

Annex

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| 4 | 25 February 2021 – Costings discussion with internal SG colleagues |  Costings discussion with internal SG.pdf |
| 5 | March 2021 - Summary of initial Scottish Government proposal from March 2020 |  Costing the Burden Scottish Milk and He |
| 6 | 15 March 2021 - Settlement And Distribution Group (SDG) |  SHMSS - draft paper for COSLA Lea |
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Note of meeting between Scottish Government (Scottish Milk and Healthy snack policy and analytical leads), ASSIST and COSLA on Wednesday 6th January (on MS Teams)

Attendees

REDACT (SG)
REDACT (SG)
REDACT (SG)
REDACT (COSLA)
REDACT (COSLA)
REDACT (SG)
REDACT (SG)
REDACT (South Lanarkshire Council)
REDACT (COSLA)

Background

1. The Scottish Government proposes to introduce the new Scottish Milk and Healthy Snack Scheme with effect from August 2021 to replace the current UK Milk Nursery Scheme. The Scheme will deliver a 1/3 of a pint of cow, sheep or goat milk or an approved non-dairy alternative and a healthy snack for children 5 and under attending a registered day care setting for 2 hours or more.
(Note: subsequent to the meeting, the draft regulations have been amended to clarify that the policy will apply to children in eligible preschool settings registered for the Scheme. This clarification is not expected to impact on the population assumptions).

Aim

2. CoSLA Leaders have agreed that local government will implement the new Scheme in all day care settings (including day care providers who do not provide funded ELC) subject to the Scottish Government meeting the cost of the new burden in line with the New Burdens rule. The aim of our meeting was to discuss the proposed costing of the delivery of the Scottish Milk and Healthy Snack Scheme.

3. A paper setting out the assumptions underlying the initial costing carried out by the Scottish Government had been circulated to COSLA and ASSIST in advance of the meeting.

4. The Scottish Government introduced the paper and the meeting discussed the assumptions point by point.

5. The following points were highlighted:

General points

Scottish Government

- Noted that this meeting was to explain the costing that had been circulated previously and to hear the views of CoSLA/ ASSIST, noting that we understood that there were particular concerns about the proposed snack costs.
- The Scheme is funded from the Health portfolio; the “healthy snack” is defined as a portion of fruit or veg and there is not scope to extend this definition.
- The population estimate had been developed taking account of known daycare registrations, and of the overall population trend. An uplift had also been applied.

CoSLA/ ASSIST

- REDACT
- It would be helpful to see a breakdown of the population estimate by age category (0-1; 1; 2; 3; 4; 5).

Milk prices

Scottish Government

- confirmed that milk data had been sourced from real claims submitted to the NMRU; while there were some limitations to this and milk prices were volatile, this represented the best available evidence.
- Milk had been estimated as an annual rather than unit cost. An uplift was applied to take account of uncertainties such as any potential under-claiming under the NMRU, as set out in the paper summarising the estimate’s methodology. When combined with the population uplift it was considered that this represented a generous costing.

CoSLA/ ASSIST

- COSLA highlighted that they had concerns about the proposed milk costs: these were too low and did not appear to take account of the expansion of ELC and the new deferrals policy.
- There was a preference for the milk cost to be on the basis of a daily per portion rate and a discussion about the appropriate number of days provision. CoSLA/ ASSIST cited a range of 190-240 days and considered 38 days at 4 days a week (152) to be insufficient.
- Specifically CosLA ASSIST queried the proposed annual cost noting that, when divided by even the 152 days, this worked out lower than current costs and indeed as low as 13p if averaged over 190 days. Argyll and Bute LA advise that they pay 36p per 189 mls which is the highest rate currently applicable in Scotland; the lowest was in Falkirk being 19p per 189mls. (Note: after the meeting it was verified that these costs were per portion and not per pint).
- The cost of provision of milk in rural areas is expensive; Local Authorities are required to use the Scotland Excel framework under which there was no benefit to bulk purchasing.

DRAFT UNTIL CHECKED WITH PARTICIPANTS

- It was noted that the presentation of costs and data from the UK NMRU was complex and that there was a need for material to be clear and simple.
- **Action:** ASSIST agreed to provide further data on milk costs. (Note – this was provided after the meeting).

Healthy Snack/ Cost of fruit and veg

CoSLA/ ASSIST

Expressed concern that the snack cost was too low; basing this on wholesale apples in season was not an appropriate measure. **Action:** ASSIST offered to send proposed costs of a “basket” of fruit or veg. (Note – this was provided after the meeting).

- Considered that the cost of healthy snack should include preparation. Even where children prepared their own snack as part of an activity, there was a knock-on cost associated with cleaning up. ASSIST also expressed the view that children were less likely to eat fruit and veg that had not been attractively prepared.
- At the current time, families are often asked to contribute for the cost of snacks, often c. £1 per week. A minimum cost of £0.19 per snack seemed more realistic.

SG

- Confirmed that no existing claims data to use for snacks and thus the methodology in the paper had been followed.
- Confirmed that we have not included preparation cost; the policy was for “fruit and veg” and not necessarily prepared fruit and veg.
- Asked that CoSLA/ ASSIST consider what evidence could be provided to demonstrate the need for preparation costs.
- Confirmed that the intention is that the healthy snack will be free at the point of delivery.

Admin costs

SG

- outlined the proposal for administration costs to be a percentage of the quantum, set at 5% in the first year of the scheme and 2% per annum thereafter. The administration cost was intended to cover the cost to local government of registration of and payment to settings wishing to participate in the Scheme.

CoSLA/ ASSIST

- noted that they considered that Leaders would not be able sign off such a steep drop; a tapered approach would be more likely to be agreed. The Transitional Childcare Fund might also be a useful model; the Care Inspectorate was a useful source of registered day care providers.

In assessing the admin costs, there was a need to know the resource requirement, and potential frequency of payments which would affect costs. 5% seemed a reasonable proposal for year 1 but there was a need to consider payment process, frequency and population involved.

Next steps

- It was noted that costings would need to be agreed by Ministers and Leaders and to be considered by SDG which would advise on weightings. Timings were tight – the next meetings of SDG and Leaders were in February.
- CoSLA/ ASSIST would provide further data as set out above for the SG to consider.
- SG was asked to set out clearly the equation for calculation of the maximum costs and to clarify the constituent components.
(issues for discussion were: population estimate; number of days (informing annualised costs); milk unit cost; healthy snack cost including preparation; admin costs).
- We would aim to meet again shortly to consider whether the proposal could be updated to reflect feedback and evidence provided.

SG, January 2021

**Meeting with ASSIST and COSLA and SG around
Scottish Milk and Health Snack Scheme**

11th Feb 2021
Microsoft Teams
14:00 – 15:00

Attendees

REDACT (SG)
REDACT (COSLA)
REDACT (COSLA)

Apologies

REDACT (ASSIST)
REDACT (South Lanarkshire Council)
REDACT (ASSIST)

Agenda

1. Welcome
2. Context
3. Costing and distribution
4. REDACT
5. Next Steps and actions

1. Welcome

2. Context

2.1 The Scottish Government proposes to introduce the new Scottish Milk and Healthy Snack Scheme with effect from August 2021 to replace the current UK Milk Nursery Scheme. The Scheme will deliver a 189mls (1/3 pint) of a pint of cows, sheep or goats milk or a non-dairy alternative and a healthy snack for children 5 and under attending a registered day care setting for 2 hours or more.

2.2 COSLA Leaders have agreed that local government will implement the new Scheme in all day care settings (including day care providers who do not provide funded ELC) subject to the Scottish Government meeting the cost of the new burden in line with the New Burdens rule. Further to the meeting on 6 January 2021 where COSLA and ASSIST had raised some concerns about the costing assumptions made, Scottish Government officials circulated a revised paper of proposals aiming to take on board these concerns.

2.3 The purpose of this meeting was to discuss this updated proposal with a view to moving closer to a final agreement to present to Ministers and COSLA Leaders. This meeting followed on from a meeting on 9 February, which not all COSLA representatives had been able to attend.

2.4 The Scottish Government introduced the paper and noted areas which COSLA and ASSIST colleagues had previously highlighted.

3. Costing and Distribution

3.1 Echoing the views of those who had attended the meeting on Tuesday, COSLA officials welcomed the updated paper that contained the February 2021 noting that this represented a substantial improvement on the earlier cost estimate first proposed in March 2020 and discussed in detail on 6 January 2021. This new estimate was one that COSLA considered to be a more accurate reflection of the genuine burden of the new policy and more likely to be acceptable to Leader. COSLA noted that feedback on milk, snack and admin costings had been taken on board and that the Scottish Government considered that cost of snack preparation was captured within the Multi-Year ELC Funding Model. COSLA noted that it reserved the right to brief Leaders on this element.

3.2 COSLA officials queried one figure (£6.3m) on p7 of the costing paper which they believed to be too high. **Action:** SG to check. Note: this has been reviewed and we are grateful to COSLA for highlighting the error. An amended version of the paper, with the corrected figures and totals is appended with this note.

3.3 However, in terms of **distribution** to local authorities COSLA suggested that the approach described in the paper, based on the number of registrations achieved, was unduly complex. They noted that it was more usual to fix a quantum to be distributed in full and cited relevant examples including the Carers' policy.

3.4 COSLA suggested their preference would be for the Scottish Government to set out the anticipated uptake for the first three years of the Scheme and to fix a quantum to distribute for these years, with the opportunity to reconcile were the reality not to align with the expectation. Work would need to be done to agree appropriate registration figures but this could look like: Year 1 – 70%; Year 2- 80%; Year 3 – 90% where the quantum would then be 70/ 80 or 90% of the 100% annual consumption estimate set out in the paper. This would then be distributed in full amongst the local authorities on the basis of the weighting to be agreed by SDG.

The argument for this approach was the greater certainty it would provide to LA's, allied to greater simplicity.

3.5 Scottish Government officials agreed to explore whether there would be scope to consider this alternative approach to distribution, noting however a concern about distributing a quantum that could not be recovered if the uptake did not match expectations. This was likely to be a particular concern for a Health budget. There was a discussion about balance of risks to local and national government and the need to find a compromise. The Scottish Government noted that there was external pressure from stakeholders to ensure that value for money was achieved and that funding directed to the scheme would result in more children receiving the intended milk and snack benefit.

3.6 There was a discussion about how the year 1 quantum for distribution might be set if this approach were to be adopted. COSLA considered that a reasonable estimate from year 1 might be derived from the data on funded places, those on the current scheme, and a percentage increase based on the assumption the new scheme will be widely promoted. It was noted that currently approximately 2150 of the estimated 10,000 daycare settings in Scotland claim from the UK Nursery Milk Scheme. SG would need to undertake further modelling to inform this potential approach.

Action: SG to explore option to move to approach based on distribution of a fixed percentage of the overall quantum.

3.7 On the issue of administration costs, COSLA thought that the more tapered percentage approach represented an improvement to the earlier proposal. There was still a concern about linking the administrative fee to uptake as it was likely that local authorities would require to invest in capacity to manage registration even if uptake were not to be achieved. It was suggested that moving the fixed quantum distribution would assist with, especially if it were to be confirmed that there would no expectation that the distributed administrative contribution would be recovered or rolled over in the event of lower registrations.

3.8 COSLA also suggested that the achievement of registrations should be measured as a percentage of the number of settings and not the number of children. (Note: in assessing the impact and real cost of the policy we will need to know the real delivery of the benefit e.g. how many portions of milk and snack are being provided/ how many children are receiving the benefit. However, these two points are not mutually exclusive.)

4. REDACT

5. Next Steps and Actions.

5.1 There is further work needed to process map with COSLA the specifics of how calculations will be carried out and paid; and to develop a formal agreement between the SG and COSLA on respective roles and responsibilities. It was suggested a Financial Memorandum might provide a useful template. **Action:** SG to lead on development of these items.

5.2 We discussed timings and it was noted that it may not be possible for COSLA Leaders to consider the proposed costing and funding arrangements until April as a consequence of Covid commitments and the March convention. COSLA suggested that a revised paper be taken to the ELC Finance Working Group on 4 March in advance of SDG on 9 March.

5.3 SG to develop paper for the working groups and to update Ministers on the suggested approaches and timescales.

SG: Family Unit
12 February 2021

**Meeting with Internal SG colleague around
Scottish Milk and Health Snack Scheme costings**

23rd Feb 2021

Microsoft Teams

11:30 – 12:15

Attendees:

REDACT (SG)

REDACT (SG)

REDACT (SG - analyst)

REDACT (SG – analyst)

REDACT (SG - ELC)

REDACT (SG – Finance)

Agenda

1. Welcome
2. Data
3. ELC considerations
4. Registration
5. AOB

1. Welcome

2. Data

2.1 It was noted that there will be a Quantum of 12.9 M in first year.

2.2 The percentage uptake could look like 70/80/ 90 % over 3 years, meaning there is potential for overpayment.

2.3 How will uptake be defined - population/ registration.

2.4 We have a population figure of 190,000 of potential eligible children in Scotland.

2.5 The LSR could be 36.8 p cost per serving for example.

2.6 190,000 distribution, number of settings doesn't drive the number of children.

2.7 Calculations to be updated

3. ELC considerations

3.1 As many as children as possible in pre-school getting meal and snack is desired outcome

3.2 COSLA suggested that it would be easier to calculate settings rather than children, do we use settings or children, numbers of servings to consider

4. Registration

4.1 The Regulations state that regarding registration, childcare settings need to provide number of children enrolled, anticipated portions needed. Settings will have an idea of what allocation will be needed.

4.2 The payment will go to child care settings via their local authority.

4.3 From March onwards, if settings want to register, SG pay in arrears but LAs pay upfront but LAs need to know how much funding to expect

4.4 Claims based approached used by COSLA, SG are promising to fully fund it.

5. AOB

5.1 SDG paper was issued in June 2020

5.2 SG to go back to Ministers on 12m figure but need to finalise distribution.

5.3 A suggested heading for the guidance was "in year registrations"

**Meeting with Internal SG colleague around
Scottish Milk and Health Snack Scheme costings**

25th Feb 2021

Microsoft Teams

11:45 – 12:30

Attendees:

Redacted (SG)

Redacted (SG)

Redacted SG - analyst)

Redacted (SG – analyst)

Redacted (SG - ELC)

Redacted (SG – Finance)

Agenda

1. Welcome
2. Data
3. AOB
4. Actions

1. Welcome

2. Data

2.1 There is a requirement to have data by end of academic year.

2.2 What additional data required for reconciliation calculation at end of year.

Finance suggested number of servings was most reliable data we could provide plus admin costs associated with spreadsheet on erdm, this includes cost per serving, paying including/ excluding admin.

2.3 SG looking to determine final reconciliation totals.

2.4 It was noted that Column k includes the total number of servings, additional uplifts will be based on agreed serving rate.

2.5 60 % of the sample on the spreadsheet, could take to Ministers and COSLA soon, suggested that we use 50 % as an opening offer. We don't want to make it difficult for COSLA to deliver. – SG risk of overpayment. Need Ministerial sign off on this.

2.6 ELC keen that we shouldn't be tied down longer than a year or 2 – keep our language loose on this

2.7 Spreadsheet being developed by policy team.

2.8 The question of When will a 5 yr old be counted if funding is reconciled at the end of the academic year was brought up.

3.AOB

3.1 SDG paper being developed so that Ministers are able to review

3.2 SDG meeting postponed to 16th or 23rd March. Likely that it will be 23rd March.

3.3 SG are paying from policy side at end of financial year, at the end of the academic year .

4. Actions

4.1 **Action** for SG to pick up with COSLA around this.

4.2 **Action** to seek opinion of Ministers.

4.3 **Action** for SG to share draft SDG paper with COSLA prior to going to Ministers. This will be circulated internally for comment.

4.4 **Action** for SG to review costings paper for circulation.

Costing the Burden: Scottish Milk and Healthy Snack Scheme : Summary of initial Scottish Government proposal from March 2020

Purpose

1. This short paper produced in December 2020 sets out the more detailed basis for the costings proposed in the earlier papers that have been put forward to date by the Scottish Government in relation to the proposed new Scottish Milk and Healthy Snack Scheme.
2. CoSLA Leaders have now agreed that the scheme will be delivered through local authorities for all settings (including eligible childminding settings), subject to agreement of the financial quantum. Scottish Ministers have indicated that they are content in principle to meet the costs of the “new burden” and are keen to understand the proposals and data used to calculate these. It is imperative that we now seek to progress discussion of the outstanding areas for resolution. It is to be noted that both CoSLA Leaders and Scottish Ministers will need to agree a final quantum, which, if amended will require confirmation of revised budget cover within the Scottish Government. The overall quantum for the new Scheme will require to be confirmed in the finalised Impact Assessments which must be published in advance of laying the regulations in February.
3. Earlier papers set out the overall intention of the new Milk and Healthy Snack Scheme and have summarised the anticipated cost of the scheme, as estimated by Scottish Government analysts. This can be divided into three types of expenditure:
 - a) Milk costs
 - b) Snack costs
 - c) Administrative costs for the scheme.
4. It is our understanding that it is the costs for b) and c) that require further discussion and that there is agreement with the proposed costs for a).

Summary of the Scheme

5. The new Scottish Milk and Healthy Snack Scheme is set to be implemented by August 2021. This scheme will replace the existing UK Nursery Milk Scheme but only to day care provider and childminder settings in Scotland. The UK scheme will remain in place for those settings in England, Wales and Northern Ireland. The Scottish scheme will continue to offer cow's milk , or first infant formula (under 12 months) to children who receive childcare from a registered day care provider or childminder setting in Scotland for two or more hours a day. The scheme proposes to improve on the current UK scheme's offer by increasing the age of eligibility to also include those children aged 5, plus offering goat and sheep milk and certain unsweetened calcium enriched non-dairy alternatives (over 12 months) for those children who cannot drink cow's milk because of health reasons, or religious or other beliefs. The new scheme will also include a healthy snack such as a portion of fruit or vegetable to help tackle under consumption.

Costing Method and Assumptions

6. In order to produce the costings we have made a number of assumptions regarding:
 - The number of children who will be eligible for the Scheme
 - The unit cost of milk
 - The unit cost of a healthy snack; and

- administrative costs.
7. In order to ensure that the costing is robust and covers all potential variables, we have applied the following **uplifts**:
- A 20% uplift has been applied to the estimated milk cost (per child, per annum) to take account of uncertainties detailed below.
 - A 20% uplift has been applied to the estimated number of children who will claim for milk and healthy snack to take account of uncertainties detailed below.
 - Note – a paper presented to COSLA in March 2020 described 10% uplifts. This represents a more limited uncertainty around cost and population estimates. The SG's current intention is to provide a larger buffer given the uncertainties detailed below.

Population – 190,000 (with uplift applied)

8. It should be noted that applying a 20% uplift to this figure gives us a population of around 190,000.
9. The above costs are multiplied by a population figure which is calculated as follows:
- Nursery Reimbursement Unit (NMRU) data provides information on the type and of number of settings claiming for milk.
 - Care Inspectorate data provides an age breakdown by type of setting.
 - Together, these two data sets are used to derive the number of children in settings claiming milk by multiplying the number of settings by the average number of children under the age of six in each of these settings.
 - Taking into account the change in eligibility from under the age of five, this is estimated at around 160,000.
10. There are a number of uncertainties that could affect the accuracy of this figure. These are addressed with the 20% uplift described above:
- Under the current NMRU scheme not all children may be claiming for milk. However, we have reviewed NMRU data to gain a rough view of current uptake and it appears to be very high in all setting types except for childminders.
 - The estimate assumes no double counting of child registrations across different settings. This may mean we are overestimating the number of eligible children (thus offsetting an underestimate on milk unit cost described above).
 - We may be counting some five year olds who attend school as well as a childcare setting and are therefore not eligible for the childcare scheme.
11. Care Inspectorate data suggests there are around 210,000 children registered in childcare settings under the age of six (around 20,000 more than our estimate, after uplift). As above, this is likely to be an overestimate of the total possible number of claimants due to children being registered at more than one setting or currently attending school

Estimates

Milk unit cost estimate – per annum - £25 (with uplift applied)

12. All children under the age of six attending a registered childcare setting for two hours or more a day will be entitled to a 1/3rd pint of milk. Infant formula can be provided to those under 12 months.
13. SG Analysts have derived an average cost per child using data from the NMRU and the Care Inspectorate (CI):
 - NMRU data includes the value of claims by type of setting and the number of settings claiming.
 - CI data provides an age breakdown by type of setting and has been used to estimate the percentage of children at each setting type that would be eligible for milk and the average number of children per setting type.
 - The number of children claiming milk is estimated by multiplying the data from the NMRU on the number and type of settings claiming milk by the estimates calculated using CI data on the number of eligible children registered at each type of setting.
 - Together, the average claims data from NMRU and the estimated number of children that this relates to can then be used to derive an average annual claims value per child.
 - This is estimated at £21 per child, per annum.
 - Applying a 20% uplift to this figure gives an estimate of £25 per child, per annum.
14. There are a number of uncertainties that could affect the accuracy of the £21 unit cost and these have been addressed with the 20% uplift described above:
 - The NMRU data suggests there is wide monthly variation in the value of claims for milk. This is somewhat explained by school holidays.
 - The costing assumes that all children under five in settings that submit claims for milk are provided with milk. If this is not the case, the figure will be an underestimate of unit cost.
 - It also assumes that the age distribution of children within settings that claim milk is reflective of the distribution in all settings as captured in the Care Inspectorate data.
 - The use of milk alternatives may increase in future years and be included in the scheme¹. This is likely to make provision more expensive.
 - The costing assumes no double counting of child registrations across different settings. This too may make our unit cost an underestimate.

Healthy Snack unit cost estimate – per annum - £20

15. All children between the age of six months and the age of five attending a registered childcare setting for two hours or more per day will be entitled to a healthy snack.
16. Unlike milk, there is no existing data on the cost of snacks provided in settings, therefore the following data sources have been used to calculate an estimate for the cost of providing a healthy snack per child per annum:

¹ It is to be noted that, following receipt of new evidence from Food Standards Scotland, Scottish Ministers have just (December 2020) approved in principle the inclusion of goat and sheep and approved non-dairy alternatives within the Scheme for children who cannot drink cow's milk.

FOR ATTENTION OF THOSE PARTICIPATING IN DISCUSSIONS WITH SG ABOUT COSTING FOR THE NEW MILK AND SNACK SCHEME

- Wholesale fruit and vegetable price data from DEFRA has been used to calculate a per portion unit cost of 13p. This represents the rough cost of one apple when in season.
- A variety of snacks will be offered throughout the year – this figure should be seen as an illustrative example. Guidance on appropriate portion size is set out in Setting the Table.
- The wholesale price of apples – and other fruit/vegetables – varies widely during the year
- Portion size as a proportion of one piece of fruit will further influence the unit cost of a healthy snack
- Data from the Scottish Household Survey has been used to assess the number of weeks and days for which an average family with a child aged two to five years of age, and not at school, uses childcare – around 38 weeks and four days per week.

17. On this basis, the Healthy Snack will cost around £20 per child, per annum.

18. There are a number of uncertainties that could affect the accuracy of this figure. There is no specific uplift applied to the unit cost of the healthy snack.

- Wholesale prices will not be available to smaller settings and childminders.
- No additional preparation costs (staff time, etc) are included as it is considered that settings currently already provide a snack to children, and in normal times it is part of a child's learning experience to prepare food and eat together.
- It does not factor in changes in the demand for childcare due to the expansion of funded childcare to 1140 hours per year:
 - The impact of the expansion on demand for childcare is uncertain and these changes are likely to evolve over the initial years of the expanded entitlement being in place – e.g. if it primarily translates into an increase of hours used on a typical day, rather than additional days, or indeed simply replaces childcare that is currently being paid for, there will be a limited impact on per annum costs.
 - Only some of the children eligible for the Milk and Healthy Snack Scheme will also be eligible for funded ELC. Funded ELC is available for eligible two year olds, all three and four year olds, and some deferred five year olds. The estimate of 38 weeks, 4 days a week, that children are in childcare is an average and we are aware that some children will be in childcare more than this, and some less. This average also does not include data on the younger part of the age cohort eligible for the scheme.
 - The costing has not been adjusted to take account of the fact that children under six month olds are not advised to consume solid foods (see population below).

Administration cost – 2%/ 5%

19. After the milk and snack unit costs have been multiplied by our population figure, we calculate an administration cost as a proportion of the underlying cost.

20. Current administration costs under the claims based system of the NMRU are around 0.6% of the value of claims for milk, We propose an initial annual administration cost of 5%, with 2% applied thereafter:

FOR ATTENTION OF THOSE PARTICIPATING IN DISCUSSIONS WITH SG ABOUT COSTING FOR THE NEW MILK AND SNACK SCHEME

- The first year of the new scheme will require the formulation of new financial relationships with a number of settings – particularly childminders, of whom only around 15% currently provide funded ELC (and therefore have an existing financial relationship with their local authority).
- However, the impact may be limited as the number of childminders currently claiming for milk is low and therefore many may not care for children aged five and under or they may care for children who are receiving their free milk at another establishment at another point in the day if they are on a blended model.
- The allocation of this administration cost between local authorities is to be determined. Some local authorities, such as Argyll & Bute, will have a relatively small underlying financial cost but, due to a large number of smaller settings, a high administrative burden.

Suggested areas for discussion

21. We understand that CoSLA is concerned about the basis for costing the snack and the administrative costs, noting in particular the potential impact of a large number of transactions to childminders:

- What alternative approach/ principles would you propose to evidence the new burden for each of these?
- Which cost elements are already covered through existing practice, and therefore funding arrangements (e.g. some settings already delivering snacks to children, whilst administrative and payment structures are already in place for funded ELC providers – for payment of sustainable rates and free meal – and more non-ELC day care of children providers will now be on local authorities administrative systems as part of the delivery of the Transitional Support Fund), and what are the additional costs that are not currently met?
- The distribution of administration costs could mirror that of other, recent schemes e.g. the Transitional Support Fund for day care of children services?
- How can we best reach a solution that will be acceptable to both Leaders and Ministers, costing the new burden of this scheme as fairly and accurately as we can?

**SG: Children and Families Directorate (Family Unit/ Education Analytical Services)
December 2020**

Version of 15 March 2021, amended to show 2 decimal places.

SETTLEMENT AND DISTRIBUTION GROUP (SDG)

FUNDING THE SCOTTISH MILK AND HEALTHY SNACK SCHEME: PAPER FOR COSLA

1. The purpose of this paper is to set out the updated proposals for funding the Scottish Milk and Healthy Snack Scheme (Scheme) that is to replace the UK Nursery Milk Scheme from August 2021 and to ask SDG to make a recommendation to Leaders.

Recommendation

2. SDG is asked to

- **note that the Scottish Government is committed to working in partnership with local government in the delivery of this significant new policy;**
- **note that the Scottish Government remains committed to funding evidenced additional burden that the policy represents;**
- **indicate whether they are content that the maximum quantum of funding from the Scottish Government should be based on the revised estimate set out at Section B – representing £12.9m in year 1 including administration costs, noting the potential for review prior to confirmation of year 2 costs;**
- **note the proposed approach at Section C for distribution of a fixed quantum in the first instance (based on modelling of 50/70/90% milk and snack uptake over the first three years of the Scheme) with an end of academic year reconciliation based on the actual number of servings claimed from the scheme.**
- **recommend the proposed indicators and weighting that should apply for distribution of the milk and snack quantum to local authorities, based on 93% pre-school census counts and 7% rurality. SDG will wish to note that this weighting will also be applied to the "national average serving rate" (£0.37) to produce a "local serving rate" which is the rate at which authorities will be expected to pay settings for meal and snack provision within their boundaries and which will be used for the reconciliations.**
- **note the proposed approach to distribute all of the proposed administration fee (100%) from year 1 to support authorities to put in place the necessary systems and to fix 25% of this administration fee to be shared equally amongst local authorities, with the remainder to be distributed amongst local authorities on the basis of the number of regulated childcare settings including childminders;**
- **note that the initial sum for payment to local government, based on these proposals would be £6.74m (prior to reconciliation).**

Version of 15 March 2021, amended to show 2 decimal places.

Context

3. The aim of the new Scottish Healthy Milk and Snack Scheme is to improve the health of children and young people in Scotland by providing milk (or an approved non-dairy alternative) and a healthy snack (a portion of fruit or vegetables) to all eligible children who spend more than 2 hours in a regulated pre-school setting i.e. daycare provider or childminder. Upfront funding will be provided to settings via local authorities and paid on and from 1 August 2021. To be eligible, settings must be registered with the Care Inspectorate and are required to register with their local authority to be part of the scheme. A detailed summary of the new Scheme is set out at **section A**.

4. The Scheme, which is open to all regulated childcare settings (funded and non-funded ELC) that register to participate, was previously planned to commence in August 2020; as a consequence of Covid, Ministers decided to delay commencement and will now begin from 1 August 2021. [The Milk and Healthy Snack Scheme \(Scotland\) Regulations 2021](#) which will underpin the Scheme were laid in the Scottish Parliament on 19 February 2021 and come into force on 21 March 2021.

5. A previous paper on the earlier proposals for the Scheme was considered at SDG in June 2020, following earlier discussion at the ELC Finance Working Group, DWG; it was also discussed by the Children and Young People Board in October 2020.

6. COSLA Leaders confirmed in December 2020 that they were content for the Scheme to be delivered by local government to all eligible pre-school settings, subject to confirmation that the Scottish Government would fund the new burden associated with the policy in line with the New Burdens rule and agreement of the required funding. Leaders indicated the previous funding proposal, calculated in March 2020 was insufficient and asked the Scottish Government to work with COSLA officials in conjunction with professional associations to look at this again.

Focus of this paper

7. This paper draws on the further work carried out and sets out:
- A- an updated summary of the policy including the anticipated operation of the scheme;
 - B- the revised maximum funding estimate;
 - C – the proposed approach to distribution.

Version of 15 March 2021, amended to show 2 decimal places.

A Short Summary of the new Scottish Milk and Healthy Snack Scheme and its proposed operation

The new Milk and Healthy Snack Scheme will replace the UK Nursery Milk Scheme in Scotland with effect from 1 August 2021. The new Scheme is underpinned by the Milk and Healthy Snack Scheme (Scotland) Regulations 2021 (also cited as the Scottish Milk and Healthy Snack Scheme) which come into force from 21 March 2021.

Purpose and ambition

The purpose of the new Scheme is to improve the health and wellbeing of children by providing to those attending regulated pre-school daycare settings that have registered for the Scheme for 2 hours or more:

- 189mls (1/3 pint) of plain fresh cow's milk (whole milk for children over 1 year or to include semi-skimmed milk for children over 2 years), or first infant formula (for children under 12 months). Where children cannot drink cow's milk for health, religious or ethical reasons, plain fresh goat or sheep milk (whole milk for children over 1 year or to include semi-skimmed milk for children over 2 years), or unsweetened calcium enriched non-dairy alternatives excluding rice milk.
- A healthy snack item (a portion of fresh fruit or vegetables).

Our **ambition** is for as many as possible of the eligible children attending regulated pre-school daycare settings for 2 hours or more to be receiving milk (or an approved alternative) and a healthy snack, and to be acquiring healthy eating habits for the future.

How this will work

The **Scottish Government** will provide funding to **local authorities** to administer and deliver the Scheme.

Eligible (regulated) pre-school daycare **settings** including childminders, wishing to participate in the Milk and Healthy Snack Scheme must register with their local authority to become a member of the Scheme, providing data about the number of children who attend and the anticipated volume of provision (anticipated number of servings of milk and snack to be provided). For this policy there is no differentiation between ELC funded and unfunded settings.

Local authorities will establish local registration mechanisms and will calculate and make arrangements for upfront payments to registered settings, based on the number of servings to be provided. These payments will be based on a "local rate per serving" which will be common across the local authority. In the first year of the Scheme in particular it is likely that some settings will wish to register in-year (i.e. post 1 August 2021), after initial payments have been made. We intend that this should be possible to avoid lengthy waits to join the scheme; it will be for local authorities to determine arrangements for in-year registration and consequent payment arrangements.

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Settings will use the funding provided by the local authority to purchase the necessary volume of milk and healthy snacks (which must conform with the requirements of the Scheme – cow’s milk or an approved alternative and fresh fruit or vegetables). Settings are encouraged to make use of local suppliers and the best quality fresh and dairy produce where this is possible.

While children who cannot consume cow’s milk for health, religious or ethical reasons may be offered an approved alternative, it is noted that these alternatives do not offer the same nutritional benefit as cow’s milk and should not therefore be regarded as equivalent.

Settings will be asked to retain their proof of purchases which may be subject to occasional audit.

The **Scottish Government and COSLA will** agree light-touch monitoring arrangements for the policy and will review the overall arrangements in advance of year 2 in case any adjustments are required. It is envisaged that by the end of year 2 (end July 2023) the new approach will be fully embedded.

Transition from the UK Nursery Milk Scheme

Where **settings** are registered with the UK Nursery Milk Scheme, they may until end January 2022, continue to submit claims for milk provided no later than 31 July 2021. Settings which have registered for the new Scottish Milk and Healthy Snack Scheme will receive funding from the local authority for the purchase of milk and snack to be provided from 1 August 2021.

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Section B - Revised maximum cost estimate for the SHMSS

1. Following feedback from COSLA Leaders and the CYP Board, Scottish Government and COSLA officials have worked together with representatives of ASSIST and ADES to consider in detail the practical implications of delivery and the implication for costs.

2. This has led to the development of a new maximum funding estimate outlined below. It is noted that this estimate is based on the maximum number of servings likely to be required and has considered historical claims, population projections and assumptions about the likely increase in uptake due to policy changes.

3. While achieving full uptake of the scheme by eligible regulated settings remains our ambition, it is unlikely that this can be achieved in year 1, or that the cost of the Scheme in year 1 will be the maximum £12.9m projected (admin and delivery). The Scottish Government is committed to funding the cost of the uptake achieved, and hopes that this will be as high as possible to ensure that the maximum number of children are able to receive the milk and snack benefit. A discussion of uptake and distribution is considered at **Section C** below.

Description of the updated estimate

4. The updated estimate is set out at table i); table ii) compares this to the earlier estimate. The February 2021 estimate represents a notable increase on the earlier cost estimate: there has been an increase in the anticipated annual cost of milk (or an approved alternative) and the annual cost of snack reflecting both increases in the proposed unit price and the average attendance anticipated (increased to align with the ELC meal assumptions).

5. Officials of COSLA and ASSIST have queried whether the costing should not also include a component for snack preparation. The Scottish Government is clear that as regulated childcare settings are already required to provide snacks to meet the provisions of Setting the Table, this is not an additional cost burden and the costs of Facilities Management associated with the provision of meals and snacks is addressed within the ELC Multi-Year Funding proposal.

Administration costs

6. As noted in the earlier paper to SDG, we recognise that there will be a significant level of administrative work particularly in year 1 associated with the initial set up (obtaining information, developing payment systems etc.) for non-funded childcare providers, and childminders. Taking this into consideration, for year 1 we would suggest a quantum for administration that is equivalent to five per cent of maximum delivery costs; we have also now proposed a more tapered approach to administration costs as the policy beds in, recognising that we would expect the greater burden of administrative activity to be required in the first 2 years of the new Scheme (August 21-July 22 and August 22- July 23). It has also been proposed (see **Section C**) that a proportion of the administrative fee (25%) should be fixed, providing each local authority with a minimum baseline prior to distribution of the remainder.

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Section B: Table 1: Revised estimate of the anticipated maximum cost of the Scottish Healthy Milk and Snack Scheme, produced February 2021

| Scheme Year | Maximum milk costs | Maximum snack costs | Maximum admin costs (5 – 3 – 2 %) | Maximum uptake total |
|--------------------------------------|---------------------------|----------------------------|--|-----------------------------|
| 1 (Aug 21 –July 22) | £6.5m | £5.8m | £0.61m | £12.9m |
| 2 (Aug 22- July 23) | £6.5m | £5.8m | £0.37m | £12.6m |
| 3 (Aug 23 – July 24) | £6.5m | £5.8m | £0.25m | £12.5m |
| Total over 3 Scheme years | | | | £38m |
| Full year scheme cost prior to admin | | | | £12.3m |

This costing is based on the following assumptions and variables:

- Assumption of 100 % uptake for the purposes of this maximum figure
- Population of eligible children: 190,000
- National average cost per serving (milk and snack): 37p
- National average per child cost of milk (or approved alternative) per annum: £34.27 (19.6p per portion)
- National average per child snack cost per annum: £30.39 (17.4p per portion)
- National average per child combined milk and snack cost per annum: £64.66
- A child will receive only one portion of funded and milk and snack per day, whether or not he/ she attends more than one setting for 2 hours in the day.
- Working assumption that both milk and snack will be provided to all eligible children- although we know that in practice snack will not be offered to children aged 6 months or less.

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Section B: Table 2 - Comparison of the two estimates of the maximum cost of the new SHMSS

The following table compares the original and updated proposals for the estimation of the maximum cost of the **Scottish Milk and Heathy Snack Scheme, assuming 100% uptake**. It is to be noted that figures for years 2 and 3 are indicative at this point and could be subject to review by mutual agreement e.g. if there were to be any significant fluctuation in the cost of milk, for example.

| | March 2020 estimate | Revised estimate February 2021 | Notes / Rationale for the updated figure proposed |
|---|----------------------------|---------------------------------------|---|
| Population projection | 190,000 | 190,000 | A population of 190,000 is used in both estimates. We estimate that there are around 160,000 children registered in settings currently submitting claims for milk. It appears that while nearly all day care of children (DCC) settings submit claims, only around a third of Childminders do. In addition, we assume that not all children in these settings are currently provided with milk. As such, we have applied an uplift of 20% to the 160,000 figure. We have confidence that 190,000 is a reasonable figure to use for the costing as there are around 210,000 registrations in childcare in Scotland and this includes a large number of children who are registered in more than one setting – most obviously for three and four year olds, where registrations outstrip population. Adjusting for three and four year olds also brings us to a figure of 190,000. Going forward, NRS population projections suggest the number of eligible children will fall in the coming years. The projected decrease in the numbers of children could be taken into consideration in determining the time period for which the agreed costing methodology should apply. |
| Number of days in attendance per “Scheme” year (12 month period from 1 August -31 July)- used | 152 (38 x 4) | 175 | The March 2020 costing estimated the average attendance at childcare settings on the basis of 38 x 4. Scottish Household Survey data suggests that three and four year old children, on average, attend ELC settings for 38 weeks a year, four days a week. Since then the expansion to 1140 hours of funded provision will have likely increased attendance - though this effect will be limited if funded |

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| | | | |
|--|-------------------------------------|--|--|
| to inform the annual cost projections | | | <p>provision has simply replaced privately purchased childcare or increased the number of hours per day of attendance. This will be further offset by the fact 0 - 2 year olds, the majority of which do not have access to funded childcare but are entitled to this scheme, attend at a significantly lower rate.</p> <p>Following representations from COSLA and ASSIST that the 152 assumption was too low, in the February 2021 costing we have revised this to 175 days, aligning with the assumption used for the provision of lunch in settings providing 1140 hours of funded provision to three, fours and eligible 2 year olds. We therefore consider this may be a reasonable assumption for the costing of this Scheme also. This does not take into account that unfunded 0-2 year olds attend at a significantly lower rate.</p> |
| Proposed milk cost (Scheme year 1 August -31 July) | £24.66 per annum | £34.27 per annum [19.6p unit based on 175 days] | <p>The March 2020 costing drew on data from the NMRU to develop the milk costings, and applied a 20% % uplift to this figure to take account of potential fluctuations and the potential inclusion of approved alternatives to milk which had not been confirmed at March 2020. This brought the child per annum cost to £24.66.</p> <p>The February 2021 costing has used a weighted average (£0.196) of the Scotland Excel data detailing per portion costs across a number of LAs. This was multiplied by 175 days (an estimate of the number of days milk will be provided, consistent with what is used for the healthy snack) for an annual cost of £34.27 per child per annum.</p> <p>This new approach applies LA costs under existing contracts to all settings, including childminders, and implies a per pint cost of around £0.59.</p> |
| Proposed fruit and veg cost (unit/ annual) | £19.6 per annum (£0.13 per portion) | £30.39 per annum (17.4p per portion) | The March 2020 proposal for a snack unit cost was based on a whole apple when purchased wholesale in season. No unit uplift was applied to this figure. |

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| | | | |
|--|---|---|---|
| | | | For the February 2021 costing, we have drawn on a Scotland Excel data set on the cost of fruit and veg snacks to LA providers provided by ASSIST. We have used this "basket" of potential snacks and derived an average unit price from this. We have made no adjustment or weighting to this basket (i.e. we assume children will get bananas as regularly as more expensive strawberries). |
| Proposed national cost per serving of milk and snack | / | 37p | This is the national average cost per serving which, weighted by SDG, will provide a local serving cost, which will inform reconciliation, ensuring that local authorities are compensated at the level of their outlay. |
| Proposed national average annual cost per child for milk/ fruit and vegetables (excludes administration) | £44.42 | £64.66 | This is the annual consumption average per child, which multiplied by the population figure gives the overall quantum. |
| Proposed administrative approach | Year 1 - 5% Year 2– 2% Year 3– 2% | Year 1 – 5% Year 2– 3% Year 3 - 2% | SG have suggested a 5% administration cost for the first year of the scheme to take account of onboarding new settings into finance arrangements with LAs. Going forward, we expect the burden to decrease. However, we note the feedback from CoSLA that it would be more appropriate to taper; the February 2021 costing suggests a revision to:5% for year 1 (Aug 21-31 July 22); 3% for year 2 (Aug 22 -31 July 23) and 2% for year 3 (Aug 23- July 24). We would hope that most registrations will have been achieved by the end of year 2 if not earlier. It has also been proposed that 25% of the administration fee should be fixed, and shared equally amongst local authorities with the remainder to be distributed. |

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Section C: Distribution arrangements

1. The Scottish Milk and Healthy Snack Scheme is funded from the Scottish Government's Health Portfolio and although aligning with the expansion of ELC, is a universal scheme provided to all eligible regulated pre-school settings which register to participate. As set out at **section A**, it is intended that the arrangements for funding and distribution are therefore distinct from those for ELC for the initial two financial years at least.

2. In making arrangements for distribution it is also noted that the Scottish Government has received representations from stakeholders (notably milk suppliers) expressing concern about the potential for overpayment that may not result in provision of milk and snack. As discussed at **section B** above, it appears unlikely that 100% uptake will be achieved in year 1.

3. Following discussion with COSLA, we therefore propose the following approach:

Milk and snack costs:

4. As summarised in Section B above, the maximum milk and snack costs for the first three years of the Scheme are estimated as:

| Scheme Year | Max milk costs | Max snack costs | Max total milk and snack |
|----------------------|-----------------------|------------------------|---------------------------------|
| 1 (Aug 21 –July 22) | £6.5m | £5.8m | £12.3m |
| 2 (Aug 22- July 23) | £6.5m | £5.8m | £12.3m |
| 3 (Aug 23 – July 24) | £6.5m | £5.8m | £12.3m |

Proposed assumptions¹

| Scheme Year | Proposed uptake assumption (pre reconciliation) | Proposed initial milk and snack payment (before admin) |
|----------------------|--|---|
| 1 (Aug 21 –July 22) | 50% | £6.13m |
| 2 (Aug 22- July 23) | 70% | £8.59m |
| 3 (Aug 23 – July 24) | 90% | £11.04m |

5. For **year 1**, initial payment to be based upon a national uptake assumption of **50%**. 50% is a modest figure based on an expectation that local government will achieve registration of no less than 50% of the eligible settings regulated by the Care Inspectorate. While the Scottish Government is optimistic that local government will significantly exceed this, setting the figure at this level means that it is unlikely that we should require to recover any of this funding and can therefore guarantee it as a minimum payment.

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6. There would then be one reconciliation at the end of the year to ensure that, should local government's costs exceed this initial payment, that these will be reimbursed.

7. For years **2 and 3**, uptake assumptions to be set at 70% and 90% respectively subject to confirmation that these assumptions remain appropriate at the time of the LGF settlement deadline. As noted at **Section B** above, figures for years 2 and 3 remain indicative at this point.

Distribution methodology

8. Scottish Government proposes that indicators and weighting should apply for distribution of the milk and snack quantum to local authorities, based on 93% pre-school census counts and 7% rurality, and with an end of academic year reconciliation based on the authority's actual aggregated expenditure on the Scheme (total cost of the servings provided).

9. We propose therefore to distribute initially the fixed percentage of the maximum milk and snack quantum based on the best available nationally collected data for the number of children receiving ELC provision, and the standard rurality indicator.

10. Initially we are proposing to use provision-based numbers, i.e. numbers taken from the 2019 Pre-school census (the 2020 census numbers may be affected by Covid-issues), though SDG may wish to consider other options, such as population numbers. The current Pre-school census has issues relating to double counting (though it is the data we used for Pre-school GAE), but from May 2022 will be improved so as to identify individual-level data on hours in each centre. It was the view of DIWG that the distribution of those in LA and partner provision will be a suitable proxy for the overall distribution, remembering that the quantum will be based on the full total numbers, including non-partner providers.

11. While it is for SDG to determine the weight given to rurality, a Dual Indicator Review has been carried out on the Local Authority-level milk cost data that was collected for use in the calculation of the quantum, using pre-school census numbers and the standard rurality estimates. These data gave a statistically significant result, attributing a seven per cent weight on rurality. Equivalent data for snack costs were not available.

12. By distributing the quantum's equivalent number of servings (based on the national average of 37p per combined milk and snack serving) on the primary indicator, each Local Authority's allocation can also be used to calculate their specific payment rate, which can then be used for payments to settings within their area and for the subsequent second tranche of payments. It is possible that these payment rates may be recalculated for future academic years as more complete data become available, but this would be considered in the future.

13. At the end of the academic year a reconciliation will be made, with Local Authorities receiving a further payment based on the number of servings provided in excess of those assumed in the initial distribution, multiplied by their Local Authority-

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specific payment rate. This means that the initial indicator used (census count or population) is of less importance, as the final payment will be based to a certain extent on actuals.

Administration costs:

14. It is noted that set-up is required in advance of the start of Year 1 and that the administration burden on local authorities will begin in advance of August 2021.

15. We propose to distribute the full 5%; 3%; 2% for each of the first three years, fixing 25% of the administration fee to be shared equitably by local authorities, thus providing each with a minimum and certain baseline, with the remainder to be distributed on the basis of the number of regulated settings (including childminders). The table below² sets out the proposed arrangements for the administrative fee for clarity.

| Year | Admin fee (£m) | 25% fixed (£m) | Per LA rounded (£) | Balance for distribution (£m) |
|------|----------------|----------------|--------------------|-------------------------------|
| 1 | £0.61m (5%) | £0.15m | £4800 | £0.46m |
| 2 | £0.37m (3%) | £0.09m | £2900 | £0.28m |
| 3 | £0.25m (2%) | £0.06m | £1900 | £0.18m |

16. The administration quantum is fixed and will not be adjusted in the reconciliation.

Total initial payment in year 1

17. The total initial payment in year 1 (milk and snack plus administration) would therefore be a total **£6.74m**.

Payment mechanisms

18. It is intended that in the longer term, the payments to local government will be made as part of the annual Local Government Finance settlement as shown in the following table. However, it is recognised that for year 1, it is more appropriate for payment to be made in advance of the new commencement of the new Scheme. The level of the initial payment to each authority will be confirmed by the Scottish Government no later than two weeks after agreement by COSLA Leaders.

| Scheme | Initial payment | | reconciliation | |
|-------------------------|-----------------|---|--------------------|---------------------------|
| | notified | paid | notified | paid |
| Year 1 (ending July 22) | Spring 2021 | Before 1 August 2021 (separate payment) | Autumn/winter 2022 | LG Settlement Spring 2023 |

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| | | | | |
|-------------------------|--------------------|---------------------------|--------------------|---------------------------|
| | | using new powers | | |
| Year 2 (ending July 23) | Autumn/winter 2021 | LG Settlement Spring 2022 | Autumn/winter 2023 | LG Settlement Spring 2024 |
| Year 3 (ending July 24) | Autumn/winter 2022 | LG Settlement Spring 2023 | Autumn/winter 2024 | LG Settlement Spring 2025 |

Future years

19. It is noted that it remains our expectation that while this funding will be ring-fenced for financial years 21/22 and 22/23, that in the longer-term (timing to be agreed by COSLA and Scottish Government), it would be merged into the wide ELC settlement. We foresee that once merged there will not be a need for separate identification and the quantum, amalgamated into the main ELC quantum, will continue to be distributed on the new agreed ELC formula. This is in line with the recommendation to the Floor Report not to add additional lines to the settlement where possible, and also fits in with the move to rationalise the eight current ELC lines into one. This will however go through the usual governance process.

Scottish Government
March 2021

Note of Meeting
Scottish Milk and Health Snack Scheme
Scottish Government and McQueens Dairies
Monday 29th March, 12:00 – 13:00
Microsoft Teams

Attendees:

REDACT – Scottish Government (Chair)
REDACT – Scottish Government
REDACT – Scottish Government
REDACT - Scottish Government
REDACT – McQueens Dairies
REDACT – McQueens Dairies
REDACT – McQueens Dairies
REDACT – McQueens Dairies

Apologies:

REDACT - Scottish Government

1 Purpose

1.1 As agreed at the previous meeting on 9 March 2021 this was a follow up to provide an opportunity to further discuss the detail of the Scottish Milk and Healthy Snack Scheme (SMHSS) and to address any further questions McQueens Dairies have.

2 Welcome

2.1. Welcomes were provided to the attendees by the chair.

3 Recap of previous meeting and outline of today's discussion

3.1. Scottish Government reflected on the previous meeting and invited McQueens Dairies to highlight points of discussion. These were as follows:

- How will it work switching over from the UK Nursery Milk Scheme (NMS) to the new Scheme? i.e. registration etc.
- How does the pricing work? How payments will work?
- How to manage location differences?
- How to manage size differences with regards to nurseries and childminders?

3.2. McQueens Dairies highlighted their desire to work with Scottish Government to allow them make the transition to the new Scheme as smooth as possible, noting that they were concerned that changes to their way of working could result in losing staff. It was noted McQueens Dairies already supply between 1200 and 1300 settings across Scotland with the number growing and they are expanding in the market as the alternative is to use an English third party for administration purposes. This means they can work on both the supply and administration side with Scottish settings on their behalf. Scottish Government acknowledged the value of working

with the dairy industry, particularly around raising awareness of the importance of dairy consumption.

3.3. McQueens Dairies commented they had not received detailed information about the Scheme since contacting Scottish Government in 2019. Scottish Government noted that the distribution channels used including the Dairy UK, National Farmers Union and the School Milk and Nursery Milk Alliance (SNMA) of which McQueens Dairies is a member. Following these links we have been accommodating separate meetings for any requests made.

Action 1: Scottish Government to ensure that McQueens Dairies are added explicitly to the communication distribution list (noting that Dairy UK and SNMA are already on the list).

4 Funding and Upfront Payment to Settings

4.1. Scottish Government confirmed funding is currently being agreed with COSLA at a national level and will be provided to local authorities who will be responsible for making payments to settings that have registered for the Scheme. Settings will be informed of the amount they will get based on servings and the information they provide at registration. Scottish Government acknowledged as the Scheme progresses, funding will be kept under review, noting that milk costs have fluctuated in recent years. Once Scottish Government and COSLA have agreed the funding arrangements, local authorities will be informed of their funding allocation (This will not happen prior to the May 2021 election).

4.2. McQueens Dairies expressed concerns about funding, pricing and the costs of milk provision. Specifically, there was concern they would not be able to provide delivery in rural areas because the funding would not meet the overall cost of provision if it did not account for rurality. They also outlined the differences between supplying larger settings and childminders; it was noted McQueens Dairies supply 1000 childminders across Scotland. Scottish Government highlighted that the national level cost estimates took account both of the milk costs reclaimed from the Nursery Milk Reimbursement Unit (NMRU) in recent years and the Scotland Excel framework via which local authorities purchase. Scottish Government also clarified that the distribution of funding to local authorities would be based on a weighting recommended by the COSLA/ SG Settlement and Distribution Group. Initial indications suggested that this would take account of the population of pre-school aged children and rurality.

4.3. McQueens Dairies stated that they considered that the move to upfront payments would put more pressure on the settings. Scottish Government noted that a key aim of the new Scheme was reducing administration for settings, with reference to the 2018 Welfare Foods Consultation findings.

4.4. McQueens Dairies raised a concern about how Scottish Government will know settings will spend the money on milk and fresh fruit. Scottish Government acknowledged the concern but noted this was not considered to be a significant risk. Guidance would make clear the purpose of the funding.

4.5. McQueens Dairies noted only the data held by the Scottish Government which indicated that only 38% of Scottish settings use the current UK NMS. This was a lower figure than their own supply figures would have led them to expect. They anticipated that c. 90% of Scottish nurseries would participate in the UK NMS. Scottish Government confirmed the data held was received from Wider Plan who administer the UK NMS and did not disaggregate nurseries from childminders.. Scottish Government noted that, as set out in the Business and Regulatory Impact Assessment (BRIA), the total Scottish Government contribution to the UK Scheme for milk delivered in Scottish settings was £3.1 million for financial year 2018-19. Using their cost data, McQueens Dairies would be able to calculate the approximate number of servings this equated to. The Scottish Government agreed to look further at the statistics and to explore what might be shared publically.

Action 2: Scottish Government to check if Wider Plan stats disaggregate settings involved in the UK NMS.

5 Registration

5.1. McQueens Dairies were keen to know how to support the delivery of the Scheme. Scottish Government highlighted that there was scope for the dairy industry to raise awareness of the new Scheme and the importance of registration, which would begin in each authority from mid-May. In order for a setting to be part of the Scheme the setting will be required to be registered with the local authority. Each local authority will be responsible for its own registration process. At registration, settings will be asked to provide the local authority with the indicative number of servings they expect to provide. Additionally, the milk industry can help to ensure that settings are aware of the changes that will take place from 31 July/ 1 August 2021. The new Scheme goes live on 1 August 2021 and the existing UK NMS will cease to apply in Scotland from midnight on 31 July 2021. While settings which have used the UK NMS will have six months to reclaim milk supplied up to and including 31 July 2021 from the UK NMRU, the UK Scheme will not refund any milk supplied from 1 August 2021. It would be important for settings to understand this change and for them to register for the new Scheme to receive funding from 1 August.

5.2. Scottish Government confirmed that Department of Health and Social Care (DHSC) has notified settings currently on the UK NMS of the changes that will be taking place.

5.3. Scottish Government confirmed that it expects that as a result of the new Scheme, more children in registered childcare will receive milk (and a healthy snack). The policy intention of the Scheme is to increase habitual consumption of healthy foods amongst young children. It was also noted the Scottish Government expects expenditure on the new Scheme to be significantly higher than the £3.1m contributed to the UK NMS, cited earlier. The published BRIA estimates the total cost to the Scottish Government in financial year 21/22 of the contribution to the UK NMS (1 April – 31 July) and the new SMHSS (1 August 21- 31 March 22) at between £9 and £10m.

5.4. McQueens Dairies sought clarity as to whether they would or could be notified when a setting registers for the Scheme. Scottish Government confirmed it would be

for the setting to share this information. Dairies may wish to ask settings how they can best support them to allow for deliveries to start from 1 August 2021.

5.5. McQueens Dairies noted they currently manage the claims process for settings and asked if they can take a formal role in the registration process. Scottish Government confirmed there is no restriction on milk agents of suppliers helping the setting complete the registration form but registration has to be submitted by the setting or local authority where the authority manages settings directly.

5.6. McQueens Dairies queried how often the settings would be required to supply the number of children (servings) they require funding for. Scottish Government confirmed this will depend on the local authority; it was envisaged that payments to settings would be made no less frequently than annually. Funding discussions with COSLA are still ongoing.

5.7. McQueens Dairies sought further clarity around what support would be in place for settings over the coming months to get them on to the new Scheme. Scottish Government confirmed there are a range of communications that are being developed at present to address key questions about the Scheme. The pre-election period meant that there were some restrictions on communication activity however, information would be shared as soon as was practicable. The involvement of the dairy sector in this communications process would be welcomed.

6 Next Steps

6.1. McQueens Dairies sought clarity on what the next steps would be for them to work with Scottish Government. Scottish Government confirmed that initial information has been shared on the Scottish Government website and DHSC and that this will be updated as soon as possible. Registration will begin from mid-May and all have an interest in ensuring that we optimise uptake of the new Scheme. Following the launch of the Scheme it is important to gather early feedback on how the Scheme is working and continue to increase uptake.

6.2. Scottish Government commented briefly on 2019 correspondence in which McQueens Dairies sought clarity about adding vitamin D to the milk they supply to pre-school settings.

Action 3: Scottish Government to seek further advice on Vitamin D in milk and to feed back to McQueens Dairies.

7 Actions

Action 1: Scottish Government to ensure that McQueens Dairies are added explicitly to the communication distribution list (noting that Dairy UK and SNMA are already on the list).

Action 2: Scottish Government to check if Wider Plan stats disaggregate settings involved in the UK NMS.

Action 3: Scottish Government to seek further advice on Vitamin D and feed back to McQueens Dairies.

Scottish Milk and Healthy Snack Team
Scottish Government, March 2021

| Admin fixed amount serving | 5% 25% % | 0.3 7 | Total maximum | Scheme | Total Administration | Up Front | Later admin |
|----------------------------|----------------|----------|---------------|--------|----------------------|----------|-------------|
| | | | 12.879 | 12.266 | 0.613 | 0.153 | 0.460 |

8.586
70%
90%

| | 93% 2020 pre- | 7% | school census pupils | estimated number of rural pupils | fixed amount administered | formula-based administration | total administration | 1st tranche Aug-Mar | 2nd tranche Apr-July | total scheme year 1 | LA local rate (to mil k) | sn acc k | reconciliation: total servings | scheme final tranche | admin per pupil |
|---------------|---------------------|-------|----------------------|----------------------------------|---------------------------|------------------------------|----------------------|---------------------|----------------------|---------------------|--------------------------|----------|--------------------------------|----------------------|-----------------|
| Aberdeen City | 3,375 | 51 | | | 0.005 | 0.017 | 0.02 | 0.201 | 0.101 | 0.302 | 0.347 | 0.184 | 1,117,309 | 0.086 | 6.523 |
| Aberdeenshire | 4,677 | 1,599 | | | 0.005 | 0.024 | 0.029 | 0.344 | 0.172 | 0.517 | 0.429 | 0.202 | 1,548,342 | 0.148 | 6.128 |
| Angus | 1,780 | 400 | | | 0.005 | 0.009 | 0.014 | 0.122 | 0.061 | 0.183 | 0.400 | 0.188 | 589,277 | 0.052 | 7.796 |
| Argyll & Bute | 1,246 | 424 | | | 0.005 | 0.006 | 0.011 | 0.092 | 0.046 | 0.138 | 0.429 | 0.202 | 412,494 | 0.039 | 8.949 |

| | | | | | | | | | | | | | | | |
|--------------|------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-----|-----|-----|----------------|-------------|------------|
| | 1,6 | | 0.00 | 0.00 | 0.01 | 0.11 | 0.05 | 0.16 | 413,0 | 0.3 | 0.2 | 0.1 | | 0.04 | 8.0 |
| Moray | 04 | 359 | 5 | 8 | 3 | 0 | 5 | 5 | 09 | 99 | 12 | 88 | 531,011 | 7 | 91 |
| North | 2,1 | | 0.00 | 0.01 | 0.01 | 0.13 | 0.06 | 0.19 | 544,0 | 0.3 | 0.1 | 0.1 | | 0.05 | 7.3 |
| Ayrshire | 13 | 124 | 5 | 1 | 6 | 0 | 5 | 5 | 70 | 58 | 90 | 68 | 699,518 | 6 | 71 |
| North | | | | | | | | | | | | | | | |
| Lanarkshire | 5,7 | | 0.00 | 0.02 | 0.03 | 0.34 | 0.17 | 0.51 | 1,480, | 0.3 | 0.1 | 0.1 | 1,903,5 | 0.14 | 5.9 |
| | 50 | 97 | 5 | 9 | 4 | 3 | 2 | 5 | 549 | 48 | 84 | 64 | 63 | 7 | 37 |
| | | | 0.00 | 0.00 | 0.00 | 0.02 | 0.01 | 0.04 | 88,31 | 0.4 | 0.2 | 0.2 | | 0.01 | 19. |
| Orkney | 343 | 202 | 5 | 2 | 7 | 9 | 4 | 3 | 8 | 91 | 60 | 31 | 113,552 | 2 | 073 |
| Perth & | 2,3 | | 0.00 | 0.01 | 0.01 | 0.16 | 0.08 | 0.24 | 594,7 | 0.4 | 0.2 | 0.1 | | 0.06 | 7.1 |
| Kinross | 10 | 579 | 5 | 2 | 7 | 1 | 1 | 2 | 94 | 06 | 15 | 91 | 764,736 | 9 | 78 |
| Renfrewshire | 3,3 | | 0.00 | 0.01 | 0.02 | 0.19 | 0.09 | 0.29 | 849,7 | 0.3 | 0.1 | 0.1 | 1,092,4 | 0.08 | 6.5 |
| | 00 | 63 | 5 | 7 | 2 | 7 | 9 | 6 | 06 | 48 | 84 | 64 | 80 | 5 | 56 |
| Scottish | 1,6 | | 0.00 | 0.00 | 0.01 | 0.12 | 0.06 | 0.17 | 423,0 | 0.4 | 0.2 | 0.1 | | 0.05 | 8.0 |
| Borders | 43 | 529 | 5 | 8 | 3 | 0 | 0 | 9 | 51 | 24 | 25 | 99 | 543,922 | 1 | 20 |
| | | | 0.00 | 0.00 | 0.00 | 0.04 | 0.02 | 0.06 | 119,7 | 0.5 | 0.2 | 0.2 | | 0.01 | 15. |
| Shetland | 465 | 302 | 5 | 2 | 7 | 0 | 0 | 1 | 31 | 06 | 68 | 38 | 153,940 | 7 | 408 |
| South | 1,7 | | 0.00 | 0.00 | 0.01 | 0.11 | 0.05 | 0.16 | 450,0 | 0.3 | 0.1 | 0.1 | | 0.04 | 7.8 |
| Ayrshire | 48 | 183 | 5 | 9 | 4 | 1 | 5 | 6 | 87 | 70 | 96 | 74 | 578,683 | 8 | 45 |
| South | | | | | | | | | | | | | | | |
| Lanarkshire | 5,9 | | 0.00 | 0.03 | 0.03 | 0.36 | 0.18 | 0.54 | 1,520, | 0.3 | 0.1 | 0.1 | 1,955,5 | 0.15 | 5.9 |
| | 07 | 418 | 5 | 0 | 5 | 6 | 3 | 9 | 974 | 61 | 91 | 70 | 38 | 7 | 15 |
| | 1,4 | | 0.00 | 0.00 | 0.01 | 0.09 | 0.04 | 0.13 | 362,0 | 0.3 | 0.2 | 0.1 | | 0.04 | 8.5 |
| Stirling | 06 | 227 | 5 | 7 | 2 | 3 | 6 | 9 | 26 | 84 | 03 | 81 | 465,463 | 0 | 12 |
| West | | | | | | | | | | | | | | | |
| Dunbarton | 1,5 | | 0.00 | 0.00 | 0.01 | 0.09 | 0.04 | 0.13 | 398,5 | 0.3 | 0.1 | 0.1 | | 0.03 | 8.1 |
| shire | 48 | 19 | 5 | 8 | 3 | 2 | 6 | 8 | 90 | 47 | 84 | 63 | 512,472 | 9 | 99 |
| West | 3,3 | | 0.00 | 0.01 | 0.02 | 0.20 | 0.10 | 0.30 | 872,3 | 0.3 | 0.1 | 0.1 | 1,121,6 | 0.08 | 6.5 |
| Lothian | 88 | 149 | 5 | 7 | 2 | 6 | 3 | 9 | 65 | 54 | 88 | 67 | 12 | 8 | 18 |
| | 90, | | 0.15 | 0.46 | 0.61 | 5.72 | 2.86 | 8.58 | 23,20 | | | | 29,836, | 2.45 | 6.8 |
| | 126 | 9,550 | 3 | 0 | 3 | 4 | 2 | 6 | 6,253 | | | | 610 | 3 | 05 |

initial
 payment
 6.3
 38

Pre-school numbers

| | under 2s | 2-year olds | provision for 3-year-olds | provision for 4-year-olds | deferred entry | total | | rurality |
|---------------------|----------|-------------|---------------------------|---------------------------|----------------|-------|----------|----------|
| Aberdeen City | 0 | 73 | 1,021 | 2,025 | 256 | 3,375 | 50.5357 | 1.5% |
| Aberdeenshire | 2 | 152 | 1,464 | 2,737 | 322 | 4,677 | 1598.595 | 34.2% |
| Angus | 0 | 89 | 501 | 1,028 | 162 | 1,780 | 399.916 | 22.5% |
| Argyll & Bute | 0 | 61 | 361 | 732 | 92 | 1,246 | 423.5066 | 34.0% |
| Clackmannanshire | 0 | 110 | 299 | 491 | 28 | 928 | 30.95618 | 3.3% |
| Dumfries & Galloway | 0 | 104 | 664 | 1,357 | 163 | 2,288 | 819.7089 | 35.8% |
| Dundee City | 1 | 207 | 667 | 1,395 | 234 | 2,504 | 4.471793 | 0.2% |
| East Ayrshire | 26 | 181 | 612 | 1,253 | 88 | 2,160 | 168.5534 | 7.8% |
| East Dunbartonshire | 11 | 74 | 660 | 1,143 | 133 | 2,021 | 43.43112 | 2.1% |
| East Lothian | 6 | 42 | 573 | 1,117 | 158 | 1,896 | 209.4371 | 11.0% |
| East Renfrewshire | 7 | 70 | 579 | 1,089 | 110 | 1,855 | 42.96807 | 2.3% |
| Edinburgh, City of | 90 | 374 | 2,416 | 4,491 | 527 | 7,898 | 34.25152 | 0.4% |
| Eilean Siar | 2 | 20 | 117 | 245 | 32 | 416 | 304.1861 | 73.1% |
| Falkirk | 0 | 137 | 781 | 1,526 | 202 | 2,646 | 109.375 | 4.1% |
| Fife | 0 | 488 | 1,724 | 3,610 | 325 | 6,147 | 436.2677 | 7.1% |
| Glasgow City | 42 | 535 | 2,704 | 5,662 | 553 | 9,496 | 13.14165 | 0.1% |
| Highland | 0 | 144 | 1,084 | 2,282 | 442 | 3,952 | 1445.729 | 36.6% |

| | | | | | | | | |
|-------------------|-----|-------|--------|--------|-------|--------|----------|-------|
| Inverclyde | 43 | 123 | 384 | 690 | 83 | 1,323 | 24.43536 | 1.8% |
| Midlothian | 1 | 137 | 475 | 1,225 | 155 | 1,993 | 139.5318 | 7.0% |
| Moray | 0 | 59 | 521 | 893 | 131 | 1,604 | 358.882 | 22.4% |
| North Ayrshire | 0 | 178 | 688 | 1,170 | 77 | 2,113 | 124.2293 | 5.9% |
| North Lanarkshire | 2 | 272 | 1,729 | 3,466 | 281 | 5,750 | 96.99476 | 1.7% |
| Orkney | 0 | 10 | 99 | 194 | 40 | 343 | 201.5681 | 58.8% |
| Perth & Kinross | 0 | 115 | 643 | 1,352 | 200 | 2,310 | 578.7129 | 25.1% |
| Renfrewshire | 78 | 285 | 945 | 1,770 | 222 | 3,300 | 63.09145 | 1.9% |
| Scottish Borders | 0 | 55 | 488 | 996 | 104 | 1,643 | 529.2893 | 32.2% |
| Shetland | 0 | 9 | 133 | 268 | 55 | 465 | 301.9178 | 64.9% |
| South Ayrshire | 11 | 76 | 547 | 1,021 | 93 | 1,748 | 182.9992 | 10.5% |
| South Lanarkshire | 78 | 291 | 1,844 | 3,346 | 348 | 5,907 | 418.4007 | 7.1% |
| Stirling | 1 | 72 | 447 | 824 | 62 | 1,406 | 226.6968 | 16.1% |
| West | | | | | | | | |
| Dunbartonshire | 24 | 166 | 375 | 901 | 82 | 1,548 | 18.92341 | 1.2% |
| West Lothian | 0 | 154 | 1,016 | 2,038 | 180 | 3,388 | 149.165 | 4.4% |
| | 425 | 4,863 | 26,561 | 52,337 | 5,940 | 90,126 | | |

SETTLEMENT AND DISTRIBUTION GROUP (SDG)

FUNDING THE SCOTTISH MILK AND HEALTHY SNACK SCHEME

1. The purpose of this paper is to set out the updated proposals for funding the Scottish Milk and Healthy Snack Scheme (Scheme) that is to replace the UK Nursery Milk Scheme from August 2021 and to ask SDG to make a recommendation to Leaders.

Recommendation

2. **SDG is asked to**
- **note that the Scottish Government is committed to working in partnership with local government in the delivery of this significant new policy;**
 - **note that the Scottish Government remains committed to funding evidenced additional burden that the policy represents;**
 - **indicate whether they are content that the maximum quantum of funding from the Scottish Government should be based on the revised estimate set out at Section B – representing £12.9m in year 1 including administration costs, noting the potential for review prior to confirmation of year 2 costs;**
 - **note the proposed approach at Section C for distribution of a fixed quantum in the first instance (based on modelling of 50/70/90% milk and snack uptake over the first three years of the Scheme) with an end of academic year reconciliation based on the actual number of servings claimed from the scheme.**
 - **recommend the proposed indicators and weighting that should apply for distribution of the milk and snack quantum to local authorities, based on 93% pre-school census counts and 7% rurality.** SDG will wish to note that this weighting will also be applied to the "national average serving rate" (£0.37) to produce a "local serving rate" which is the rate at which authorities will be expected to pay settings for meal and snack provision within their boundaries and which will be used for the reconciliations.
 - **note the proposed approach to distribute all of the proposed administration fee (100%) from year 1 to support authorities to put in place the necessary systems and to fix 25% of this administration fee to be shared equally amongst local authorities, with the remainder to be distributed amongst local authorities on the basis of the number of regulated childcare settings including childminders;**
 - **note that the initial sum for payment to local government, based on these proposals would be £6.74m (prior to reconciliation).**

Context

3. The aim of the new Scottish Healthy Milk and Snack Scheme is to improve the health of children and young people in Scotland by providing milk (or an approved non-dairy alternative) and a healthy snack (a portion of fruit or vegetables) to all eligible children who spend more than 2 hours in a regulated pre-school setting i.e. daycare provider or childminder. Upfront funding will be provided to settings via local authorities and paid on and from 1 August 2021. To be eligible, settings must be registered with the Care Inspectorate and are required to register with their local authority to be part of the scheme. A detailed summary of the new Scheme is set out at **section A**.

4. The Scheme, which is open to all regulated childcare settings (funded and non-funded ELC) that register to participate, was previously planned to commence in August 2020; as a consequence of Covid, Ministers decided to delay commencement and will now begin from 1 August 2021. [The Milk and Healthy Snack Scheme \(Scotland\) Regulations 2021](#) which will underpin the Scheme were laid in the Scottish Parliament on 19 February 2021 and come into force on 21 March 2021.

5. A previous paper on the earlier proposals for the Scheme was considered at SDG in June 2020, following earlier discussion at the ELC Finance Working Group, DWG; it was also discussed by the Children and Young People Board in October 2020.

6. COSLA Leaders confirmed in December 2020 that they were content for the Scheme to be delivered by local government to all eligible pre-school settings, subject to confirmation that the Scottish Government would fund the new burden associated with the policy in line with the New Burdens rule and agreement of the required funding. Leaders indicated the previous funding proposal, calculated in March 2020 was insufficient and asked the Scottish Government to work with COSLA officials in conjunction with professional associations to look at this again.

Focus of this paper

7. This paper draws on the further work carried out and sets out:
- A- an updated summary of the policy including the anticipated operation of the scheme;
 - B- the revised maximum funding estimate;
 - C – the proposed approach to distribution.

A Short Summary of the new Scottish Milk and Healthy Snack Scheme and its proposed operation

The new Milk and Healthy Snack Scheme will replace the UK Nursery Milk Scheme in Scotland with effect from 1 August 2021. The new Scheme is underpinned by the Milk and Healthy Snack Scheme (Scotland) Regulations 2021 (also cited as the Scottish Milk and Healthy Snack Scheme) which come into force from 21 March 2021.

Purpose and ambition

The purpose of the new Scheme is to improve the health and wellbeing of children by providing to those attending regulated pre-school daycare settings that have registered for the Scheme for 2 hours or more:

- 189mls (1/3 pint) of plain fresh cow's milk (whole milk for children over 1 year or to include semi-skimmed milk for children over 2 years), or first infant formula (for children under 12 months). Where children cannot drink cow's milk for health, religious or ethical reasons, plain fresh goat or sheep milk (whole milk for children over 1 year or to include semi-skimmed milk for children over 2 years), or unsweetened calcium enriched non-dairy alternatives excluding rice milk.
- A healthy snack item (a portion of fresh fruit or vegetables).

Our **ambition** is for as many as possible of the eligible children attending regulated pre-school daycare settings for 2 hours or more to be receiving milk (or an approved alternative) and a healthy snack, and to be acquiring healthy eating habits for the future.

How this will work

The **Scottish Government** will provide funding to **local authorities** to administer and deliver the Scheme.

Eligible (regulated) pre-school daycare **settings** including childminders, wishing to participate in the Milk and Healthy Snack Scheme must register with their local authority to become a member of the Scheme, providing data about the number of children who attend and the anticipated volume of provision (anticipated number of servings of milk and snack to be provided). For this policy there is no differentiation between ELC funded and unfunded settings.

Local authorities will establish local registration mechanisms and will calculate and make arrangements for upfront payments to registered settings, based on the number of servings to be provided. These payments will be based on a "local rate per serving" which will be common across the local authority. In the first year of the Scheme in particular it is likely that some settings will wish to register in-year (i.e. post 1 August 2021), after initial payments have been made. We intend that this should be possible to avoid lengthy waits to join the scheme; it will be for local authorities to determine arrangements for in-year registration and consequent payment arrangements.

Settings will use the funding provided by the local authority to purchase the necessary volume of milk and healthy snacks (which must conform with the requirements of the Scheme – cow's milk or an approved alternative and fresh fruit or vegetables). Settings are encouraged to make use of local suppliers and the best quality fresh and dairy produce where this is possible.

While children who cannot consume cow's milk for health, religious or ethical reasons may be offered an approved alternative, it is noted that these alternatives do not offer the same nutritional benefit as cow's milk and should not therefore be regarded as equivalent.

Settings will be asked to retain their proof of purchases which may be subject to occasional audit.

The **Scottish Government and COSLA will** agree light-touch monitoring arrangements for the policy and will review the overall arrangements in advance of year 2 in case any adjustments are required. It is envisaged that by the end of year 2 (end July 2023) the new approach will be fully embedded.

Transition from the UK Nursery Milk Scheme

Where **settings** are registered with the UK Nursery Milk Scheme, they may until end January 2022, continue to submit claims for milk provided no later than 31 July 2021. Settings which have registered for the new Scottish Milk and Healthy Snack Scheme will receive funding from the local authority for the purchase of milk and snack to be provided from 1 August 2021.

Section B - Revised maximum cost estimate for the SHMSS

1. Following feedback from COSLA Leaders and the CYP Board, Scottish Government and COSLA officials have worked together with representatives of ASSIST and ADES to consider in detail the practical implications of delivery and the implication for costs.
2. This has led to the development of a new maximum funding estimate outlined below. It is noted that this estimate is based on the maximum number of servings likely to be required and has considered historical claims, population projections and assumptions about the likely increase in uptake due to policy changes.
3. While achieving full uptake of the scheme by eligible regulated settings remains our ambition, it is unlikely that this can be achieved in year 1, or that the cost of the Scheme in year 1 will be the maximum £12.9m projected (admin and delivery). The Scottish Government is committed to funding the cost of the uptake achieved, and hopes that this will be as high as possible to ensure that the maximum number of children are able to receive the milk and snack benefit. A discussion of uptake and distribution is considered at **Section C** below.

Description of the updated estimate

4. The updated estimate is set out at table i); table ii) compares this to the earlier estimate. The February 2021 estimate represents a notable increase on the earlier cost estimate: there has been an increase in the anticipated annual cost of milk (or an approved alternative) and the annual cost of snack reflecting both increases in the proposed unit price and the average attendance anticipated (increased to align with the ELC meal assumptions).
5. Officials of COSLA and ASSIST have queried whether the costing should not also include a component for snack preparation. The Scottish Government is clear that as regulated childcare settings are already required to provide snacks to meet the provisions of Setting the Table, this is not an additional cost burden and the costs of Facilities Management associated with the provision of meals and snacks is addressed within the ELC Multi-Year Funding proposal.

Administration costs

6. As noted in the earlier paper to SDG, we recognise that there will be a significant level of administrative work particularly in year 1 associated with the initial set up (obtaining information, developing payment systems etc.) for non-funded childcare providers, and childminders. Taking this into consideration, for year 1 we would suggest a quantum for administration that is equivalent to five per cent of maximum delivery costs; we have also now proposed a more tapered approach to administration costs as the policy beds in, recognising that we would expect the greater burden of administrative activity to be required in the first 2 years of the new Scheme (August 21-July 22 and August 22- July 23). It has also been proposed (see **Section C**) that a proportion of the administrative fee (25%) should be fixed, providing each local authority with a minimum baseline prior to distribution of the remainder.

Section B: Table 1: Revised estimate of the anticipated maximum cost of the Scottish Healthy Milk and Snack Scheme, produced February 2021

| Scheme Year | Maximum milk costs | Maximum snack costs | Maximum admin costs (5 – 3 – 2 %) | Maximum uptake total |
|--------------------------------------|---------------------------|----------------------------|--|-----------------------------|
| 1 (Aug 21 –July 22) | £6.5m | £5.8m | £0.61m | £12.9m |
| 2 (Aug 22- July 23) | £6.5m | £5.8m | £0.37m | £12.6m |
| 3 (Aug 23 – July 24) | £6.5m | £5.8m | £0.25m | £12.5m |
| Total over 3 Scheme years | | | | £38m |
| Full year scheme cost prior to admin | | | | £12.3m |

This costing is based on the following assumptions and variables:

- Assumption of 100 % uptake for the purposes of this maximum figure
- Population of eligible children: 190,000
- National average cost per serving (milk and snack): 37p
- National average per child cost of milk (or approved alternative) per annum: £34.27 (19.6p per portion)
- National average per child snack cost per annum: £30.39 (17.4p per portion)
- National average per child combined milk and snack cost per annum: £64.66
- A child will receive only one portion of funded and milk and snack per day, whether or not he/ she attends more than one setting for 2 hours in the day.
- Working assumption that both milk and snack will be provided to all eligible children- although we know that in practice snack will not be offered to children aged 6 months or less.

Section B: Table 2 - Comparison of the two estimates of the maximum cost of the new SHMSS

The following table compares the original and updated proposals for the estimation of the maximum cost of the Scottish Milk and Heathy Snack Scheme, assuming 100% uptake. It is to be noted that figures for years 2 and 3 are indicative at this point and could be subject to review by mutual agreement e.g. if there were to be any significant fluctuation in the cost of milk, for example.

| | March 2020 estimate | Revised estimate February 2021 | Notes / Rationale for the updated figure proposed |
|---|---------------------|--------------------------------|---|
| Population projection | 190,000 | 190,000 | A population of 190,000 is used in both estimates. We estimate that there are around 160,000 children registered in settings currently submitting claims for milk. It appears that while nearly all day care of children (DCC) settings submit claims, only around a third of Childminders do. In addition, we assume that not all children in these settings are currently provided with milk. As such, we have applied an uplift of 20% to the 160,000 figure. We have confidence that 190,000 is a reasonable figure to use for the costing as there are around 210,000 registrations in childcare in Scotland and this includes a large number of children who are registered in more than one setting – most obviously for three and four year olds, where registrations outstrip population. Adjusting for three and four year olds also brings us to a figure of 190,000. Going forward, NRS population projections suggest the number of eligible children will fall in the coming years. The projected decrease in the numbers of children could be taken into consideration in determining the time period for which the agreed costing methodology should apply. |
| Number of days in attendance per “Scheme” year (12 month period from 1 August -31 July)- used | 152 (38 x 4) | 175 | The March 2020 costing estimated the average attendance at childcare settings on the basis of 38 x 4. Scottish Household Survey data suggests that three and four year old children, on average, attend ELC settings for 38 weeks a year, four days a week. Since then the expansion to 1140 hours of funded provision will have likely increased attendance - though this effect will be limited if funded |

| | | | |
|--|-------------------------------------|--|--|
| to inform the annual cost projections | | | <p>provision has simply replaced privately purchased childcare or increased the number of hours per day of attendance. This will be further offset by the fact 0 - 2 year olds, the majority of which do not have access to funded childcare but are entitled to this scheme, attend at a significantly lower rate.</p> <p>Following representations from COSLA and ASSIST that the 152 assumption was too low, in the February 2021 costing we have revised this to 175 days, aligning with the assumption used for the provision of lunch in settings providing 1140 hours of funded provision to three, fours and eligible 2 year olds. We therefore consider this may be a reasonable assumption for the costing of this Scheme also. This does not take into account that unfunded 0-2 year olds attend at a significantly lower rate.</p> |
| Proposed milk cost (Scheme year 1 August -31 July) | £24.66 per annum | £34.27 per annum [19.6p unit based on 175 days] | <p>The March 2020 costing drew on data from the NMRU to develop the milk costings, and applied a 20% % uplift to this figure to take account of potential fluctuations and the potential inclusion of approved alternatives to milk which had not been confirmed at March 2020. This brought the child per annum cost to £24.66.</p> <p>The February 2021 costing has used a weighted average (£0.196) of the Scotland Excel data detailing per portion costs across a number of LAs. This was multiplied by 175 days (an estimate of the number of days milk will be provided, consistent with what is used for the healthy snack) for an annual cost of £34.27 per child per annum.</p> <p>This new approach applies LA costs under existing contracts to all settings, including childminders, and implies a per pint cost of around £0.59.</p> |
| Proposed fruit and veg cost (unit/ annual) | £19.6 per annum (£0.13 per portion) | £30.39 per annum (17.4p per portion) | The March 2020 proposal for a snack unit cost was based on a whole apple when purchased wholesale in season. No unit uplift was applied to this figure. |

| | | | |
|--|---|---|---|
| | | | For the February 2021 costing, we have drawn on a Scotland Excel data set on the cost of fruit and veg snacks to LA providers provided by ASSIST. We have used this "basket" of potential snacks and derived an average unit price from this. We have made no adjustment or weighting to this basket (i.e. we assume children will get bananas as regularly as more expensive strawberries). |
| Proposed national cost per serving of milk and snack | / | 37p | This is the national average cost per serving which, weighted by SDG, will provide a local serving cost, which will inform reconciliation, ensuring that local authorities are compensated at the level of their outlay. |
| Proposed national average annual cost per child for milk/ fruit and vegetables (excludes administration) | £44.42 | £64.66 | This is the annual consumption average per child, which multiplied by the population figure gives the overall quantum. |
| Proposed administrative approach | Year 1 - 5% Year 2- 2% Year 3- 2% | Year 1 – 5% Year 2– 3% Year 3 - 2% | SG have suggested a 5% administration cost for the first year of the scheme to take account of onboarding new settings into finance arrangements with LAs. Going forward, we expect the burden to decrease. However, we note the feedback from CoSLA that it would be more appropriate to taper; the February 2021 costing suggests a revision to:5% for year 1 (Aug 21-31 July 22); 3% for year 2 (Aug 22 -31 July 23) and 2% for year 3 (Aug 23- July 24). We would hope that most registrations will have been achieved by the end of year 2 if not earlier. It has also been proposed that 25% of the administration fee should be fixed, and shared equally amongst local authorities with the remainder to be distributed. |

Section C: Distribution arrangements

1. The Scottish Milk and Healthy Snack Scheme is funded from the Scottish Government's Health Portfolio and although aligning with the expansion of ELC, is a universal scheme provided to all eligible regulated pre-school settings which register to participate. As set out at **section A**, it is intended that the arrangements for funding and distribution are therefore distinct from those for ELC for the initial two financial years at least.

2. In making arrangements for distribution it is also noted that the Scottish Government has received representations from stakeholders (notably milk suppliers) expressing concern about the potential for overpayment that may not result in provision of milk and snack. As discussed at **section B** above, it appears unlikely that 100% uptake will be achieved in year 1.

3. Following discussion with COSLA, we therefore propose the following approach:

Milk and snack costs:

4. As summarised in Section B above, the maximum milk and snack costs for the first three years of the Scheme are estimated as:

| Scheme Year | Max milk costs | Max snack costs | Max total milk and snack |
|----------------------|-----------------------|------------------------|---------------------------------|
| 1 (Aug 21 –July 22) | £6.5m | £5.8m | £12.3m |
| 2 (Aug 22- July 23) | £6.5m | £5.8m | £12.3m |
| 3 (Aug 23 – July 24) | £6.5m | £5.8m | £12.3m |

Proposed assumptions¹

| Scheme Year | Proposed uptake assumption (pre reconciliation) | Proposed initial milk and snack payment (before admin) |
|----------------------|--|---|
| 1 (Aug 21 –July 22) | 50% | £6.13m |
| 2 (Aug 22- July 23) | 70% | £8.59m |
| 3 (Aug 23 – July 24) | 90% | £11.04m |

5. For **year 1**, initial payment to be based upon a national uptake assumption of **50%**. 50% is a modest figure based on an expectation that local government will achieve registration of no less than 50% of the eligible settings regulated by the Care Inspectorate. While the Scottish Government is optimistic that local government will significantly exceed this, setting the figure at this level means that it is unlikely that we should require to recover any of this funding and can therefore guarantee it as a minimum payment.

6. There would then be one reconciliation at the end of the year to ensure that, should local government's costs exceed this initial payment, that these will be reimbursed.

7. For years **2 and 3**, uptake assumptions to be set at 70% and 90% respectively subject to confirmation that these assumptions remain appropriate at the time of the LGF settlement deadline. As noted at **Section B** above, figures for years 2 and 3 remain indicative at this point.

Distribution methodology

8. Scottish Government proposes that indicators and weighting should apply for distribution of the milk and snack quantum to local authorities, based on 93% pre-school census counts and 7% rurality, and with an end of academic year reconciliation based on the authority's actual aggregated expenditure on the Scheme (total cost of the servings provided).

9. We propose therefore to distribute initially the fixed percentage of the maximum milk and snack quantum based on the best available nationally collected data for the number of children receiving ELC provision, and the standard rurality indicator.

10. Initially we are proposing to use provision-based numbers, i.e. numbers taken from the 2019 Pre-school census (the 2020 census numbers may be affected by Covid-issues), though SDG may wish to consider other options, such as population numbers. The current Pre-school census has issues relating to double counting (though it is the data we used for Pre-school GAE), but from May 2022 will be improved so as to identify individual-level data on hours in each centre. It was the view of DIWG that the distribution of those in LA and partner provision will be a suitable proxy for the overall distribution, remembering that the quantum will be based on the full total numbers, including non-partner providers.

11. While it is for SDG to determine the weight given to rurality, a Dual Indicator Review has been carried out on the Local Authority-level milk cost data that was collected for use in the calculation of the quantum, using pre-school census numbers and the standard rurality estimates. These data gave a statistically significant result, attributing a seven per cent weight on rurality. Equivalent data for snack costs were not available.

12. By distributing the quantum's equivalent number of servings (based on the national average of 37p per combined milk and snack serving) on the primary indicator, each Local Authority's allocation can also be used to calculate their specific payment rate, which can then be used for payments to settings within their area and for the subsequent second tranche of payments. It is possible that these payment rates may be recalculated for future academic years as more complete data become available, but this would be considered in the future.

13. At the end of the academic year a reconciliation will be made, with Local Authorities receiving a further payment based on the number of servings provided in excess of those assumed in the initial distribution, multiplied by their Local Authority-

specific payment rate. This means that the initial indicator used (census count or population) is of less importance, as the final payment will be based to a certain extent on actuals.

Administration costs:

14. It is noted that set-up is required in advance of the start of Year 1 and that the administration burden on local authorities will begin in advance of August 2021.

15. We propose to distribute the full 5%; 3%; 2% for each of the first three years, fixing 25% of the administration fee to be shared equitably by local authorities, thus providing each with a minimum and certain baseline, with the remainder to be distributed on the basis of the number of regulated settings (including childminders). The table below² sets out the proposed arrangements for the administrative fee for clarity.

| Year | Admin fee (£m) | 25% fixed (£m) | Per LA rounded (£) | Balance for distribution (£m) |
|------|----------------|----------------|--------------------|-------------------------------|
| 1 | £0.61m (5%) | £0.15m | £4800 | £0.46m |
| 2 | £0.37m (3%) | £0.09m | £2900 | £0.28m |
| 3 | £0.25m (2%) | £0.06m | £1900 | £0.18m |

16. The administration quantum is fixed and will not be adjusted in the reconciliation.

Total initial payment in year 1

17. The total initial payment in year 1 (milk and snack plus administration) would therefore be a total **£6.74m**.

Payment mechanisms

18. It is intended that in the longer term, the payments to local government will be made as part of the annual Local Government Finance settlement as shown in the following table. However, it is recognised that for year 1, it is more appropriate for payment to be made in advance of the new commencement of the new Scheme. The level of the initial payment to each authority will be confirmed by the Scottish Government no later than two weeks after agreement by COSLA Leaders.

| Scheme | Initial payment | | reconciliation | |
|-------------------------|-----------------|--|--------------------|---------------------------|
| | notified | paid | notified | paid |
| Year 1 (ending July 22) | Spring 2021 | Before 1 August 2021 (separate payment) using new powers | Autumn/winter 2022 | LG Settlement Spring 2023 |

| | | | | |
|-------------------------|--------------------|---------------------------|--------------------|---------------------------|
| Year 2 (ending July 23) | Autumn/winter 2021 | LG Settlement Spring 2022 | Autumn/winter 2023 | LG Settlement Spring 2024 |
| Year 3 (ending July 24) | Autumn/winter 2022 | LG Settlement Spring 2023 | Autumn/winter 2024 | LG Settlement Spring 2025 |

Future years

19. It is noted that it remains our expectation that while this funding will be ring-fenced for financial years 21/22 and 22/23, that in the longer-term (timing to be agreed by COSLA and Scottish Government), it would be merged into the wide ELC settlement. We foresee that once merged there will not be a need for separate identification and the quantum, amalgamated into the main ELC quantum, will continue to be distributed on the new agreed ELC formula. This is in line with the recommendation to the Floor Report not to add additional lines to the settlement where possible, and also fits in with the move to rationalise the eight current ELC lines into one. This will however go through the usual governance process.

Scottish Government
March 2021



SETTLEMENT AND DISTRIBUTION GROUP (SDG)

SCOTTISH NURSERY MILK AND HEALTHY SNACK SCHEME

Introduction

1. This paper provides background and information on the design and costing assumptions for the allocation of funding for the Scottish Nursery Milk and Healthy Snack Scheme to be funded by the Scottish Government and had been previously planned to launch on 1st August 2020 however in light of the Covid 19 outbreak this date has been postponed and a new launch date is still to be agreed but we envisage this being well into 2021.
2. The paper presents
 - A: a review of the scheme
 - B: details of funding calculations
 - C: a proposed distribution methodology.

Recommendation

3. SDG is asked to:
 - a. **Note and provide feedback on the details of the new scheme, in particular the relationship with non-partner providers**
 - b. **Provide feedback on the costings**
 - c. **Agree the proposed distribution methodology.**

A: Summary of the new scheme

4. Scottish Ministers have committed to the delivery of a devolved Scottish Nursery Milk and Healthy Snack Scheme, which will replace the UK Nursery Milk Scheme currently administered by the UK Department of Health and Social Care. At the present time, all children under five who are in a day care or early years setting in Scotland for two or more hours a day are eligible to receive a free daily drink of cow's milk or infant formula (1/3 pint).
5. The purpose of the scheme is to promote the health benefits for children that regular consumption of cow's milk and fresh fruit and vegetables provide. Devolving nursery milk to Scotland provides us with the opportunity to develop a strong narrative about what the Scotland is doing to improve health and nutrition for 5 and under. It also gives us the opportunity to contribute to our overall ambitions for improving children's health and tackling health inequalities.
6. It is proposed that the Scottish Nursery Milk and Healthy Snack Scheme (NMHSS) will be delivered by local authorities to all registered ELC providers in Scotland (those providing funded and unfunded places) and that under the new

scheme, a child aged 5 and under attending childcare for two hours or more per day will be entitled to:

- 1/3 pint of cow's milk¹ or infant formula (under 12 months)
 - A healthy snack (defined as a portion of fruit or vegetables) for children over six months.
7. This proposed scheme builds on that described in the Welfare Foods consultation published in 2018 by the Scottish Government. Feedback from the consultation indicated this scheme would be welcomed; it also highlighted that there was a preference for funding to be routed via the new ELC arrangements for those childcare providers who will provide funded ELC places (estimated at about 80% of providers) rather than continuing with an administratively burdensome claim scheme.
8. Our proposals for the design of the scheme are based upon the earlier model as described in the [Welfare Foods Regulations](#) and our developing understanding at a time of significant change in the delivery of early learning and childcare. More than 80% of providers will offer funded ELC places with many offering both funded and non-funded places; this leads us to conclude that it is important that we should offer a single scheme allowing the childcare settings to deal with funded and non-funded places equitably and simply. As we appreciate there is an operational requirement for local authorities to deliver this scheme to both funded and non-funded childcare providers, Scottish Government officials, in collaboration with CoSLA, are seeking to develop the simplest route of funding for non-funded settings.

In summary, the key features of the scheme are:

9. Scheme content and eligibility

- Eligibility is based on that proposed in the consultation: all children aged 5 and under attending ELC for two hours in a day will be eligible to receive milk and snack;
- At present we are not proposing any expansion beyond cow's milk but this is to be confirmed.

10. Scheme design

- Move away from a claims based model to up front funding to be paid to ELC providers by local authorities;
- Single rate of payment (calculated using costing assumptions) to apply per child to all settings within a local authority, allowing for variation in rates between local authorities;
- Makes no changes to the way in which milk is procured by local authorities or individual settings;
- Continuity of ability to claim via the NMRU compensation scheme for six months after August 2020, for milk purchased before the start of the Scottish scheme;
- The Scottish Government to pay an administration fee to local authorities for delivering the funding for the scheme. We envisage that the costs associated with developing and implementing a registration process for non-funded care providers

¹ We are currently exploring whether or not it may be feasible to extend the scheme beyond cow's milk; this is dependent on identifying alternatives with comparable health benefits. Until any further position has been confirmed, references will continue to be to cow's milk only.

will be higher than the existing administration process set in place for current funded ELC places.

11. **Funding mechanisms**

- Ring-fenced annual lump sum for the scheme will be agreed with CoSLA, and then paid from Scottish Government to local authorities as per a distribution considered by the Settlement Distribution Group and agreed by COSLA Leaders;
- Scottish Government invites a steer on the frequency of payments.

12. **Reporting and monitoring**

- Monitoring and reporting will be light touch, proportionate and based on data that will be already collected through other reports and surveys. Reporting will be designed in collaboration with CoSLA to provide the necessary data to support delivery of the policy.

13. Both the ELC Finance Working Group and the Early Years Network have considered these proposals and brought forward suggestion on the practical implications.

Funding delivery

14. Under the proposed scheme design, local authorities would receive the agreed amount of funding from Scottish Government to cover the costs of all ELC settings within their area (funded and non-funded), and then would be responsible for passing that on to the individual settings, based on the number of children in each setting.

15. In ELC funded settings, where there is already a funding relationship between the setting and the local authority, this process should be relatively straightforward, and CoSLA have indicated that they do not envisage any major issues with the distribution of funding to these settings. The information required to deliver the NMHSS should already be held by local authorities, and so no additional registration process will be required.

16. Those care providers who are not currently providing state-funded hours would be required to register their interest to be part of the scheme by getting in touch with their local authority. They would be required to provide information such as the name of the care setting and the number of children under the age of 6 registered in that setting, and account details for payment. Each local authority may have a different approach on how to obtain this information. This information will be used by the local authority to calculate an accurate sum to be allocated to that care setting and register them for payments.

17. We will seek to review this process in partnership with Local Government to evaluate this process and identify any areas to be improved. The Scottish Government recognises that there will be a considerable marketing and communications challenge and will work with Local Government to address this. Numerous stakeholders and partnership organisations have already offered their platform for promotional purposes at the appropriate time.

18. **DIWG asked for further consideration should be given to whether the five per cent figure is in line with the number of small non-partner providers**

covered by the policy, and asked for data to be provided on the number of non-funded providers. Annex 1 contains a table with the latest data from the Care Commission and SCMA on the number of non-funded nurseries and childminders. Across Scotland only six per cent of nurseries are non-funded, ranging from zero to 25 per cent in individual Local Authorities. However, amongst childminders 87 per cent are non-funded, ranging from 52 per cent to 100 per cent non-funded.

Feedback from consultation

19. We are aware that, notwithstanding the proposal that the Scottish Government would meet the administration costs associated with funding transfer to non-funded partners, there have been some concerns raised about the administrative burden for local authorities registering individual, non-funded childminders for payment, the likely volume of payments to childminders and tracking variability and adjusting payment accordingly. We are seeking further discussion on this matter with local authority stakeholders, and information to clarify the potential scale of the issue. Should this prove prohibitively difficult to deliver, we will explore if there are other routes of delivery however, it would be preferable to remain within a single delivery system not least to ensure that payments to childminders can remain aligned to others within the local authority.

B: Costing assumptions

20. Scottish Government economists have developed a range of costing assumptions to inform discussions with CoSLA regarding funding requirements. These are based on the current claims from Scottish settings to the UK Nursery Milk scheme, plus adjustments to account for the addition of a healthy snack; and an additional ten per cent uplift to account for a range of variables including population growth, uptake of milk, rurality, fluctuation in market prices and the extension of the provision to include 5-year-olds. Further details are provided below.

Milk Prices

21. The “value” of milk claims under the current UK scheme, varies significantly from year to year. This suggests the data is subject to price sensitivities and some volatility such as rurality, inflation milk market prices and fluctuations in population but it is possible to use the average figures. Indeed, this is the best available data source for these calculations.
22. The latest Nursery Milk Reimbursement Unit (NMRU) data suggests an average annual per child cost of £21, which is used as the baseline for our cost estimate for Scotland. Given that the price varies, SG economists recommend adding an uplift of ten per cent to accommodate this variability.

Snack prices

23. Scottish Government economists have used an indicative figure of 13p per snack based on the latest wholesale prices for seasonal fruit using apples as an example though an alternative figure could be used if found to be appropriate for the costing. This figure does not take into account the changes in seasonal markets but is the most realistic price due to the wide variation in fresh fruit and

vegetables. This information has been sourced from a reliable report from the UK Government:

<https://www.gov.uk/government/statistical-data-sets/wholesale-fruit-and-vegetable-prices-weekly-average>

24. It has been assumed that snacks will be on average consumed four days a week over 38 weeks a year. This matches funded ELC provision from August 2020, which is worth 30 hours a week over 38 weeks, and also roughly mirrors school term time. Costing assumptions have also considered that before the expansion to 1,140 only 12 per cent of families used more than 30 hours of childcare a week, with the majority (45 per cent) using between 11 and 20 hours.² During school holidays, 40 per cent of families did not use any childcare at all. Families use their pre-expansion **funded** childcare across 4.2 days a week on average.

Costing approach

25. Using the information above, SG economists have recommended the approach to calculate costs were able to formulate an approach to calculate associated costs of the scheme on the basis of:
- An adjusted bottom up costing (i.e. taking a population base and multiplying by unit cost, noting that this does not offer the economies of scale that we would expect where any catering contracts are in place); we expect that this global offer is sufficiently generous to cover any local variations in unit cost.
 - Milk costs per child are based on the latest claims data for Scotland derived from the UK scheme data. This assumes that many providers will continue to use existing contracts. We have also taken into account the fluctuations in milk prices mentioned above;
 - Using a population figure of around 160,000. This is the number of children aged 0-5 in settings currently claiming milk, plus an adjustment on the total costs for 5-year-olds who are currently not eligible. We also propose a ten per cent uplift to take into account ELC expansion to 1,140 hours funded provision and any introduction of new settings who may not currently be taking advantage of the UK scheme.
26. Feedback to date from CoSLA suggests that the assumptions above would seem reasonable.

Administration fees

27. We recognise that there will be a significant level of administrative work particularly in the initial set up stage (obtaining information, developing payment systems etc.) for non-funded childcare providers. Taking this into consideration, for year 1 we would suggest a five per cent administration fee which would equal to a figure between £350k-£420k. Thereafter, to fall in line with some of the existing administration fees from other schemes, we would offer a two per cent administration fee which would be in the region of £140k-£170k.

² <https://www.gov.scot/publications/scotlands-people-annual-report-results-2018-scottish-household-survey/pages/13/>

28. On the basis of the above it has been calculated that the quantum will be about £7-£8 million.

C: Distribution methodology

29. We propose to initially distribute the quantum (scheme plus admin) based on the best available nationally collected data for the number of children receiving ELC provision. As with the ELC formula, there are two or three options for how this is calculated – provision-based, population based, or a mix.
30. Initially we are proposing to use provision-based numbers, i.e. numbers taken from the Pre-school census. The current Pre-school census has issues relating to double counting (though it is the data we used for Pre-school GAE), but from May 2021 will be improved so as to identify individual-level data on hours in each centre. The data may include information on non-funded provision, and we are not sure yet to what extent it will cover non-partner providers. However, it is hoped that the distribution of those in LA and partner provision will be a suitable proxy for the overall distribution, remembering that the quantum will be based on the full total numbers.
31. We propose that the initially agreed funding will be ring-fenced until 2022-2023 and that thereafter it would be merged as part of the ELC settlement. This approach will need agreement from CoSLA and Ministers. While we appreciate that ring fencing can be controversial, there is a need to align here with other ELC custom and practice and to ensure that all involved in the implementation of this policy are able to assess whether the financing provided adequately meets the requirements.
32. We foresee that once merged there will not be a need for separate identification and the quantum, added to the main ELC quantum, will continue to be distributed on the new agreed ELC formula. This is in line with the recommendation to the Floor Report not to add additional lines to the settlement where possible, and also fits in with the move to rationalise the eight current ELC lines into one. This will however go through the usual process.
33. While recognising that funded places is not an ideal proxy for the full client count, due to different rates of provision of non-funded places, **DIWG recommended an initial distribution based on pre-school provision numbers, with a view to merging the line with the ELC GAE at a later date.**

Next steps

34. Regulations are currently being drafted by Scottish Government lawyers and are scheduled to be laid in parliament once a date has been agreed.

Nursery Milk team
 Children and Families Directorate
 Scottish Government

June 2020

Annex 1

Care Inspectorate and the SCMA data on the number of funded and non-funded childcare providers per local authority

| | nurseries | | | | childminders | | |
|---------------------|---------------------|------------------------------|--------------------------------|------------|--------------|-------------|------------|
| | Local Authority run | Funded (Private + Voluntary) | Unfunded (Private + Voluntary) | % unfunded | Funded | Unfunded | % unfunded |
| Aberdeen City | 51 | 34 | 10 | 11% | 4 | 157 | 98% |
| Aberdeenshire | 92 | 41 | 5 | 4% | 66 | 255 | 79% |
| Angus | 49 | 10 | 6 | 9% | 0 | 151 | 100% |
| Argyll & Bute | 51 | 17 | 0 | 0% | 16 | 58 | 78% |
| City of Edinburgh | 90 | 105 | 12 | 6% | 14 | 321 | 96% |
| Clackmannanshire | 14 | 4 | 1 | 5% | 12 | 41 | 77% |
| Dumfries & Galloway | 46 | 31 | 1 | 1% | 26 | 85 | 77% |
| Dundee City | 28 | 21 | 11 | 18% | 0 | 133 | 100% |
| East Ayrshire | 30 | 6 | 3 | 8% | 23 | 152 | 87% |
| East Dunbartonshire | 20 | 22 | 5 | 11% | 3 | 117 | 98% |
| East Lothian | 31 | 19 | 0 | 0% | No data | No data | No data |
| East Renfrewshire | 13 | 13 | 1 | 4% | 11 | 120 | 92% |
| Falkirk | 53 | 13 | 0 | 0% | 40 | 150 | 79% |
| Fife | 105 | 36 | 4 | 3% | 0 | 421 | 100% |
| Glasgow City | 96 | 110 | 12 | 6% | 45 | 128 | 74% |
| Highland | 146 | 46 | 2 | 1% | 16 | 224 | 93% |
| Inverclyde | 14 | 4 | 6 | 25% | 14 | 42 | 75% |
| Midlothian | 28 | 21 | 2 | 4% | 41 | 44 | 52% |
| Moray | 23 | 30 | 1 | 2% | 15 | 98 | 87% |
| Na h-Eileanan Siar | 20 | 4 | 0 | 0% | 0 | 25 | 100% |
| North Ayrshire | 38 | 16 | 1 | 2% | 3 | 171 | 98% |
| North Lanarkshire | 82 | 38 | 6 | 5% | 113 | 202 | 64% |
| Orkney Islands | 20 | 1 | 0 | 0% | 3 | 21 | 88% |
| Perth & Kinross | 48 | 33 | 6 | 7% | 2 | 151 | 99% |
| Renfrewshire | 28 | 30 | 8 | 12% | 19 | 62 | 77% |
| Scottish Borders | 49 | 18 | 3 | 4% | 10 | 88 | 90% |
| Shetland Islands | 22 | 6 | 1 | 3% | 6 | 7 | 54% |
| South Ayrshire | 37 | 10 | 3 | 6% | 1 | 85 | 99% |
| South Lanarkshire | 70 | 56 | 2 | 2% | 23 | 238 | 91% |
| Stirling | 31 | 12 | 2 | 4% | 42 | 60 | 59% |
| West Dunbartonshire | 19 | 11 | 0 | 0% | 7 | 34 | 83% |
| West Lothian | 62 | 7 | 22 | 24% | 24 | 208 | 90% |
| Scotland | 1506 | 825 | 136 | 6% | 599 | 4049 | 87% |