Financial Sustainability Health Check of the Childcare Sector in Scotland

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Contents

Executive Summary

1. The Financial Sustainability Health Check has collected evidence on the sustainability of the childcare sector, in particular on the impact of COVID-19.

2. The Health Check has been informed by evidence and analysis from: detailed surveys of childcare providers; in-depth case study interviews with a range of providers; discussions with provider representative bodies; and analysis of trends in registration data.

3. Updated information has also been published on the sustainable rates that local authorities have set for private, third and childminding services delivering funded early learning and childcare (ELC).

4. Since March 2020 childcare services in Scotland have been subject to varying levels of restrictions on their operations as a result of the COVID-19 pandemic. The nature of these restrictions, set out through public health guidance, has varied across different types of services at different times.

5. Childcare services in Scotland have been able to access a range of financial support during the pandemic. This has ranged from:
    - Targeted Scottish Government grant support for the childcare sector.
    - UK wide support schemes introduced by the UK Government; and
    - Scottish Government economy wide grant support schemes.

Key Findings from the Analysis and Evidence

6. The Health Check highlights that whilst all parts of the childcare sector have been impacted by the pandemic to some extent, the nature and scale of these impacts has varied across different types of services.

<u>Trends in service registrations</u>

7. Analysis of Care Inspectorate (CI) registration data highlights that third sector services have been disproportionately impacted during the pandemic. Whilst there has been year on year decreases in the number of registered third sector services since 2017 the highest annual rate of decline was reported in the year to June 2021 (with a decline of nearly 6% in registered services over this period).

8. Changes to registrations and capacity in private sector services have been broadly in line with pre-pandemic trends. There has been a continuation of the decline in childminding services although the pandemic has not, to date, led to increases in the cancellation rate of these services (with a very small easing in the rate in the year to June 2021). However, despite this, the continued increase in the rate of decline in childminding services highlights that there are also challenges in attracting new entrants to this part of the sector.

9. It will be important to continue to closely monitor these trends as two of the main UK Government financial support measures (i.e. the Coronavirus Job Retention Scheme (CJRS) and the Self-Employed Income Support Scheme (SEISS)) come to an end in September 2021. The Scottish Government's position remains that

these schemes should be kept in place for as long as they are required and that, if they are to be removed, the UK Government should set out well in advance what further assistance will be in place to support jobs and the necessary labour market transitions in sectors that are deeply impacted by COVID-19.

Assessments of service sustainability

10. In March 2020 the majority of providers were generally positive in their assessment of the financial sustainability of their services. However, considerable declines were reported across all types of providers in their assessments of sustainability between March 2020 and the time of completing this survey (the majority of respondents completed the survey in May 2021).

11. The largest decline in self-reported sustainability has been for school age childcare (SAC) only services. SAC only services and childminding services that are not delivering funded ELC were most likely to have considerable concerns over their current sustainability. Funded ELC services in the private and third sectors were most likely to give a higher assessment of their own sustainability.

Costs of delivery and charges to families

12. Average delivery costs have increased for all types of day care of children services since March 2020. Childminding services, in particular those delivering funded ELC, reported lower rates of change in average delivery costs compared to day care of children services.

13. Respondents reported a number of reasons for increased delivery costs including: increased cleaning costs, reflecting both additional supplies and additional staff time; purchasing PPE; reduced demand for the service; requirement to work with smaller cohorts (bubbles); staff having to self-isolate; higher supplier costs (food, utilities, rental charges, waste, etc); costs of paying staff the real Living Wage; and changes to let agreements.

14. Hourly charges to parents and carers for paid for childcare (i.e. not funded ELC hours) have generally increased for most types of provision. However, the surveys indicate that average increases in charges are, in general, lower than average increases reported in the costs of delivery across most service types. Some services reported that they delayed previous planned price increases due to the impact of the pandemic.

Demand and income

15. Overall levels of demand (measured as occupancy levels) is lower for all types of service compared to March 2020. The largest falls in demand have been in school age childcare (SAC) only services. At the time of the survey only 8% of SAC services were operating at 75% or more occupancy compared to 67% of SAC services in March 2020.

16. Demand has held up better for funded ELC services, with 55% of both day care of children and childminding services who deliver funded ELC operating at 75% or more occupancy at the time of the survey.

17. Reduced demand has resulted in lower levels of monthly income from fees paid by parents and carers (e.g. non-ELC income) for all types of services. The largest declines in average monthly income were reported for SAC only services with an average decline of 50% compared to the period to March 2020. The lowest levels of decline have been for funded ELC services in the private and third sector.

Staffing

18. The Health Check highlights concerns about staffing, in particular loss of staff from private and third sector services (including some who have left the sector altogether) and challenges in recruiting suitably experienced staff. The majority of services who responded to the survey had lost at least one member of staff since March 2020. Services in the private sector were most likely (86%), and third sector services least likely (62%), to have lost a member of staff since March 2020.

19. Services that deliver funded ELC, and services in the private sector, were most likely to report that they currently had one or more staff vacancies in their setting.

20. Services in the third sector were most likely (70% of services), and services in the private sector least likely (37% of services) to report that they currently pay all of their staff at least the real Living Wage. However, 88% of services delivering funded ELC (across both the private and third sectors) indicated that they planned to pay all staff in their setting the real Living Wage from August 2021.

Other issues

21. Some respondents raised concerns over the planned removal of government financial support, in particular the CJRS. The majority of respondents to the survey reported that they had accessed support through the CJRS at some point since March 2020, with school age childcare services most likely (95% of services) to have drawn on the CJRS.

22. SAC only services were also most likely to still be accessing CJRS support (65% of services), with funded ELC services least likely (18% of services).

23. Most childminding services reported that they had accessed some grant support through the SEISS, with those services delivering funded ELC more likely to have received SEISS support than those who are not. However, some respondents indicated that the value of funding they receive through the scheme is low.

24. Being a funded ELC provider was highlighted by a number of respondents as a benefit in terms of their sustainability. However, some respondents felt that the hourly rate that they received from their local authority for delivering funded ELC did not cover their current costs of delivery.

25. Some services indicated that their financial reserves were, or are close to being, depleted and some had seen an increase in their debt levels as they have undertaken additional borrowing through various routes. This included accessing Government-backed loan schemes, in particular the Bounce Back Loan Scheme.

Around half of private sector services had accessed a loan through this scheme and most indicated they will have started to make repayments by July 2021.

26. Challenges for specific operating models were also raised in the survey. In particular, committee based groups (usually playgroups in the third sector) were mentioned by a number of respondents who had concerns over their sustainability which were not always financial (for example, challenges in securing appropriate numbers of committee members, workload for committee members etc).

Next Steps

27. We will work with the sector and delivery partners to progress a series of actions to enable recovery and to support the long-term sustainability of the sector, including:

- Delivering an initial programme of targeted business, financial management, marketing and human resources (HR) support for all types of childcare services. We will then work with the sector to build on the learning from delivering this initial investment in targeted support, and the broader range of existing services, to identify the best approach to supporting all types of childcare services – including community-based, third sector and childminding services – to strengthen their sustainability and to have the capacity to respond to future changes in the sector.
- A series of actions to support recruitment and retention across all parts of the childcare sector, including developing a five year workforce strategy for the sector and the introduction of a Childcare Taster Programme as part of the National Transitions Training Fund in 2021-22.
- Strengthen the process for local authorities to set sustainable rates for providers in the private, third and childminding sectors to deliver funded ELC. We will do this through working with partners to review and update the sustainable rates guidance; and exploring the potential for making additional support and advice available to local authorities, where that is required, to support the sustainable rates setting process and ensure that rates reflect the costs of delivery, provide scope for reinvestment and implementation of the real Living Wage commitment. We will work with COSLA to ensure that these changes are made in time to be reflected in the process for setting sustainable rates for August 2022.
- We will work with the sector to undertake a review of the administrative requirements on providers, particularly for private, third and childminding sector services, and set out what action will be taken to reduce and simplify processes by no later than April 2022. This will build on, and expand, the action in Our Commitment to Childminding to review local tendering approaches and how recent changes, as part of Funding Follows the Child (FFtC), have impacted on small and micro-enterprises such as childminders.
- To reflect the findings and next steps from the Health Check, and the finding from the Scottish Government commissioned Ipsos Mori report on 'Perceptions of the impact of childminding services on child, parent and family outcomes', which will be published in September 2021, we will update

and refresh [Our Commitment to Childminding](). A steering group, which will include sector representatives, will be established to monitor progress in delivering the commitments in the plan.

- Given the importance of let terms and conditions set by local authorities to the costs of running school age childcare and third sector services we will work with COSLA and local authority childcare teams to map the various existing approaches to the contract management of let agreements. This work will consider how let agreements are reached, and if and how they affect security and sustainability outcomes for childcare services.
- We will undertake a review to explore how the impact of the core funding that each of the representative bodies receives can be maximised to support outcomes for children, childcare services, and to provide long-term sustainability for these bodies. We will report on the finding of the review before the end of February 2022.
- We will monitor and assess the impact of recent changes to self-isolation requirements on trends in child and staff absence across the sector, and on service closures due to COVID-19, in order to identify where actions may be required to support the sector to adapt. To support this monitoring, it's essential that services prioritise completing the Care Inspectorate's weekly staff absence return and the Scottish Government's fortnightly childcare survey.

28. We will continue to monitor developments across the sector, in particular as wider support schemes such as the CJRS and the SEISS come to an end, to assess any changes in underlying trends and any impacts on financial sustainability. This includes considering the financial implications for all types of childcare services if any further significant public health restrictions were to be introduced at a future date.

29. In developing plans for implementing new policy commitments over the course of this Parliament, particularly through a system of wraparound school age childcare and the introduction of an early learning offer for 1 year olds from low income households, we will design and fund services to ensure that they are provider neutral and there is a level playing field, learning the lessons from the 1140 expansion programme and the implementation of Funding Follows the Child.

Introduction

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

2. As well as supporting children's development a strong and sustainable childcare sector is also a key part of Scotland's economic infrastructure –helping to support parents to work, study or undertake training; and providing employment opportunities across all of Scotland.

3. Many parts of the sector operate under a mixed economy model. This reflects a range of providers from the public, private and third sector, but also that many providers receive income directly from their local authority in order to deliver funded ELC. Ensuring a financially sustainable sector is a key aspect of Funding Follows the Child (FFtC), which is our approach for delivering funded ELC.

4. In recognition of this mixed economy model and the need to deliver high quality ELC, FFtC is 'provider neutral' and is underpinned by a National Standard that all settings – regardless of whether they are in the public, private or third sector, or childminders – will have to meet in order to be able to deliver funded ELC.

5. This allows families to have access to high quality funded ELC with the provider of their choice – in the public, private, third sector or a childminder – if that provider meets the criteria set out in the National Standard, has a space available, and is in contract with their local authority to deliver the funded hours.

6. The period since March 2020 and the onset of the impacts of COVID-19 has been challenging for the childcare sector, as it has been for many other sectors of the economy.

7. In April 2021 the Scottish Government commenced work on the Financial Sustainability Health Check to assess the impact of COVID-19 on the business sustainability of childcare providers and to assess the impact of financial support which has been available. However, we have found that for many services, financial sustainability is reflective of the interactions of a number factors and not just the impact of COVID-19. The size and nature of these factors can also vary significantly between different types of providers.

8. This report presents the key findings from this exercise and sets out the further action that will be taken to ensure a sustainable childcare sector in Scotland.

9. Creating the conditions for a sustainable childcare sector in Scotland will also be vital to supporting the delivery of new policy commitments which will be implemented over the course of this Parliament, in particular the development of a system of wraparound school age childcare offer and the introduction of an early learning offer for 1 year olds from low income households.

Overview of the Financial Sustainability Health Check

10. The Health Check has been informed by evidence and analysis from:

    - Detailed surveys of childcare providers, with separate surveys for day care of children and childminding services.
    - In-depth case study interviews with a range of providers;
    - In-depth one-to-one discussions with each the provider representative bodies (Care and Learning Alliance (CALA), Early Years Scotland (EYS), National Day Nurseries Association (NDNA), Scottish Childminding Association (SCMA), and the Scottish Out School Care Network (SOSCN); and
    - Analysis of trends in Care Inspectorate registration data.

11. As part of this exercise we have also published updated information from all local authorities on: the sustainable rates that they have set for their funded providers in the private, third and childminding sectors; rates paid for the delivery of the free meal commitment; their approach, in-line with guidance published in April 2019, for setting sustainable rates; and any additional support that has been offered to their funded providers during the pandemic.

12. This paper is intended to be a summary of the key findings from the Health Check. It also sets out the further actions that the Scottish Government will take in partnership with the sector in order to support the recovery from the pandemic and long-term sustainability.

13. Reflecting the diversity of the sector, the size and nature of impacts since March 2020 have varied across different types of services. The key comparisons for day care of children services are between those delivering funded ELC and those not delivering funded ELC; services in the private and third sectors; and those services that deliver only school age childcare. For childminding services we compare between those services delivering funded ELC and those not delivering funded ELC.

14. The Health Check has enabled a wide range of rich data and information to be captured. Alongside this summary report we have published a separate analysis paper which sets out the detailed results from the provider surveys and the analysis of the latest CI registration data.

Implications of COVID-19 on the operation of childcare services

15. As part of the Scottish Government's response to the pandemic childcare services have, since March 2020, been subject to varying levels of restrictions on their operations. These have included restricting providers to only being able to offer care to children from key worker families or vulnerable children, and operating under specific public health guidance.

16. Table 1 sets out the timeline of key developments since March 2020 on the operation of childcare services in Scotland.

Table 1: Timeline of developments for operation of childcare services in Scotland

Date	Measure
20 March 2020	• All childcare services to close unless delivering critical childcare provision to children of key workers or to vulnerable children
3 June 2020	• Childminding services, along with fully outdoor services, are able to reopen to operate in-line with the specific public health guidance for these services (published on 1 June 2020). • Key restrictions in the public health guidance included childminding services only being able to provide care for children from up to 4 different families; and effectively no blended placements.
15 July 2020	• Day care of children services able to reopen and must operate in-line with the public health guidance for these services published on 15 June 2020. • Guidance placed a number of restrictions and burdens on day care of children services including the operation of small separate cohorts (sometimes referred to as bubbles), and physical adaptations to premises in particular to support social distancing.
10 August 2020	• Revised public health guidance for day care of children services, published on 30 July 2020, takes effect. • Revised guidance reduces some of the restrictions in the previous guidance in particular allowing for the operation of larger separate cohorts (which would allow services to operate at higher occupancy levels).
30 October 2020	• Updated guidance for childcare services published which aligns with the levels approach in the Strategic Framework.
7 January 2021	• Supplementary guidance is introduced to cover the period of temporary restrictions which took effect from 26 December 2020 and applied to day care of children services (including SAC services) and childminding services providing to 12 or more children. • These services can only operate for children from key worker families and vulnerable children. • Childminding services are not subject to this guidance and continued to operate for all children during this period.
22 February 2021	• Temporary restrictions on the operation of ELC services ends. • Restrictions continue for services delivering to school age children.
15 March 2021	• Temporary restrictions end for SAC services

17. These measures have had implications for the operation of private, third and childminding sector services, including on costs of delivery, capacity and income, and on staffing. To understand the scale of these impacts the Scottish Government undertook, following the publication (on 15 June 2020) of the reopening guidance for day care of children services a survey of providers.

18. The analysis of the responses to this survey provided an important contribution to the evidence base for determining what targeted support may be required for the sector.

Support for Childcare Services

19. Childcare services in Scotland have been able to access a range of financial support during the pandemic. This has ranged from:

- Targeted Scottish Government grant support for the childcare sector.
- UK wide support schemes introduced by the UK Government; and
- Scottish Government economy wide grant support schemes.

20. Table 2 provides a summary of the key financial support schemes and draws on the survey responses to highlight the impact on childcare providers.

Table 2: Overview of financial support schemes for childcare services

Support Scheme	Overview
Targeted Scottish Government Support	
Continued early learning and childcare payments for funded ELC services	• Services delivering funded ELC continued to receive funded ELC payments for the duration of the closure periods – from March 2020 to August 2020 and during the temporary restrictions in early 2021.
Childminding Workforce Support Fund	• Fund targeted at childminding services experiencing financial hardship and who were struggling to access financial support through other schemes. • Operated two rounds in July 2020 and October 2020 with total funding of £420,000 (£390,000 from the Scottish Government funding and £30,000 from SCMA). • The Fund was administered by the SCMA. • Provided grants of £350 to 1,185 childminders in total. • 46% of childminding services who responded to the survey reported that they had received a grant from the Fund. Those services delivering funded ELC were more likely to have received a grant (51% of services).
Transitional Support Fund	• Up to £11.2 million was made available to provide one-off grants to day care of children services to enable them to meet the costs of meeting the requirements of the public health guidance for day care of children services.

	• Grants ranged from £1,500 to £8,000 dependent on the size of the service. • The scheme was open for applications between September and October 2020, and was administered by local authorities with a single application process. • 1,588 services received a grant through the Fund. • The majority of day care of children services who responded to the survey had received a grant from the Fund. Those delivering funded ELC were the most likely (95% of services), and those not delivering funded ELC least likely (82% of services).

Temporary Restrictions Fund	• The Temporary Restrictions Fund (TRF) provided grants to services during the period of temporary restrictions in place from Boxing Day 2020.
	• Restrictions applied to all day care of children services and to childminding services registered for 12 or more children. Restrictions for ELC services ended on 22 February 2021, whilst restrictions for school age childcare services ended on 15 March 2021.
	• The size of grants varied according to the registered capacity of the service.
	• The Fund was administered by local authorities using a single application process.
	• There were 3 rounds of grants through the Fund:
	  ○ Round 1 provided grants to services who remained open during the restrictions period in January 2021.
	  ○ Round 2 provided a TRF grant to services who were open in February and a one-off restart grant for all registered day care of children services and childminding services registered for 12 or more children.
	  ○ Round 3 was targeted at school age childcare services only as restrictions for this part of the sector carried on until March 2021. Support included a TRF grant for services who remained open and a one-off restart grant for all school age childcare services.
	• Responses to the surveys indicated that services delivering funded ELC were most likely (84% of services) to have received at least one grant from rounds 1 and 2 of the Fund. Those not delivering funded ELC were the least likely (64% of services) to have received at least one grant during rounds 1 and 2 – reflecting the predominance of school age childcare only services in this category.

Childminding Business Sustainability Fund	• Provided a one-off grant of £750 to all registered childminding services. Grants were issued in March and April 2021. • The Fund was administered by the Scottish Government.

	• 3,669 childminding services received a grant through the Fund (accounting for around 87% of all registered childminding services).
UK Government support schemes	
Coronavirus Job Retention Scheme (CJRS)	• The CJRS has enabled employers to claim grants to cover the wages of workers furloughed since March 2020. • The scheme was initially due to run until 30 May 2020, but has been extended on a number of occasions. The CJRS is currently scheduled to end on 30 September 2021. • The CJRS initially covered 80% (up to a maximum of £2,500 per month) of a furloughed workers wages as well as their national insurance and pension contributions. The level of support provided through the CJRS has varied at different points since August 2020. • From July 2020 flexible furloughing arrangements were introduced to allow employers to claim for usual hours not being worked by their employees (but who were now working some of their hours). • The majority of respondents to the survey reported that they had accessed support through the CJRS at some point since March 2020. • SAC only services were the most likely to have accessed the CJRS (95%), whilst services in the third sector were least likely (73%). • At the time of the survey some services were still accessing support through the CJRS. SAC only services were most likely to still be accessing CJRS support (65%), with funded ELC services least likely (18%).
Self-Employment Income Support Scheme (SEISS)	• The SEISS has provided grant support to the self-employed, and the scheme initially opened in May 2020. • The final round of the SEISS, based on the information available at the time of writing, will cover the period 1 May 2021 to 30 September 2021. • The support available through the SEISS is determined by average monthly trading profit. The initial grant provided support for a 3 month period based on 80% of average monthly trading profit (up to a maximum grant of £7,500). To date five rounds of SEISS grants have been made available. • The maximum level of grant support available has varied across the various grants provided through the SEISS. • Initially to be eligible for a SEISS grant the claimant must have been trading, and submitted a tax return, for the 2018-19 tax year (in later rounds those who became self-employed in the 2019-20 tax year could apply). • 70% of childminding services who had responded to the survey reported that they had accessed some grant support through the SEISS. Childminding services delivering funded ELC were more likely (78%) to have

	accessed SEISS support than childminding services not delivering funded ELC (66%). • For those childminding services who had accessed the SEISS the total average level of support received, at the time of completing the survey, was around £6,100. Applications for the fourth SEISS grant were open (until 1 June 2021) at the time of the survey.

Loan schemes	• The UK Government introduced loan schemes to enable businesses to access loans quickly The main two schemes that childcare services were able to access were:
	    ○ Bounce Back Loan Scheme – introduced in May 2020 and aimed at small businesses impacted by the pandemic. Businesses could borrow between £2,000 and up to 25% of their turnover (to a maximum of £50,000). The UK Government covered interest payments for the first 12 months.
	    ○ Coronavirus Business Interruption Loan Scheme – small and medium sized businesses, with turnover below £45m, could access up to £5m in finance. No interest paid for the first 12 months.
	• Private childcare services were the most likely (51%) to report that they had taken out a loan through the Bounce Back Loan Scheme.
	• The average value of loan secured through the Bounce Back Loan Scheme is around £40,000.
	• 7% of childminding services had secured a loan through the Bounce Back Loan Scheme, with an average loan value of around £4,400,
	• The majority of respondents who took out a loan through the Bounce Back Loan Scheme have indicated that they will have started to make repayments by July 2021.
	• Only a small number of respondents reported that they had taken out a loan through the Coronavirus Business Interruption Scheme. Services delivering funded ELC were most likely to have taken one of these loans (9%).
	• For those who have accessed support through the Coronavirus Business Interruption Loan scheme the average value of the loan is around £120,000.
	• Services that secured Coronavirus Business Interruption Loan indicate that they will make their first repayment between May 2021 and December 2021.

<u>Scottish Government economy wide grant support schemes</u>	
Small Business Support Grant	• Small business could apply for a grant up to £10,000 if they were: ○ the registered non-domestic rate payer (even if they did not pay rates due to being eligible for reliefs)

	○ a business who leases the property from the registered non-domestic rate payer. • Applications to the Fund close in July 2020. • Private sector services were the most likely to have accessed a grant through the Fund (with 28% of respondents in this group receiving a grant).
Pivotal Enterprise Resilience Fund	• The Pivotal Enterprise Resilience Fund, which was managed through Scotland's enterprise agencies, provided grants to SMEs which were assessed as being vital to Scotland's local or national economy but have been made vulnerable by the COVID-19 pandemic. • Applications to the Fund closed in May 2020. • Responses to the survey indicated that only a small number of childcare providers receiving a grant through this route. • Services delivering funded ELC were most likely to report that they had received support through the Fund (9%).
Other Scottish Government support schemes	• The Newly Self-employed Hardship Fund has provided support to those whose status as being newly self-employed makes them ineligible for the Self-employment Income Support Scheme (SEISS). • 5% of childminding service reported that they had received support through the Newly Self-employed Hardship Fund. • A small number of respondents reported that they received a Third Sector Resilience Fund grant.

21. In addition some services may have been able to draw on existing support (for example general business support and advice), as well as other targeted measures such as the Nursery Rates Relief Scheme, which has now been extended until at least 30 June 2023. Some local authorities have provided additional support to their funded providers in the private, third and childminding sectors during the pandemic (further information on support that has been made available is set out in Overview of Local Authority Funding and Support for Early Learning and Childcare Providers).

22. Many childcare services are also members of one (or more) of the childcare sector representative bodies: Care and Learning Alliance (CALA), Early Years Scotland (EYS), National Day Nurseries Association (NDNA), Scottish Childminding Association (SCMA), and the Scottish Out School Care Network (SOSCN).

23. The representative bodies provide their members with a range of targeted support and advice. They receive funding from a variety of sources including membership fees, grant support from the Scottish Government, delivery of services (in some cases), and accessing grant support from other schemes where possible.

24. As part of the Health Check we undertook in-depth discussions with each of the representative bodies to understand the impact of the pandemic on their organisations. This included changes in the support that they have offered to their members and on their own financial sustainability. As part of our provider case study interviews we have also, where relevant, sought the views of providers on the representative bodies of which they are members.

25. These discussions have highlighted that:

- Childcare services, in general, have been highly appreciative of the level of support and advice that they have received from their representative bodies.
- The representative bodies have had to significantly restructure the nature of the support and advice that they provide to their members, and all have indicated that they have incurred some additional costs in order to alter the way their organisations operate.
- The representative bodies have also had to increase the amount of time that they are spending in engagement with the Scottish Government and local authorities to help inform the response to the pandemic and to ensure that the specific challenges for private, third and childminding sector services are reflected.
- Financial sustainability is an increasing concern for the representative bodies with many having to make challenging decisions (in particular where they also operate services).
- There is a willingness to support the sector in new ways and develop additional income generating streams, however core funding is crucial for the representative bodies to effectively plan for the future, including to the ability to increase staff capacity.
- Membership fees for services have generally remained unchanged during the pandemic period.
- The representative bodies will need to continue to look for opportunities to restructure their approaches in order to ensure financial sustainability as most expect this to remain an ongoing concern in the foreseeable future.

Recent trends in childcare services

26. The supporting Financial Sustainability Health Check analytical paper provides details on the recent trends for childcare services in the private, third and childminding sectors.

27. There have been a number of factors in the childcare sector that provide important context, including:

    - The total number of children registered with a childcare service – any day care of children and childminding services – has been gradually declining since 2017. The largest declines have been in the number of children registered with a childminding service[1].
    - Many providers – local authority, private, third and childminding services – have been preparing for the introduction of the expanded ELC entitlement of 1140 hours, which became statutory on 1 August 2021.

28. Table 3 sets out Care Inspectorate (CI) data on the number of registered services over the period June 2017 to June 2021.

29. The date covers the period to 30 June 2021. This allows for lags in registration cancellations that were made pre-pandemic to be reflected in the data (services should give the Care Inspectorate 3 months' notice to cancel their registration).

30. Table 3 highlights that:

- The highest rates of decline have been for registered childminding services which have decreased in each year over the period from June 2017 to June 2021.
- The number of registered private sector childcare services has declined in each year since June 2017, although the rates of decrease were lower in the two most recent years (the years to June 2020 and to June 2021).
- Whilst there has been year on year decreases in the number of registered third sector services the highest rate of decline has been reported in the year to June 2021 (with the number of services declining by nearly 6% over this period).
- There has been an increase in the number of local authority services over the period, reflecting the increase in capacity in this part of the sector to support delivery the expanded ELC entitlement (of 1140 hours).

[1] More information can be found in Early Learning and Childcare Statistics 2019, Care Inspectorate, January 2021.

Table 3: Number of registered childcare services, June 2017 to June 2021

Type of service	June 2017	June 2018	June 2019	June 2020	June 2021
Day Care of Children services					
Health Board	3	3	3	3	3
Local Authority	1,725	1,718	1,722	1,741	1,772
Private sector	1,140	1,105	1,078	1,071	1,062
Third Sector	848	834	811	808	760
Total Day care of children services	3,716	3,660	3,614	3,623	3,597
Childminding Services	5,523	5,268	4,929	4,596	4,240

Source: Care Inspectorate

31. As with other sectors in the economy, in each year some degree of change would occur across all parts of the childcare sector as a result of both cancellations of existing services and registrations for new services. A key focus of the analysis has been to identify where there may be disproportionate impacts as a result of the pandemic, relative to previous broad trends, for some parts of the sector (for example, changes in the rate of cancellations, which can be measured as cancellations as a percentage of total services).

32. The analytical paper provides details of the recent trends in cancellations, and a broad summary of trends in presented in Table 4, which highlights:

- The number of day care of children services (the data is presented in aggregate for all day care of children services) cancelling their registration had declined in each year over the period June 2018 and June 2020. However, the number of cancellations increased in the year to June 2021 (although the cancellation rate was broadly in line with previous years).
- The number of childminding services being cancelled has declined in each of the last two years. However, the annual change in the number of registered services has been broadly stable in these years reflecting declines in the number of new childminding service registrations over this period.

Table 4: Number of cancelled services in the year to 30 June in each year over the period 2017 to 2021

Type of service	June 2017	June 2018	June 2019	June 2020	June 2021
Day care of children services	160	166	136	118	139
Cancellations as a percentage of all day care of children services	4.3%	4.5%	3.8%	3.3%	3.9%
Childminding Services	837	679	695	610	522
Cancellations as a percentage of all Childminding Services	15.2%	12.9%	14.1%	13.3%	12.3%

Source: Care Inspectorate

33. The Analysis and Evidence paper also sets out changes in the overall number of registered places (which is a measure of capacity) across different types of services. This highlights that overall capacity in private sector services has remained broadly unchanged over the period 2017 to 2021. This indicates a small shift across this part of the sector towards, on average, services with slightly higher capacity (this could reflect some providers expanding their capacity, or for new entrants to the sector to have, on average, higher capacity levels than those leaving the sector).

34. Registered capacity across third sector day care of children services was broadly unchanged over the period June 2017 to June 2020. However, registered capacity declined by nearly 4% in these services over the year to June 2021.

35. It will be important to continue to closely monitor these trends particularly as two of the main UK Government financial support measures (i.e. the CJRS and the SEISS) come to an end in September 2021.

Key Findings from the Provider Surveys

36. The surveys have provided a valuable source of data and context to help inform our assessment of the sustainability of the sector. They were completed using an online form, with links to the surveys sent out to the sector via various routes including through the Care Inspectorate and the representative bodies.

37. The day care of children survey was live from 28 April 2021 to 20 May 2021, whilst the separate survey for childminding services was live from 30 April 2021 to 20 May 2021.

38. There were 167 responses to the day care of children services survey. Based on the latest registration data for the sector this represents around 9% of all registered private and third sector services. There were 203 responses to the childminding services survey, which represents just under 5% of all registered childminding services.

39. In this section we have focused on the key messages and themes from the analysis of the surveys (with more detail available in the supporting Analysis and Evidence paper).

Assessment of Sustainability

40. The surveys asked respondents to provide assessments as to how sustainable they viewed their service on a scale of 1 to 10 (with 1 indicating very unsustainable/potential need to close in near future and 10 indicating very sustainable/no concerns). Respondents were asked to provide this assessment for two points in time: (1) at March 2020 before the impacts of the pandemic, and the restrictions for the sector, took effect; and (2) at the time of answering the survey (for the majority of respondents this would have been during May 2021).

41. Following these questions respondents were then able to provide more context to explain the factors that led them to make their assessments.

42. Table 5 provides a summary of the provider sustainability assessments in each period (at March 2020 and at the time of completing the survey). We have grouped the

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

43. Table 5 highlights that:

- In March 2020 the majority of providers were generally positive regarding their sustainability, assessing this at 7 or more (although childminding services were least likely to rate their sustainability at 7 or more in March 2020).
- There has been a substantial shift across all types of provider in their assessment of sustainability between March 2020 and at the time of completing the survey (mainly in May 2021).
- Funded ELC services in the private and third sector were the most likely to rate their current sustainability at 7 or more.
- The largest shift in the assessment of sustainability has been for SAC only services (with a decline from 95% of these services indicating a score of 7 or more in March 2020 to 47% of services at the time of the survey).
- SAC only services and childminding services not delivering funded ELC were most likely to have considerable concerns over their current sustainability (a score of 1-4). Funded ELC services in the private and third sectors were least likely to have a concern of sustainability.

Table 5: Summary of provider sustainability assessment by type of service in March 2020 and at time of completing the survey (a rating of 1-4 indicates significant concerns regarding sustainability; a rating of 5 or 6 indicates that the service was unclear on overall sustainability; and a rating of 7 or higher indicate a sustainable service).

	1-4 Total		**5-6 Total**		**7+ Total**	
	March 2020	**Current**	**March 2020**	**Current**	**March 2020**	**Current**
Funded ELC service	5%	**9%**	8%	**27%**	87%	**64%**
Service does not deliver funded ELC	2%	**26%**	6%	**28%**	92%	**47%**
Private Services	3%	**19%**	7%	**30%**	90%	**51%**
Voluntary/not-for-profit Services	4%	**17%**	6%	**25%**	90%	**58%**
School age childcare only	1%	**29%**	4%	**25%**	95%	**47%**
Childminding Funded ELC Service	7%	**20%**	8%	**30%**	85%	**50%**
Childminding Service not delivering funded ELC	13%	**31%**	10%	**25%**	77%	**44%**

44. The key factors raised by respondents to support their current sustainability assessment were:

- Significantly reduced demand for the service resulting in lower levels of income (particularly amongst SAC services and childminding services).

- Increased costs of delivery due to COVID-19 related factors, including enhanced cleaning costs, and additional staffing requirements.
- Concerns over the planned removal of government financial support, in particular the Coronavirus Job Retention Scheme.
- Being a funded ELC provider was highlighted by a number of respondents as being positive for sustainability – however, some respondents felt that the hourly rate that they received from their local authority for delivering funded ELC did not cover their current costs of delivery.
- Concerns about staffing in particular the loss of staff and challenges in recruiting suitably experienced staff.
- Some respondents highlighted that their financial reserves were, or close to being, depleted and some had seen an increase in their debt levels as they have undertaken additional borrowing through various routes.
- Concerns about further lockdown periods and what impact this would have on services.
- Some challenges for specific operating models were raised, in particular committee based groups (usually playgroups in the third sector) were mentioned by a number of respondents.

Changes in costs, capacity, income, and charges

45. Respondents to the provider surveys were asked for information on their average costs of delivery, occupancy levels (as a measure of demand), income flows, and on their charges to parents and carers. These questions asked for detailed information that enabled for comparisons to be made, where possible, between the position in March 2020 and at the time of completing the surveys. Table 6 provides a summary of the survey analysis across these themes.

Table 6: Summary of survey analysis across key themes

Theme	Summary of Analysis
Changes in average costs of delivery	• The main focus of the analysis was on the changes in the average costs of delivery as some respondents to the surveys (in particular childminding services) had difficulties in presenting their average costs of delivery on an hourly basis. • The analysis indicates that average costs of delivery have increased for all types of day care of children services since March 2020. • It is estimated that the average cost of delivering an hour of childcare to 3-5 year olds in funded ELC services has increased by around 10% since March 2020. • The analysis estimates that the highest increases in the cost of delivery may be for delivering to school age children, with estimated increases of close to 20%.

	• Childminding services, in particular those delivering funded ELC, reported lower rates of change in the average costs of delivery compared to day care of children services.
	
	• The main reasons offered for increasing costs of delivery:
	  ○ Increased cleaning costs were the most commonly reported factor - covering both the additional supplies required as well as additional staff time
	  ○ PPE costs
	  ○ Reduced demand for the service
	  ○ Working with the smaller cohorts (bubbles) which required more staff
	  ○ Costs associated with staff having to self-isolate
	  ○ Increase in insurance premiums
	  ○ Supplier costs have increased (food, utilities, rental charges, waste, etc)
	  ○ Costs of paying staff the Real Living Wage
	  ○ Some childminders reported increased transportation costs, including need to purchase more child car seats.
	
	• The majority of survey respondents (and all third sector and school age childcare services) reported that they let all or some of the premises that they use. For most respondents premises were let from their local authority.
	
	• Some respondents indicated that their costs were increasing due to changes in their let agreements, whilst others were subject to free let agreements with the local authority.

Demand and Income Flows	• Overall levels of demand (measured as occupancy levels) is currently lower for all types of services compared to March 2020. • In March 2020 the percentage of services who were operating at 75% occupancy or more was similar across all types of providers in the sector (e.g. private or third sector, SAC only, or whether or not they delivered funded ELC). • The largest declines in demand have been in school age childcare (SAC) only services. At the time of the survey 8% of SAC services were operating at 75% occupancy or more compared to 67% in March 2020. • Non-funded day care of children services, reflecting the predominance of SAC services in this group, experienced the second highest fall in demand (from 63% at 75% or more occupancy at March 2020 to 12% at the time of the survey).

	• Reported changes in demand, in terms of the proportion of services operating at 75% or over occupancy) between March 2020 and the time of the survey were similar for private (from 63% to 30%), third (68% to 33%) and non-funded childminding services (61% to 32%). • Demand has held up more for funded ELC services with 55% of both day care of children and childminding services operating at 75% or more occupancy at the time of the survey. • As a result of the reduced demand services have, on average, experienced lower levels of monthly income from fees paid by parents and carers (e.g. non-ELC income) compared to the period to March 2020. • The largest declines in average monthly income are for school age childcare only services with an average decline of 50% compared to the period to March 2020. The lowest levels of decline have been for funded ELC services in the private and third sector. • Income for the delivery of funded ELC as a percentage of overall income for funded ELC services has increased since March 2020 reflecting the continued payments for funded ELC and lower levels of non-ELC income.

Charges for families	• Hourly charges to parents and carers for non-ELC childcare have generally increased for most types of provision.
	• The surveys indicate that average increases in charges are, in general, lower than average increases reported in the costs of delivery across most service types.
	• Some services reported that they have delayed previous planned price increases due to the impact of the pandemic
	• A small number of respondents indicated that they were currently reviewing the business model for their service. This included considering whether changes were required to charging structure in order for the service to remain sustainable.
	• Reasons highlighted by services for price increases were:
	    ○ Increase required to cover additional cleaning and PPE costs
	    ○ Need to cover general inflationary increases and higher staffing costs
	    ○ Need to increase fees in order to be able to pay all staff in the service the Real Living Wage

	- Implementation of planned annual increase (some services indicate this normally takes effect in August/September each year) - Hourly rate received for funded ELC hours doesn't cover current costs of delivering the service - Need to increase charges in order to off-set fall in demand
Staffing	• The majority of services who responded to the survey had lost at least one member of staff since March 2020. • Services in the private sector were most likely to have lost a member of staff (86% of private services), whilst those in the third sector the least likely to have lost a member of staff (62% of third sector services) • Services that deliver funded ELC, and services in the private sector, were most likely to report that they currently had one or more staff vacancies in their setting. • Services in the third sector were most likely to report that they currently pay all of their staff at least the Real Living Wage (70% of third sector services). • Services in the private sector were least likely to report that they currently paid all their staff the Real Living Wage (37% of private sector services). • 88% of services delivering funded ELC in the private and third sector indicated that they planned to pay all staff in their setting the real Living Wage from August 2021.

Supporting long-term sustainability in the sector

46. The Health Check has highlighted that whilst all parts of the childcare sector have been impacted by the pandemic, the nature and scale of these impacts has varied across different types of services. For example, demand for some services, particularly for out of school care and childminders not delivering funded ELC, remain substantially below March 2020 levels.

47. This is a challenging period for many parts of the sector and it is too early to determine how many of the impacts that have emerged since March 2020 will be temporary and how many are structural changes which the sector will need to adapt to. It is possible that the patterns, and volume, of demand for provision offered by some providers may not return to pre-pandemic levels. As the Health Check has highlighted the impact of these changes will disproportionately affect some services.

48. Therefore, the key focus of our next steps are on actions that build on the substantial targeted financial support made available to the sector since March 2020, the actions already being progressed (for example, the actions in Our Commitment to Childminding), and aligning, where possible, with economy-wide support measures.

49. These actions are intended to maximise the impact of any available financial resource to support recovery, whilst enabling providers to have the capacity to adapt to support their long-term sustainability.

50. We will now work with the sector and delivery partners to progress these actions.

<u>Targeted Business Support for the Sector</u>

20. The Health Check has highlighted that services across all parts of the childcare sector may need to consider how to adapt their business models in order to support their long-term sustainability, and to respond to potential changes in the nature of demand for different types of childcare provision.

21. To support childcare providers to adapt their services, where required, and strengthen sustainability we will work with the sector, including a range of childcare providers and sector representatives, to develop an initial programme of targeted business, financial management, marketing and human resources (HR) support. This will allow childcare providers to access targeted support if they are in need of refreshing knowledge, upskilling, or accessing specialist advice (for example, to support restructuring).

22. This support will be tailored to meet the differing needs, and business models, of the variety services across the whole childcare sector including out of school care, childminding, and community-based, or third sector, services.

23. This will complement and build on the existing range of support that is currently available including, for example, business support available through Business Gateway. In addition to the targeted support for the sector we will explore what more can be done to help providers access this existing support.

24. We will build on the learning from delivering this initial investment in targeted support, and on the broader range of existing services, to identify the best approach to supporting childcare providers to strengthen their sustainability and to have the capacity to respond to future changes in the sector.

<u>Workforce and recruitment</u>

25. Staff recruitment (in particular of qualified staff) and retention remains an ongoing challenge for some services in the private and third sectors. We are clear that support will continue to be required for these services on recruitment and retention beyond the rollout of 1140 hours. This will ensure that we have the capacity to meet the challenges of our ambitious manifesto commitments on developing a system of wraparound childcare and for the introduction of an early learning offer for 1 year olds from low income households. We will therefore take forward a series of actions to support recruitment and retention across all parts of the childcare sector, including:

    - Introducing a Childcare Taster Programme as part of the National Transitions Training Fund in 2021-22. This will aim to provide jobseekers aged over 25 who have recently been made redundant, or are labour market returners, with virtual and physical work experience in a range of childcare settings, to showcase the opportunities of a career in childcare and encourage a diverse range of individuals to go on to join the sector. Skills Development Scotland intends to manage this delivery through its Employability Fund contracts from late summer.

- Working with colleagues in the Scottish Social Services Council (SSSC) to reach out to individuals formerly registered with them to work within the childcare sector, to encourage them to rejoin the sector.
- Developing a new Workforce Strategy to explore the medium to long-term recruitment and retention challenges facing the wider childcare sector, in collaboration with the sector.
- Establishing a Living Wage and Fair Work Implementation Group by the end of 2021, to explore implementation challenges for providers delivering funded ELC and to support the wider childcare sector with the promotion of fair work practices to support staff retention.

Sustainable Rates for Funded ELC Services

26. Alongside this report we have also published updated information on the sustainable rates that services currently receive from their local authorities. In light of this report and the findings from the Health Check we will provide further support to strengthen the process for setting sustainable rates including:

    - reviewing and updating the sustainable rates guidance, originally published in April 2019, to ensure it reflects the current delivery cost factors for services and the varying cost considerations for different types of services;
    - working with COSLA and local authorities to support the sharing of good practice in the application of the sustainable rates guidance and in working with the sector to establish sustainable rates; and
    - exploring the potential for making additional support and advice available to local authorities, where required, to support the sustainable rates setting process to ensure that rates reflect the costs of delivery, provide scope for reinvestment and enable delivery of the real Living Wage commitment.

27. We will work with COSLA to ensure that these changes are made in time to be reflected in the process for setting sustainable rates for August 2022.

28. We will also update the sustainable rates data collection exercise annually, with the updated information published by the end of August each year.

Administrative Requirements on Providers

29. In some of the case study interviews, in particular those with childminders, and the qualitative supporting information provided in survey responses, providers highlighted challenges regarding administrative requirements and that pressures related to this have increased during the pandemic.

30. In order to better understand these potential challenges we will work with the sector to undertake a review of the administrative requirements on providers, particularly for private, third and childminding sector services, and set out what action will be taken to reduce and simplify processes by no later than April 2022.

31. This is closely linked to, and will build on, the action in Our Commitment to Childminding to review local tendering approaches and how recent changes, as part of Funding Follows the Child, have impacted on small and micro-enterprises such as childminders.

Our Commitment to Childminding

32. The childminding sector faced challenges prior to the pandemic, with significant year on year decreases in the number of services. In January 2021 we published Our Commitment to Childminding, which sets out actions to help address these longer-standing challenges, as well as those resulting from COVID-19.

33. Work on these actions has continued throughout the year, however due to the necessary focus on COVID-19 recovery in the first half on 2021, some actions have still to be progressed, whilst new support measures and actions have been introduced. For example, in March 2021 the Scottish Government launched the Childminding Business Sustainability Fund which made a one-off grant of £750 available to all registered childminding services; and the Financial Sustainability Health Check has been undertaken.

34. In September 2021 we will publish the Scottish Government commissioned Ipsos Mori report on 'Perceptions of the impact of childminding services on child, parent and family outcomes'. The report will provide a wealth of evidence that will be useful to support actions from the Commitment to Childminding plan, particularly the focus areas; Supporting childminding as a choice, by improving availability and access to childminders; and Promoting childminding as a choice, by helping parents and carers make informed choices.

35. We committed that beyond the Scottish Parliamentary Elections in May 2021 the plan set out in Our Commitment to Childminding would be refreshed and brought up to date in line with feedback and reflection on delivered activities and actions. We will now refresh and update this plan to reflect the findings and next steps from the Financial Sustainability Health Check.

36. We are also in the process of establishing a steering group, which will include sector representatives, to monitor progress in delivering the commitments in the plan.

Public Sector Lets

37. The survey highlights the variability of let agreement conditions and charging terms, which particularly, although not exclusively, affects school age childcare services. Premises are let through a variety of sources, including local authorities, community initiatives, Church Halls and local businesses. The Health Check has highlighted that

changes in let agreements which have resulted in cost increases have created financial challenges for some services.

38. The majority of SAC services and third sector services rent their premises from a local authority. Across the 32 authorities charges and terms and conditions vary, and the Health Check survey has indicated that some services have free let agreements in place with their local authority. A recent SOSCN survey indicates that close to half charge no fees and 13 charge variable fees depending on the type of service.

39. Given the importance of let terms and conditions to the costs of running childcare services we will work with COSLA and local authority childcare teams to map the various existing approaches to the contract management of let agreements.

40. This work will consider how let agreements are reached, and if and how they affect security and sustainability outcomes for childcare services. Building a shared understanding of these factors could help realise the government commitment to make breakfast, after school and holiday clubs more affordable, particularly for those families who are financially vulnerable.

Funding for representative bodies

41. The Health Check has highlighted the important role that the provider representative bodies play in supporting their members. However, these organisations are facing challenges regarding their own financial sustainability particularly given the impacts of the pandemic.

42. Each of the representative bodies currently receives core grant funding from the Scottish Government. We will now undertake a review to explore how the impact of this core funding can be maximised to support outcomes for children, childcare services, and the long-term sustainability of the representative bodies.

43. We will report on the finding of the review before the end of February 2022.

Impacts of the need to self-isolate

20. Although the impact of the need for either staff or children to self-isolate was only raised by a small number of respondents to the surveys we are aware that this has been an issue that, since the surveys were undertaken, some childcare services have raised as a significant pressure.

21. There have also been recent reductions in the requirements regarding self-isolation. For example, from 9 August adults identified as close contacts of someone who has tested positive for COVID-19 are no longer automatically required to self-isolate for 10 days. Anyone who is double-vaccinated with at least two weeks passed since their second dose and who has no symptoms will be able to end self-isolation if they return a negative PCR test. These changes are expected to reduce the length of time for which staff across childcare services are unable to attend work due having to self-isolate.

22. We will monitor and assess the impact of recent changes to self-isolation requirements on trends in staff absences across the sector in order to identify where further actions may be required to support the sector. To support this monitoring, our main source of data on staff self-isolation is the Care Inspectorate's weekly staff absence survey. It's therefore essential that settings prioritise completing this survey each week to allow the Scottish Government to understand the real level of staff absence as a result of self-isolation.

23. We also regularly monitor the impact of the pandemic on service closures and the numbers of children absent for wider COVID-19 related reasons (such as self-isolation). Our main source of data to support this monitoring is the Scottish Government's fortnightly childcare survey. Again, it is important for settings to prioritise completing this survey to support our understanding of these impacts. We will also continue to engage with sector representatives on the COVID-19 Reference Group for the childcare sector to assess the impact of the full range of risk mitigations in our guidance.

Next Steps

24. We will now work with the sector and delivery partners to progress these actions.

25. We will also continue to monitor developments across the sector, in particular as wider support schemes such as the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme come to an end, to assess any changes in underlying trends and any impacts on financial sustainability. This includes considering the financial implications for all types of childcare services if any further significant public health restrictions were to be introduced at a future date.

26. There are new policy commitments which will be implemented over the course of this Parliament, in particular the development of a system of wraparound school age childcare offer and the introduction of an early learning offer for 1 year olds from low income households. In delivering these commitments we will design and fund services to ensure that they are provider neutral and there is a level playing field, learning the lessons from the 1140 expansion programme and the implementation of Funding Follows the Child.

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