care Inspectorate (CI) registration data highlights that overall capacity (registered places) across the sector (including childminders) in March 2023 is at a similar level to March 2020, reflecting increases in capacity in local authority services as part of the delivery of 1140.

8. The number of registered private and third sector day care of children services has declined in each year over the period March 2018 to March 2023. However, over this period overall capacity in private sector services increased slightly. The rate of decline for third sector services has increased since the start of the pandemic (March 2020).

9. The highest rates of decline have been for registered childminding services, which have continued their long-term trend of annual decreases. Since March 2020 there has been a 25.6% in the number of childminding services.

10. Annual cancellation levels and rates, since the start of the pandemic (March 2020), for private and third sector services have remained similar to previous years. A key driver of the declines in the overall number of third sector services

has been a drop, over the last 3 years, in the number of new third sector service registrations. Similar to third sector services there has been a recent trend in childminding of lower numbers of new services being registered since the start of the pandemic.

11. There has also been a shift in the structure of the sector with a move towards larger services. Service cancellation rates of private and third sector services are higher for smaller services. The majority of smaller services being delivered by local authorities.

Assessments of service sustainability

12. Provider confidence in their financial sustainability has declined across all types of childcare services since the previous Health Check (2021).

13. School age childcare only services and private services were most likely to have considerable concerns over their current sustainability.

14. The largest shift in the assessment of sustainability has been for funded ELC services (with a decline from 64% of these services indicating they were sustainable in May 2021 to 41% of services at the time of the 2023 survey); and for private services (a decline from 51% to 30% respectively).

Costs of delivery and charges to families

15. Average delivery costs have increased for all types of day care of children and childminding services over the last year.

16. Respondents reported a number of reasons for increased delivery costs including: the cost of living crisis, including increased prices of energy, fuel, food, utilities, equipment and learning resources; staffing costs (higher wages due to pay rises, pension contributions, cost of accessing bank staff); costs of paying staff the real Living Wage; costs associated with staff training and recruitment,; increase in insurance costs; PPE costs and cleaning resources; higher rental rates; rising mortgage interest rates.

17. The majority of day care of children services have increased charges to parents and carers for non-ELC childcare over the last year. However, some services reported that they have delayed price increases due to the impact of the costs crisis and in order to prevent a drop in demand. A number of respondents also highlighted that the increase in charges haven’t kept up with inflation.

Demand and income

18. Overall levels of demand (measured as occupancy levels) have decreased for all types of services over the year.

19. Day care of children services have, on average, experienced an increase in monthly income of around 5%. Average monthly income has remained relatively flat across childminding services.

20. Income for the delivery of funded ELC as a percentage of total service income has not changed substantially since 2021, with the exception of third sector services which have seen an increase in the share of total income from funded ELC. Reported share of income from funded ELC was higher for third sector services (84%), compared with Private Sector Services (46%).

Staffing

21. The Health Check update highlights concerns about staffing, in particular loss of staff from private and third sector services (including some who have left the sector altogether) and challenges in recruiting suitably experienced staff. The majority of services who responded to the surveys had lost at least one member of staff in the last 12 months, with private sector services being most likely to report that they have lost a member of staff (89% of private services).

22. 41% of day care of children services reported having at least one vacancy, with services in the private sector reporting the highest estimated vacancy rate in their setting.

Payment of real Living Wage

23. Services in the third sector and services delivering funded ELC were most likely to report that they currently pay <u>all</u> of their staff at least the real Living Wage (55% of third sector services and 56% of services delivering funded ELC respectively).

24. 81% of funded ELC providers reported that they paid the real Living Wage to either all staff or staff delivering funded ELC. Prior to the expansion to 1140 funded hours, analysis in the Financial Review of the ELC Sector highlighted that in 2016, around 80% of practitioners and 50% of supervisors in private and third sector settings delivering funded ELC were paid an hourly rate below the real Living Wage.

25. The majority (68%) of day care of children services indicated that they planned to pay all staff in their setting the real Living Wage by August 2023. This was highest for services delivering funded ELC (73%).

26. 72% of childminders reported that they did not currently pay themselves the real Living Wage. Childminders estimated that, on average, they paid themselves £8.21 per hour.

Next Steps

27. The previous Financial Sustainability Health Check set out a programme of actions to support the long-term sustainability of the sector. The main focus of our

next steps will be to build on actions already being delivered to maximise their impact, including:

- Building on our programme of targeted business support for childcare providers by linking with childminder recruitment pilot induction process. Alongside this we will raise awareness amongst childcare providers of the general Business Gateway offer that is available, and to encourage higher levels of engagement amongst providers, where required, in accessing existing services. We will explore what more can be done in this area with Business Gateway and through engagement with the sector in order to inform any further targeted support.
- Continuing to fund the Care Inspectorate to deliver the ELC Improvement Programme to support funded providers to meet the quality criteria included in Funding Follows the Child and the National Standard.
- Delivering a series of actions to support the childcare sector, including a commitment by the Scottish Government to cover the costs of the Protecting Vulnerable Groups (PVG) membership fees for new entrants to the sector for the remainder of the 2023-24 financial year, publishing a resource setting out sources of funding to undertake qualifications and Continuous Professional Learning, and consolidating wellbeing resources for practitioners.
- Continue funding the Scottish Childminding Association (SCMA) to offer a package of support to new entrants in remote and rural areas to register and establish their businesses, and look at opportunities to expand the scheme further, as undertaken recently by expanding the recruitment model into urban areas.
- Publish the Strategic Framework for Scotland's Early Learning and School Age Childcare Profession. The Framework will set out priorities for action now and over the coming months and years to ensure the qualifications, training, recruitment, and retention needs of all parts of the sector are met.
- Finalising, and publishing later this year, the joint Scottish Government and COSLA Review of the approach to setting sustainable rates in 2022-23. The findings of the evidence-based review, which has included input from both funded ELC providers and local authorities, will inform what further action may need to be taken to the wider approach to sustainable rate setting over the rest of this Parliament.
- The Scottish Government will also ensure that provider sustainability and workforce issues are addressed as a priority through the programmes of work that are in train on building a system of school age childcare and developing a new offer for one and two year olds, starting with those who will benefit most.
- Publishing our School Age Childcare Delivery Framework. Our delivery framework will outline our school age childcare commitments and our action areas for the next 3 years. In addition, the framework will describe our transformational approach and the principles that we will apply to designing and building a new system of school age childcare.

Introduction

1. The childcare sector in Scotland delivers a diverse and vital range of provision to children of all ages. From caring for our youngest children, to the delivery of funded early learning and childcare (ELC) for eligible 2 year olds and all 3 and 4 year olds, through to provision for school age children which happens before and after school and during the holidays. The providers offering these services include childminders, nurseries, after school clubs, organised activities sector and playgroups.

2. The Scottish Government is committed to supporting this diversity of provision and to ensuring a sustainable and thriving childcare sector.

3. As well as supporting children's development, a strong and sustainable childcare sector is also a key part of Scotland's economic infrastructure. The pandemic, in particular, has highlighted the importance of the whole childcare sector, including school age childcare, to families across Scotland. Flexible, accessible and affordable childcare services are a vital part of our national economic infrastructure, enabling parents and carers to work, study or undertake training.

4. Many parts of the sector operate under a mixed economy model. This reflects a range of providers from the public, private and third sector but also that many providers receive income directly from their local authority in order to deliver funded ELC. For example, as of September 2022 it is estimated that 56.5% of registered private and third sector day care of children services delivered funded ELC.

5. There have been a number of developments in recent years, which have impacted the sector including the global COVID-19 pandemic and the ongoing costs crisis. There have also been substantial policy changes, and investment in the sector, in particular the expansion of funded ELC to 1140 hours. Alongside this, the sector will be impacted by demographic changes, with gradual declines in the number of children in each age group each year (and which is projected to continue). It is important that we understand the impact of these developments on the structure of the childcare sector and on the sustainability of providers, by collecting robust evidence from providers themselves.

6. This ensures that both national and local policy is informed by up to date evidence about the health of the sector.

7. In 2021 the Financial Sustainability Health Check collected evidence on the sustainability of the childcare sector, and in particular on the impact of COVID-19. The Health Check provided an overview of the challenges facing the sector and highlighted that whilst all parts of the childcare sector have been impacted by the pandemic to some extent, the nature and scale of these impacts has varied across different types of services.

8. The 2021 Financial Sustainability Health Check has been a vital source of evidence and has helped the Scottish Government to tailor support for childcare providers. However, since Summer 2021 there have been substantial economic impacts as the result of the costs crisis, workforce pressures and the lasting impacts of the pandemic.

9. This update provides evidence as to how these events are impacting on the childcare sector, as well as allowing for analysis of any changes in underlying trends in the sector. This includes understanding where there may be disproportionate impacts across different types of providers.

10. It is important to note that due to the relatively low response rate to the provider surveys (which were lower than the response rates to the 2021 Health Check surveys) informing this work, the data collected through the surveys might not be representative of the Scottish childcare sector as a whole. Therefore, caution should be taken when interpreting the results from these surveys, and to consider the range of evidence presented in this report.

11. This report presents the key findings from this exercise and sets out the further action that will be taken to ensure a sustainable childcare sector in Scotland. Detailed supporting information is set out in the separate Analysis and Evidence report. As with the previous Health Check, the findings from this report will be used to inform future policy development.

12. A sustainable childcare sector in Scotland will also be vital to supporting the delivery of our new policy commitments on childcare, particularly through expanding high quality, funded early learning and childcare to 1 and 2 year olds and to progressing work to build a targeted system of school age childcare.

Developments since the 2021 Financial Sustainability Health Check

13. A range of actions were taken following publication of the Health Check report in August 2021, as set out below. Alongside this, there was an ongoing assessment of the financial sustainability of childcare providers. This included considering the financial implications of any further significant public health Covid-related restrictions to be introduced in the future.

Childcare Sector Omicron Impacts Fund

14. In Winter 2021, a rapid surge of the Omicron variant created operational challenges and significant financial implications for childcare services. In January 2022, case rates and absence levels in the childcare sector were higher than at any previous point in the pandemic.

15. In addition to experiencing acute staff absence, loss of income from children self-isolating and temporary closures due to staffing and isolation, the sector had been impacted by the requirement for home-working, which reduced demand for school age childcare services in particular.

16. In recognition of the very challenging circumstances in which childcare sector providers were operating during the Omicron wave, and following the substantial targeted financial support made available to childcare providers since March 2020, the Childcare Sector Omicron Impacts Fund was introduced. This made up to £9.8 million of support available to the sector in March 2022. The Fund was aimed at mitigating some of the financial

impacts that services experienced as a result of these conditions including loss of income due to temporary partial and full closures due to staff and children self-isolating.

17. Grants were available to all private and third sector day care of children services and all childminding services registered with the Care Inspectorate on 31 December 2021, including school age childcare services. A total of 4,639 grants, with a total value of £8.02 million, were paid to registered services through the Fund. As with previous COVID financial support for the sector, grant amounts varied according to the size of their service. Grants ranged from £950 to £4,500.

Easing restrictions in childcare settings

18. On 17 March 2022 we published streamlined and simplified guidance for all registered early learning, school age childcare and childminder services, which brought an end to restrictions on contacts within settings, the use of 'bubbles', limitations on day trips, and allowed parents and visitors back into settings.

19. These changes took effect from 18 April 2022 and followed the advice by the Advisory Sub-Group on Education and Children's Issues, that it would be appropriate to phase in routine measures in ELC settings in step with changes in the wider society.

20. A small number of routine protective measures remained in place, including the promotion of vaccination, self-isolation, ventilation and cleaning regimes.

Costs crisis and wider policy developments

21. Despite removing restrictions on their operations in April 2022, childcare services, like all other sectors, have been subject to substantial economic challenges as the result of the costs crisis, labour market pressures, and continuing impacts from the pandemic, including:

- High general levels of inflation (including rapid increases in food prices)
- The large increases in energy prices
- Pressure to increase wages to prevent real terms falls in earnings
- Household budgets becoming increasingly constrained, impacting on families' ability to pay for non-funded childcare.

22. We have taken a number of policy actions to address these challenges and to support a sustainable childcare sector.

23. We have confirmed that the Nursery Rates Relief Scheme will continue beyond the currently legislated end date of 30 June 2023. The Scheme provides 100 per cent relief on Non-Domestic Rates to eligible day nurseries (subject to subsidy control rules). The Scottish Government has completed an evaluation of the relief, which has demonstrated the benefits of this support, worth an estimated £9.6 million, to eligible nurseries, and the children and families who use these services.

24. We have been also progressing the actions set out in the previous Financial Sustainability Health Check, including:

- Funding pilot programmes of targeted Business Gateway support to enable childcare providers to access tailored, specialist advice on strengthening and diversifying their businesses.
- Establishing a real Living Wage and Fair Work Implementation Group in 2022, to explore implementation challenges and potential solutions to help all childcare providers become real living wage employers.
- Working with COSLA and Improvement Service to deliver a programme of actions to strengthen the process for setting sustainable rates in 2022-23. This has included updating and publishing with COSLA a joint guidance to support local authorities to set sustainable rates for August 2022; dedicated support from the Improvement Service to local authorities to inform the rate setting process; and providing funding to COSLA and local authorities to commission Ipsos Mori to undertake an independent cost collection exercise to improve the evidence on costs of delivery that local authorities could draw on.
- Establishing a new Childcare Sector Representation and Sustainability Fund (CSRSF). The Fund is making up to £500,000 available in both 2023-24 and 2024-25 to support eligible childcare sector representative bodies to deliver their representative functions and to enable them to strengthen their long-term sustainability.
- Progressing work on the actions set out in Our Commitment to Childminding plan and monitoring progress through the Childcare Sector Working Group.

25. Alongside updating the Financial Sustainability Health Check, the Scottish Government has been undertaking with COSLA a joint review of the process for setting sustainable rates in 2022-23. As part of this exercise, there were a number of in-depth discussions with private, third and childminding sector funded ELC providers to feedback on the rates setting process. Some of the points raised at those meetings by providers around their financial sustainability have also fed into this Health Check update.

26. The Scottish Government remains committed to ensuring that providers in the private, third and childminding sector views are heard and reflected in national policy. To that end, we have established a new National Childcare Providers Forum to create a new space for strategic policy discussion between national partners and childcare providers from across the sectoral landscape, including both early learning and childcare and school age childcare providers, on a number of key challenges for the sector. The Forum met for the first time on 1 March 2023 and most recently on 15 June 2023. This builds on the work of the previous ELC Partnership Forum, which previously held meetings across Scotland to strengthen relationships between providers and local authorities and to consider issues relating to the delivery of the 1140 hours expansion.

27. In addition, we established the Childcare Sector Working Group in 2020 to create a forum to discuss, develop and improve policy with sector representatives of the private, third and childminding sectors.

28. The new Minister for Children, Young People and Keeping the Promise also hosted a round table with childcare sector representative organisations on Tuesday 18 April, in order to hear directly about the current challenges faces the sector relating to the costs

crisis, workforce and wider sustainability. As part of this Health Check update, we have drawn on some of the discussion points raised at the round table event by the childcare sector representative bodies (Care and Learning Alliance, Early Years Scotland, National Day Nurseries Association, Scottish Childminding Association and the Scottish Out of School Care Network).

Overview of the 2023 Update

29. As with the 2021 Health Check, this update has been mainly informed by evidence and analysis from detailed surveys of childcare providers (with separate surveys for day care of children and childminding services) and analysis of trends in Care Inspectorate registration data.

30. This report is intended to be a summary of the key findings from the Health Check update. It also sets out a number of actions that the Scottish Government will implement, in order to address the challenges facing the sector and to support long-term sustainability of childcare providers.

31. Alongside this summary report we have published a separate Analysis and Evidence paper which sets out the detailed results from the provider surveys and the analysis of the latest Care Inspectorate registration data.

Recent Trends in Childcare Services

32. We explore changes across the childcare sector by looking at trends in the number of registered services and registered places (which provides a measure of capacity). Table 1 sets out Care Inspectorate (CI) data on the number of registered services over the period March 2018 to March 2023. Table 2 shows the number of registered places over the same period.

33. There have been a number of factors in the childcare sector that provide important context to the recent trends in registered services across the whole childcare sector, including:

    - The total number of children registered with a childcare service – any day care of children and childminding services – gradually declined over the period December 2017 to December 2020. Whilst numbers increased in the year to December 2021 the total number of children registered, for all types of services was still below December 2019 levels. The largest declines have been in the number of children registered with a childminding service. This reflects, in part, the gradual declines in the number of children in each age group each year (and which is projected to continue, according to the Registrar General's Annual Review of Demographic Trends).
    - Many providers – local authority, private, third sector and childminding services – had been preparing for the introduction of the expanded ELC entitlement of 1140 hours, which became statutory on 1 August 2021.

Table 1: Number of registered childcare services by type of service, March 2018 to March 2023

Type of service	March 2018	March 2019	March 2020	March 2021	March 2022	March 2023
Health Board	3	3	3	3	3	3
Local Authority	1,719	1,719	1,743	1,761	1,781	1,785
Private sector	1,093	1,083	1,077	1,057	1,046	1,028
Third Sector	839	820	810	761	723	684
Total Day care of children services	**3,654**	**3,625**	**3,633**	**3,582**	**3,553**	**3,500**
Childminding Services	**5,333**	**4,972**	**4,656**	**4,263**	**3,841**	**3,462**

Source: Care Inspectorate Datastore

Table 2: Number of registered places by type of service, March 2018 to March 2023

Type of service	March 2018	March 2019	March 2020	March 2021	March 2022	March 2023
Health Board	170	170	170	170	170	170
Local Authority	72,389	74,521	78,857	84,550	87,377	88,967
Private sector	61,753	62,599	62,828	62,886	62,608	62,551
Third Sector	31,442	31,501	31,234	30,030	29,309	28,291
Total Day care of children services	**165,754**	**168,791**	**173,089**	**177,636**	**179,464**	**179,979**
Childminding Services	**33,007**	**30,821**	**28,914**	**26,513**	**23,913**	**21,601**
Total (all services)	**198,761**	**199,612**	**202,003**	**204,149**	**203,377**	**201,580**

Source: Care Inspectorate Datastore

34. Overall capacity across the sector (including childminders) in March 2023 is at a similar level to March 2020, reflecting increases in capacity in local authority services as part of the delivery of 1140.

35. The number of registered private and third sector day care of children services has declined in each year over the period March 2018 to March 2023. The rate of decline for third sector services has increased since the start of the pandemic (March 2020). Over the 3 year period March 2020 to March 2023 there has been a 15.6% decline in the number of third sector services. Capacity across third sector services has also declined over this period, but at a lower rate (a fall of 9.4%).

36. Private sector services declined by 4.5% over the same period, whilst there was only a very small decline in the number of registered places in these services (a fall of 0.4%). This trend of larger rates of decline in the number of services relative to the number of places, indicates a move towards larger settings. This is explored further below.

37. The highest rates of decline have been for registered childminding services, which have continued their long-term trend of annual decreases. Since March 2020 there has been a 25.6% fall in the number of childminding services.

What is driving the changes in services and capacity?

38. Annual changes in registrations reflect the difference between the number of new services entering the sector and the number of services leaving the sector. We can monitor these trends using Care Inspectorate registration data. All new day care of children services and childminding services must be registered with the Care Inspectorate. When a service ceases to operate the registration for the service with the Care Inspectorate is cancelled.

39. Not all cancellations will reflect a service leaving the sector, as some may reflect changes in: (1) ownership; (2) classification of the business (for example from private to voluntary/not-for-profit); or (3) location/premises. However, for these situations the service will have to re-register and will be captured as a new registration.

40. Table 3 shows, for each type of service, the overall annual change in registered services and the annual cancellations and new registrations in the year to March each year. Table 4 shows the annual cancellation rates for each type of service for the same period – this measures total cancellations as a proportion of all registered services for each type of service. The tables highlight that for private and third sector services annual cancellation levels since the start of the pandemic have remained similar to previous years. The underlying cancellation rates — for these services have also remained at similar levels (although there is more variability for third sector services). However, Table 3 highlights that a key driver of the declines in the overall number of third sector services has been a drop, over the last 3 years, in the number of new third sector service registrations. With regards to private sector services there was an initial fall in new registrations at the start of the pandemic, but new registrations have returned to similar levels as reported in the year to March 2019.

41. Similar to third sector services there has been a recent trend in childminding of lower numbers of new services being registered since the start of the pandemic. The cancellation rate for childminding services fell at the start of the pandemic (the year to March 2021) but have been higher in recent years.

Table 3: Components of annual change in registered services by type of service in year to 31 March for 2019 to 2023

Type of service	March 2019	March 2020	March 2021	March 2022	March 2023
Local Authority Cancellations	10	12	23	13	10
Local Authority New Registrations	10	36	41	33	14
Local Authority Annual Change	**0**	**24**	**18**	**20**	**4**
Private Sector Cancellations	58	70	57	59	64
Private Sector New Registrations	48	64	37	48	46
Private Sector Annual Change	**-10**	**-6**	**-20**	**-11**	**-18**
Third Sector Cancellations	71	49	57	61	48
Third Sector New Registrations	52	39	8	23	9
Third Sector Annual Change	**-19**	**-10**	**-49**	**-38**	**-39**
Childminding Services Cancellations	719	648	564	574	552

Childminding Services New Registrations	358	332	171	152	173
Childminding Services Annual Change	**-361**	**-316**	**-393**	**-422**	**-379**

Table 4: Annual cancellation rate by type of service in the year to 31 March in each year over the period 2019 to 2023

Type of service	March 2019	March 2020	March 2021	March 2022	March 2023
Local Authority	0.6%	0.7%	1.3%	0.7%	0.6%
Private sector	5.4%	6.5%	5.4%	5.6%	6.2%
Third Sector	8.7%	6.0%	7.5%	8.4%	7.0%
Total Day care of children services	**3.9%**	**3.6%**	**3.8%**	**3.7%**	**3.5%**
Childminding Services	**14.5%**	**13.9%**	**13.2%**	**14.9%**	**15.9%**

42. There has also been a shift in the structure of the sector with a move towards larger services. Service cancellation rates of private and third sector services are higher for smaller services (in particular those with 25 or less registered places). Since March 2018 there has been a move - across private, third sector and local authority services - towards a higher proportion of services being accounted for by larger capacity providers (in particular 51 or more registered places). This has resulted in the majority of smaller services being delivered by local authorities, with local authorities delivering 59% of services with a registered capacity of 25 or less (and 81% of services with a registered capacity of 1-10 places).

Key Findings from the Provider Surveys

43. This section presents the key findings from the analysis of the provider surveys. More detailed information is available in the supporting Analysis and Evidence paper.

44. The surveys were live from 20 January until 27 February 2023 and asked for information on changes in costs of delivery, income, capacity, and staffing, to capture all aspects of the sustainability of services. Drawing on lessons from the previous exercise, a decision was made to update and make non-mandatory some of the questions to limit the ask on providers, while allowing for some level of comparability with the 2021 surveys.

45. Nevertheless, it is important to note that the response rate to the surveys was lower than in 2021. There were 108 responses to the day care of children services survey. Based on the latest registration data for the sector this represents around 6% of all registered private and third sector services. There were 58 responses to the childminding services survey, which represents around 1.7% of all registered childminding services.

46. The key comparisons for day care of children services are between: those delivering funded ELC and those not delivering funded ELC; services in the private and third sectors; and those services that deliver only school age childcare. There are overlaps across some of these categories. For example, all private sector services will include

both private services delivering funded ELC and private services not delivering funded ELC. However, the use of these broad categories allows for general variations across provider types to be identified.

47. Due to a low response rate to the childminding services survey, we have not been able to make comparisons between different types of childminding services. Therefore, the focus of this analysis is the childminding sector as a whole.

Self-reported sustainability

48. As in the 2021 Health Check, the updated surveys asked respondents to provide an assessment as to how sustainable they viewed their service on a scale of 1 to 10 (with 1 indicating very unsustainable/potential need to close in near future and 10 indicating very sustainable/no concerns). Following this question, respondents were then able to explain the reasons that led them to make their assessment.

49. Table 5 sets out a summary of the provider sustainability assessments at the time of completing the current surveys (February 2023), and how that compares with the results from the previous Financial Sustainability Health Check (for the majority of respondents this would have been during May 2021).

50. It is important to note that the compared samples vary in size and make up. This includes differences between samples for each type of provider. Therefore, these comparisons should be treated with a degree of caution and are intended to provide an indication of potential changes in reported self-sustainability.

51. The sustainability assessments have been grouped into three categories depending on their sustainability rating: (1) services with significant concerns regarding sustainability – ratings between 1 to 4; (2) unclear on overall sustainability - ratings of 5 and 6; and (3) sustainable services – rating of 7 or higher.

52. Table 5 highlights that:

- Provider confidence in their financial sustainability has declined across all types of childcare services since the previous Health Check (2021).
- School age childcare only services and private services were most likely to have considerable concerns over their current sustainability (a score of 1-4).
- The largest shift in the assessment of sustainability has been for funded ELC services (with a decline from 64% of these services indicating a score of 7 or more in May 2021 to 41% of services at the time of the survey); and for private services (a decline from 51% to 30% respectively).
- Third sector services and services delivering funded ELC were most likely to rate their current sustainability at 7 or more.

Table 5: Summary of provider sustainability assessment by type of service according to the FSHC 2021 and at time of completing the current surveys (February 2023)

Type of Service	1 to 4 - FSHC 2021	1 to 4 - FSHC 2023	5 to 6 - FSHC 2021	5 to 6 - FSHC 2023	7 to 10 - FSHC 2021	7 to 10 - FSHC 2023
Funded ELC service	9%	31%	27%	28%	64%	41%
Service does not deliver funded ELC	26%	36%	28%	30%	47%	34%
Private Services	19%	42%	30%	28%	51%	30%
Third Sector Services	17%	25%	25%	29%	58%	45%
School age childcare only	29%	42%	25%	26%	47%	32%
Childminding services	28%	22%	27%	38%	46%	40%

53. The key factors raised by respondents to explain their current sustainability assessment were:

- Increased costs of delivery over the last year due to the costs crisis, particularly in relation to significantly higher energy and food prices; and increased mortgage interest rates.
- Whilst income has, on average, increased this has not kept pace with rising costs. Some services are facing pressures on income levels due to reduced occupancy levels (particularly school age childcare providers and childminders).
- Concerns about limited ability to generate additional income streams, as some providers indicated that increasing fees has only had a limited impact on their overall income. A number of respondents also reported feeling reluctant to pass on cost increases to families through higher fees. Some respondents also emphasised that they did not have the capacity to increase numbers of children attending their service due to the additional staff they would need to employ to keep within the required ratios, or not having the physical capacity in rooms for more children.
- Continued concerns about staffing - in particular the pay gap between local authority and the private and third sector settings, resulting in the loss of practitioners and challenges in recruiting suitably experienced new staff members. Some providers also reported that their current income levels prevented them from having additional staff to cover absences.
- Being a funded ELC provider was considered by a number of respondents as being positive for sustainability – however, some providers felt that the hourly rate that they received from their local authority for delivering funded ELC did not cover their current costs of delivery. A few respondents also noted that a higher contribution of ELC funding to their total income meant they had less direct control of overall income levels, and that any uncertainty over future rates setting timescales and decisions by local authorities would have a greater impact on the

overall business. The average reported share of income from funded provision, for services delivering ELC, was 46% for private sector services and 84% for third sector services.

- Payment of the real Living Wage, in particular given the scale of the most recent increase, was highlighted as one of the main challenges for providers delivering funded ELC.
- Concerns about lasting impacts of the pandemic which have put a significant pressure on financial reserves and the ability to create funds for some providers. A number of respondents indicated that they were currently sustainable but had no surplus for contingency, investment or replacement of resources.
- Some specific challenges for third sector providers were raised, such as costs that are difficult to be quantified in voluntary led, committee based settings.
- A number of childminders highlighted concerns about additional administrative requirements, paperwork and preparation needed.

Changes in costs, occupancy, income, and charges

54. Respondents to the provider surveys were asked for information on changes in their monthly costs of delivery, occupancy, income and charges. These questions asked for detailed information that enabled for comparisons to be made, where possible, between the position at the time of completing the surveys and at the same point 12 months ago. Table 6 provides a summary of the survey analysis across these themes.

Table 6: Summary of survey analysis of costs, occupancy, income and charges

Theme	Summary of Analysis
Changes in monthly costs of delivery	• The main focus of the analysis was on the changes in the total monthly costs of delivery, as the response rate to the surveys didn't enable a full analysis of how the estimated costs of delivering childcare vary across age groups. Some respondents to the surveys also had difficulties in presenting their average costs of delivery on an hourly basis. • The analysis indicates that average monthly costs of delivery have increased by around 14% across all types of day care of children services over the last year. • The analysis also estimates that the highest increases in the cost of delivery may be for delivering to school age children, with estimated increases of around 19%. • The average monthly costs for childminding services have increased, on average, by around 12%. • The main reasons indicated for increasing costs of delivery are: o The costs crisis was the most commonly reported factor - covering a wide range of specific cost elements, including increased

	prices of energy, fuel, food, utilities, equipment and learning resources o Staffing costs (higher wages due to pay rises, pension contributions, cost of accessing bank staff) o Costs of paying staff the real Living Wage o Costs associated with staff training and recruitment o Increase in insurance costs o PPE costs and cleaning resources o Higher rental rates o Rising mortgage interest rates (especially reported by childminders) o Increased professional membership fees o Cost of outings and transportation (relevant particularly to childminders). • Some respondents highlighted it was the cumulative effect of all costs increasing that resulted in real challenges for their services. • In addition, a number of providers reported continued reduced demand for the service as a lasting impact of the pandemic, in particular school age childcare and childminding services. Services delivering funded ELC were less likely to report falls in demand/occupancy. • The majority of survey respondents anticipated that in the next 6 month period their costs of delivery would increase, with only 19% of respondents expecting that their costs would remain broadly unchanged (and none anticipating a decrease in costs). • In terms of future costs, the most commonly reported factor was an increase in the real Living Wage and the National Minimum Wage in April 2023. • The majority of day care of children survey respondents reported that they let all or some of the premises that they use. For most school age childcare services premises were let from their local authority or other public sector organisation; whilst the majority of services delivering funded ELC rented their premises from a private owner, charity or church.
Demand and Income Flows	• Overall levels of demand (measured as occupancy levels) have decreased for all types of services over the year. • The percentage of day care of children services operating at 60% or less capacity (in terms of registered places) has increased from 24% to 30% over the year.

	• The percentage of childminding services operating at 60% or less capacity (in terms of registered places) has increased from 14% to 33% over the year.
	• The analysis indicates that over the year, day care of children services have, on average, experienced an increase in monthly income of around 5%.
	• Average monthly income has remained relatively flat across childminding services.
	• Income for the delivery of funded ELC as a percentage of total service income has not changed substantially since 2021, with the exception of third sector services which have seen a potential increase in percentage of total income from funded ELC.
	• Reported share of income from funded ELC was higher for third sector services (84%), compared with Private Sector Services (46%).
	• The main reasons highlighted for changes in total monthly income were:
	    o Sustainable rates for the delivery of funded ELC considered insufficient to cover current costs of delivery
	    o Limited possibility to fundraise by voluntary and community based settings due to the costs crisis
	    o Reduction of service users due to parents still working from home and wider costs crisis implications (particularly raised by school age childcare providers)
	    o A number of providers indicated that last year their shortfall was covered via the Coronavirus Job Retention Scheme and other Government support grants, which have now stopped
	    o Limited capacity to cross-subsidise income by funded ELC providers
	    o School age childcare providers highlighted that families were switching to using blended childcare (i.e., funded term-time only provision and family members delivering the childcare through school holidays or at the end of the day), rather than placing their children in formal settings
	    o A number of childminders reported that children moved to nurseries for their funded entitlement
	    o Some childminders highlighted that the number of funded hours they were being allocated didn't enable them to operate their services in a financially sustainable way.

Charges for families	• The surveys indicate that the majority of day care of children services have increased charges to parents and carers for non-ELC childcare over the last year. • Some services reported that they have delayed price increases due to the impact of the costs crisis and in order to prevent a drop in demand. • A number of respondents highlighted that the increase in charges haven't kept up with inflation.

Workforce and pay

55. The provider surveys asked for information on staff vacancies, recruitment and the payment of the real Living Wage. Respondents were also able to provide more information as to whether the need to train and support new recruits had impacted on service delivery in the last year. Table 7 provides a summary of the survey analysis across these themes.

Table 7: Summary of survey analysis of workforce and pay

Staffing	• The majority of day care of children services who responded to the survey had lost at least one member of staff in the last 12 months, with private sector services being most likely to have lost a member of staff (89% of private services). • 41% of day care of children services reported having at least one vacancy, with services in the private sector reporting the highest estimated vacancy rate in their setting. • Where members of staff have left in the last year, they were most likely to have joined another service in the childcare sector (and most likely a local authority childcare provider). • Where services have recruited new members of staff in the last year, new recruits came from a mix of backgrounds. 31% joined directly from school/college or university, 28% moved from another job not in the childcare sector, and 26% joined from another service in the childcare sector. • The analysis indicates that about half of the new recruits were not fully qualified, although it is worth noting that this is very common in the sector. Around two thirds of those entering the childcare workforce do so by gaining vocational qualifications. In other words, they work toward their qualification while gaining practical experience in the workplace and are therefore not fully qualified upon joining the sector. The most common qualification

	reported was SVQ (25% of new recruits), followed by HN, and Foundation or Modern Apprenticeship (9% of new recruits respectively).
	
	• Respondents indicated that the need to train and support new recruits had impacted significantly on service delivery, including:
	  o On the quality of delivered care and experience for the children, though providers worked very hard to minimise this
	  A financial impact and pressure on current staff members to support new recruits; more time required off the floor for training
	  o Increased senior staff and management time dedicated to mentoring and induction
	  o Significant levels of support for new staff members who joined straight from school or college.

Payment of real Living Wage	• 51% of all day care of children services reported that they currently pay the real Living Wage to all staff.
	
	• Services in the third sector and services delivering funded ELC were most likely to report that they currently pay <u>all</u> of their staff at least the real Living Wage (55% of third sector services and 56% of services delivering funded ELC respectively).
	
	• School age childcare only services were least likely to report that they currently paid all their staff the real Living Wage (39% of SACC services).
	
	• 81% of funded ELC providers paid the real Living Wage to either all staff or staff delivering funded ELC.
	
	• Reasons given by respondents for not paying all their staff the real Living Wage were:
	  o The hourly rate that they received from their local authority for delivering funded ELC did not enable payment of the real Living Wage to all staff (sustainable rates paid to services delivering funded ELC includes funding to enable payment of the real Living Wage to those staff delivering funded ELC)
	  o Some respondents indicated that staff working towards qualification were paid at least the National Minimum Wage; paying more at this level given the amount of supervision and training support required would make the business unsustainable
	  o Some providers highlighted that this would not be affordable without increasing fees and passing on

	the cost to parents and carers, which they were reluctant to do. • The majority (68%) of day care of children services indicated that they planned to pay all staff in their setting the real Living Wage by August 2023. This was highest for services delivering funded ELC (73%). • 72% of childminders reported that they did not currently pay themselves the real Living Wage. Childminders estimated that, on average, they paid themselves £8.21 per hour. • The main reasons offered by childminders for not paying themselves at least the real Living Wage were not making enough profit and limited ability to increase parental charges, as some respondents felt that would result in families leaving their service for a cheaper alternative.

Supporting Sustainability in the Sector

56. The analysis has highlighted that the childcare sector is currently facing real challenges due to the ongoing costs crisis, workforce pressures and the lasting impacts of the pandemic.

57. While all parts of the sector reported less confidence in their financial sustainability since the last Health Check, some types of services have been disproportionately impacted due to their business models and changes in demand for different types of childcare provision.

58. In addition, this update has emphasised that financial and workforce issues within the sector are closely linked. These factors will constitute key considerations as we develop and implement policy actions.

59. The previous Financial Sustainability Health Check (FSHC) set out a programme of actions, across a number of areas, to support the long-term sustainability of the sector. We have worked with the sector and delivery partners to progress these actions. The main focus of our next steps will be to build on this programme of actions, within available financial resource, to maximise their impact to ensure a sustainable childcare sector in Scotland. To support this, we will:

    - Build on the learning from our pilot programmes of targeted business support to identify the parts of the sector where there is a need for support. This will include continuing to link with the childminder recruitment pilot by providing an offer of an initial 1-to-1 session with a business adviser as part of induction process. Alongside this we will raise awareness amongst childcare providers of the general Business Gateway offer that is available, and to encourage higher levels of engagement amongst providers, where required, in accessing existing services. We will explore what more can be done in this area with Business Gateway and through engagement with the sector in order to inform any further targeted support.

- Continue to fund the Care Inspectorate to deliver the ELC Improvement Programme to support funded providers to meet the quality criteria included in Funding Follows the Child and the National Standard. The programme aims to improve the quality of ELC services by providing targeted support to funded ELC providers who are not meeting Care Inspectorate gradings of ‘good’ or better across the four quality themes, or who have previously achieved grades of ‘good’ but are at risk of falling below that at their next inspection. In addition to this, the programme provides universal resources to support all settings with improving quality.
- Deliver a series of actions to support the childcare workforce, including a commitment by the Scottish Government to cover the costs of the Protecting Vulnerable Groups (PVG) membership fees for new entrants to the sector for the remainder of the 2023-24 financial year, publishing a resource setting out sources of funding to undertake qualifications and Continuous Professional Learning, and consolidating wellbeing resources for practitioners.
- Continue funding the Scottish Childminding Association (SCMA) to offer a package of support to new entrants in remote and rural areas to register and establish their businesses, and look at opportunities to expand the scheme further, as undertaken recently by expanding the recruitment model into urban areas.
- Publish the Strategic Framework for Scotland’s Early Learning and School Age Childcare Profession. Working with partners, we have considered a range of issues under key themes and will take action to ensure that our workforce is supported to deliver high quality childcare to Scotland’s children and families. The Framework will set out priorities for action now and over the coming months and years to ensure the qualifications, training, recruitment, and retention needs of all parts of the sector are met.
- Finalise the joint Scottish Government and COSLA Review of the approach to setting sustainable rates in 2022-23. The findings of the evidence-based review, which has included input from both funded ELC providers and local authorities, will inform what further action may need to be taken to the wider approach to sustainable rate setting over the rest of this Parliament. The Review will be published later this year.
- The Scottish Government will also ensure that provider sustainability and workforce issues are addressed as a priority through the programmes of work that are in train on building a system of school age childcare and developing a new offer for one and two year olds, starting with those who will benefit most.
- Publishing our School Age Childcare Delivery Framework. Our delivery framework will outline our school age childcare commitments and our action areas for the next 3 years. In addition, the framework will describe our transformational approach and the principles that we will apply to designing and building a new system of school age childcare.

Next Steps

60. We are very grateful to all childcare providers who took the time to complete the surveys and participate in the Health Check update. We will continue to work with the sector and delivery partners to progress the actions outlined above.

61. We will also work with the sector to consider how we can improve the approach to evidence gathering going forward, and to ensure that surveys and engagement approaches are framed in a way that can capture robust evidence in a proportionate manner. We are also aware that the provider surveys informing this exercise were issued at a busy time of the year for childcare services, when there were requests for information from other parts of the Government. We will take learning from this work, to ensure that the need for collecting as much detailed information as possible is balanced with a proportionate time investment from respondents.

62. Strengthening our evidence base on the sustainability of all aspects of the childcare sector is vital to ensuring that we can support providers to continue the important work of implementing 1140, as well as ensuring that these issues are addressed as we design, develop and implement new commitments on childcare over the course of this Parliament.

This publication is available at **www.gov.scot**

Any enquiries regarding this publication should be sent to us at

The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

ISBN: 978-1-83521-158-8 (web only)

Published by The Scottish Government, July 2023

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS1328882 (07/23)