



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Thursday 15 June 2023

Session 6



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PUBLIC AUDIT COMMITTEE
18th Meeting 2023, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Sharon Dowey (South Scotland) (Con)

COMMITTEE MEMBERS

Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

*Craig Hoy (South Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)

Sophie Flemig (Accounts Commission)

Tricia Meldrum (Audit Scotland)

Rebecca Smallwood (Audit Scotland)

CLERK TO THE COMMITTEE

Lynn Russell

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Audit Committee

Thursday 15 June 2023

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning. I welcome everyone to the Public Audit Committee's 18th meeting in 2023.

The first item on our agenda is for members to consider whether to take in private agenda items 3, 4 and 5. Are members agreed?

Members *indicated agreement.*

The Convener: I should also record that we have apologies from Colin Beattie.

Section 23 report: "Early Learning and Childcare: Progress on delivery of the 1,140 hours expansion"

09:00

The Convener: This morning, we will hear evidence on the Audit Scotland and Accounts Commission section 23 report, "Early learning and childcare: Progress on delivery of the 1,140 hours expansion". To that end, I welcome our four witnesses. We are joined by the Auditor General for Scotland, Stephen Boyle, who is accompanied by Tricia Meldrum, a senior manager at Audit Scotland, and Rebecca Smallwood, an audit manager at Audit Scotland. I am pleased that we are also joined by Sophie Flemig from the Accounts Commission. It is a joint report by the two organisations. You are all very welcome.

We have a number of questions to put to you on the report but, before we get to questions, I ask the Auditor General to make a short opening statement.

Stephen Boyle (Auditor General for Scotland): Good morning, committee. I am delighted to present the joint report on funded early learning and childcare that Audit Scotland has prepared on behalf of me and the Accounts Commission.

From August 2021, the number of hours that eligible children are entitled to receive annually increased to 1,140. The report provides an update on expansion progress and outlines associated risks that were covered in our 2018 and 2020 reports. Our audit report found that the Scottish Government and councils, allowing for the impact of the Covid-19 pandemic, did well and delivered the expansion by the revised deadline of August 2021. Councils had completed most of the infrastructure projects required and significantly expanded their workforce. Take-up of funded ELC by three and four-year-olds remains high, and most parents are happy with the flexibility that is available. More two-year-olds are now registered for early learning and childcare, but many more are estimated to be eligible but not yet receiving funded places. The Scottish Government and its partners have made progress with data-sharing arrangements that will allow councils to identify eligible two-year-olds.

The sector, however, remains fragile. The report highlights that some risks have changed since the expansion came into effect in August 2021. There are budget pressures on the Scottish Government and councils. Workforce pressures, including the sustainability of funded providers, such as private

nurseries and childminders, risk limiting flexibility and choice for families, which is important to achieving the intended policy outcomes. The Scottish Government invests around £1 billion annually in funded ELC, but the report highlights that there are complexities in apportioning spending specifically to the expansion. The Scottish Government plans to assess the value for money of the expansion as part of its next phase of evaluation.

We have again highlighted data gaps. There have been further delays in developing the software that is needed to improve the management and monitoring of ELC services. There continue to be gaps in data that impact on planning and monitoring, including whether funded providers pay the living wage across the ELC service.

It is too early to assess whether the expansion has led to better outcomes for children and increased opportunities for their parents to work, study or train. The Scottish Government has developed plans to evaluate the impact of the expansion and collect the necessary data. Baseline data has been gathered. The impact of Covid-19 will make the evaluation more challenging. We intend to come back to funded ELC with future audit work to examine the impact that the policy has had on outcomes for children and their families. Our report makes recommendations to the Scottish Government and local authorities.

As you know, I am joined by Rebecca Smallwood and Tricia Meldrum, who are part of the audit team that produced the report. I am delighted that Sophie Flemig from the Accounts Commission is here with us to help answer the committee's questions.

The Convener: Thank you very much indeed.

My first question is on that last point. You make it clear in the report that it is too early or you are not yet in a position to make an assessment around the impact of the policy. What do you envisage your timescale being to be able to do that?

Stephen Boyle: We have not yet nailed down when that will take place. We say in the report that it remains our intention to do further audit work at the right time. As I mentioned in my introductory remarks, this is the third report. Given the significance of the impact that the policy will have on outcomes for children and young people as part of the continuation of early intervention and preventative spending to deliver benefits in the long term for young people and families, we will give careful consideration, together with the Accounts Commission, to when the right time to do so is. It will probably be some time over the

next few years. It is difficult to be more precise than that.

The Convener: Thank you. We can see that there are staged approaches to the roll-out—by age, for example. It will be interesting to see where that gets to.

We have another question that we want to ask you by way of introduction. You indicate in the report that, roughly speaking, expenditure in the year that you looked at was £1 billion of public money. What is the projected funding figure for future years?

Stephen Boyle: In a moment, I will bring in Rebecca Smallwood to say a bit more about what that means. There is some volatility, and that brings a degree of risk to the future. Around £1 billion is spent annually. I will come on to say a bit more about, and I am sure that the committee will be interested in, the lack of precision on the cost of the expansion of early learning and childcare, which is due to some of the complexities around the collection of information between councils and the submission to the Scottish Government.

What it means for future budget provision will be a matter of policy choice for the Government, scrutinised by the Parliament, as to how much it intends to spend. We know that the commitment remains to deliver future early learning and childcare, but the actual amount that is being spent is reducing slightly, because of projected changes in the number of children and young people who are accessing the service. Rebecca Smallwood can say a bit more about that, but there is some volatility in the short term, and significant choices have to be made by councils and the Scottish Government, among its other priorities.

Rebecca Smallwood (Audit Scotland): We set out in exhibit 2 the funding allocations that the Scottish Government has made for ELC up to 2023-24. That is the only year for which we have information. We do not know at this stage what the arrangements will be for 2024-25.

The Convener: Exhibit 2 shows a flat cash settlement, does it not? Am I reading that correctly?

Rebecca Smallwood: There are two aspects to the funding for ELC. Some of the allocation from the Scottish Government goes through core funding for councils, and that reflects the historical arrangements that were in place to fund the 600 hours of funded ELC. Prior to the expansion, that was the number of hours for which children were eligible. The second part is a ring-fenced grant—a specific grant for funded ELC, which was intended to fund the additional 540 hours that were brought in through the expansion. There has been some change in that over the past couple of years. As

we set out in the report, in 2022-23, it was £15 million less than it was in the previous year and, in 2023-24, it was £9.1 million less than it was in 2022-23. So, there was movement in that specific grant, but the core funding has stayed the same.

Stephen Boyle: Sophie Flemig might want to say a bit more about what it means for councils' funding and some of the wider challenges that councils have. Rebecca Smallwood is right to say that there are two components. There is the ring-fenced element for the expansion, and there is an indicative allocation within the wider funding to councils. That indicative component that is allocated notionally against early learning and childcare has dropped by 14 per cent in real terms. So, there is an element of protection with the expansion ring-fenced grant, but the indicative bit is not protected. Councils will have to make choices about that, in considering their priorities. The same applies to the Scottish Government, as it thinks about its priorities and choices through its allocations.

I am sure that Sophie will want to say a bit more about that.

Sophie Flemig (Accounts Commission): Thank you, Stephen. You have covered most of it. I would add that the complexity is by design. The initial provision of 600 hours is not quite discretionary, but the entire design is meant to pick up local differences, so that councils have flexibility to respond to their local needs in the way that is best suited to the needs and changing needs of the population. There is the added complexity of the geographical spread—with urban and rural areas and so on—and the predicted intake of children who are eligible for the policy. There is also the fact that the overall budget is for pre-primary education, so it is not even just for ELC. Rebecca will keep me right on this but, within that, there is also wraparound care, spend on additional support needs and so on.

I suppose that the big takeaway from our side is that it is complex. It is complex by design, but there is also an absolute need for data in order to get clarity.

The Convener: Reflecting on some of your earlier reports, there were concerns about the extent to which the expansion would be fulfilled, because of delays in the provision of new buildings and refurbishment of buildings, and concerns about whether the increased staffing that would be required to deliver the expansion would be met. Therefore, when I read this report, I was quite pleasantly surprised to find that that appears to have happened. We talk about the £1 billion of funding, but is that revenue funding? Does it include the capital investment that has been required to increase capacity in the public sector,

for example? Can you break down those different components for us?

Stephen Boyle: I will bring in Rebecca Smallwood to say a bit more about the split of capital and revenue. One element is that not all of it is funded. As is set out in the report, some councils have had to, or have chosen to, use their own capital funding as they have increased the supply of buildings. There are useful examples across Scotland of councils that have done that.

I will deal with your wider point before turning to Rebecca. This is a positive story from our perspective and, I am sure, that of the Accounts Commission. Our key message is that councils and the Government have done well to get the necessary infrastructure just about in place. I think that we said that around 90 per cent of the intended buildings are in place. The provision is in place across the country, with some contingency arrangements while remaining capital projects are being completed. The necessary workforce is also in place to deliver it. Yes, risks remain, but delivery of what was anticipated, with the extension as a result of the pandemic, has been achieved. Rebecca can say a bit more about the nature of the funding that was used relative to budget.

Rebecca Smallwood: The Scottish Government allocates around £1 billion of revenue funding annually. The capital funding for the expansion was separate. There was an agreement to provide £476 million between 2017-18 and 2020-21. That was the capital funding for the expansion. As we highlight in the report, as of August 2022, councils were projecting that they would spend £598 million on capital for the expansion. In the report, we also get into a number of reasons why that projected figure is higher than the allocation, including some of the projects that councils have included in their projections that were not intended to be funded through those allocations.

We know that more up-to-date information will be available on this. Our report highlights the position at August 2022. That was the most recent data that was available to us at the time of doing the audit, but the Scottish Futures Trust gathers information on the issue from councils reasonably regularly, and we know that there has just been another data collection in May. The SFT is working through that at the moment, so we expect a more recent figure to come out shortly. We will also look at that.

09:15

The Convener: That is really helpful. Other committee members have questions about financing arrangements and staffing levels, so we will come to those. I now turn now to Craig Hoy.

Craig Hoy (South Scotland) (Con): Good morning, Mr Boyle. The legislation and the associated statutory guidance place an emphasis on flexibility and choice for parents in accessing early learning and childcare, but the degree of choice is very much determined by local authorities. Will you flesh out a little bit the extent to which parents can access early learning and childcare outside their local authority, if that local authority does not give the flexibility and choice or the patterns of childcare that they might need?

Stephen Boyle: Good morning, Mr Hoy. I will say a word or two, and then I will bring in Sophie Flemig and Rebecca Smallwood to talk about councils, choices and the options that parents have.

The issue of flexibility is absolutely recognised in both the legislation and the report. At a high level, parents say that they are happy with the expansion arrangements, but that is not the case for everybody. Some people did not get the provision that they wanted, and the report reflects some of that, the reasons behind it and whether they relate to the provider or the location that people wanted. It is not spelt out in the legislation that everybody will get exactly what they want, which means that although you will get the provision, not every need of yours will be met.

As for what happens next, the onus is on the council, because, as the legislation sets out, it is for the council to be the lead in the provision and to use funded providers accordingly. We will come to the risks associated with that, but Sophie Flemig might be able to tell you what that will mean for councils' roles in bringing out and sustaining the sector.

Sophie Flemig: As Stephen Boyle has said, we refer in the report to data from the Scottish Government. In a survey of 8,000 parents, 88 per cent of the parents of three to five-year-olds were happy with the allocation, and the figure is higher for parents of eligible two-year-olds. If we look at the baseline value, we see that, broadly, the system seems to work for the needs of most, but not all. There is always significance in who the remainder is, but that is not our data.

On your specific question about flexibility across councils, my understanding is that there are agreements in place, because in areas such as East Renfrewshire and Glasgow, there will be situations where a person's place of work and place of residence will be in different council areas. Rebecca Smallwood can talk about the details. Agreements are in place, but planning in that respect is much harder. Because it is not about the local population, it brings us back to predictions of need.

Rebecca Smallwood: Sophie Flemig is right that cross-boundary arrangements for councils are in place as part of the guidance on the funding follows the child model. Councils should be able to offer people who ask for that option a place in a different council area.

Craig Hoy: Mr Boyle, you said that most parents seem satisfied or content with the arrangement, but let me highlight an example from East Lothian, where the parents were not happy. The council, for perfectly valid reasons, cancelled a contract with Bright Stars nurseries. In a period of weeks rather than months, parents had to scramble to get their children into the available nursery provision, which was council-provided and strictly determined by a model that was, in my view, highly inflexible.

Given that you have identified that there is, effectively, a funding shortfall, in the sense that councils are being asked to do more with less financing, is there a risk that the buck is being passed to councils and that flexibility means what is affordable in any given area? Councils that have the resources can offer flexibility to parents, but the councils that are squeezed—which make up the vast majority, if not all of them—have to come up with rigid models. That means that people's working and behavioural patterns have to fit the model of provision rather than the other way around.

Stephen Boyle: There is quite a lot in your question, Mr Hoy, so I will share it around with colleagues. It might be helpful if Tricia Meldrum sets out the context with regard to quality, which is what I think that you are referring to, and some of the criteria that Government and councils use under the Care Inspectorate assessments of quality arrangements.

All of us will want to say a word or two in response to your question, but I will say something about the funding arrangements. There is a range of views on the extent to which funding is sufficient to meet the requirements. As I mentioned a moment or two ago, funding levels are going to drop slightly in years to come; the Government's position on that is that it reflects the modelling, with a reduction in the number of two, three and four-year-olds who will be accessing the service. There is a linear relationship in that respect.

From the perspective of the Convention of Scottish Local Authorities and the councils, though, the relationship is more complicated. Because some of their costs are fixed, it will not be possible for them to vary the provision and their cost base as quickly, if we think about the annual allocation. There is, therefore, a range of perspectives on the matter.

I am not close to the detail of the case that you have referred to or the circumstances of that particular private provider and what it might mean, but it does speak to some of the wider points that we have made in the report about the fragility in the sector. If a quality issue arises with a particular provider as a result of a judgment from the Care Inspectorate—and I should say that I am not talking about the case that you mentioned—the responsibility remains with the local authority to secure the provision. We have set out in the report the effects of rising costs, inflation, workforce pressures and movement of staff from private providers to council providers. Because there is not always consistency in terms and conditions, it can be more challenging for private providers to sustain their business models in the light of such changes.

That was a high-level response, Mr Hoy. I will bring in Tricia Meldrum first, and then broaden the discussion by bringing in the others.

Tricia Meldrum (Audit Scotland): Again, I will not get into the specifics of the individual nursery and council that you have referred to, Mr Hoy. However, the requirement on providers is to meet the criteria set out in the national standard; it covers 10 elements, a number of which relate to the scores that they receive in Care Inspectorate inspections. Providers have to achieve “good” or better on the six-point scale that is in place through that quality mechanism; if they do not meet those criteria, they have a period in which to improve by putting in place an improvement plan and having a reinspection and if, after that, they still do not meet the national quality standard, they will no longer be able to provide funded early learning and childcare. The approach is very much based on the Care Inspectorate’s inspections and the gradings that providers receive.

Sophie Flemig: Tricia Meldrum has set out the detail. As Stephen Boyle has pointed out, we can, from the scope of the audit and what we have looked at, clearly say that the Scottish Government and councils have achieved their goals. However, we also highlight quite clearly in the report the risks that you have mentioned with regard to the workforce and the next steps. We need more certainty on data to tackle the issue that is being addressed.

As has been mentioned, there is the question of how allocations work at a local level. The complexity arises from the fact that you have different settings, with private provision, statutory provision by councils themselves—which is, in a way, more immediately manageable—and childminder provision, which is a different model again. Councils have in their grasp the flexibility to offer parents a wide array of choice, but that is

contingent on the availability of private providers, be they childminders or private nurseries.

As for the numbers, there is a question about the terms “flexibility” and “need”, which mean different things to different people. I am not saying anything against your example, which I think shows in a valid way that expectations were not met, but I would just say that, from the point of view of the policy and what we are looking at in the report, the overall intention is being delivered. A range of options is available, even though, as Stephen Boyle has pointed out, they might not always meet the specific family’s needs. Those things, unfortunately, come and go.

Rebecca, do you have anything to add on flexibility and forward-looking service?

Rebecca Smallwood: Councils consult with parents. Indeed, they should do so every two years, and the comments should be used to inform the models that are then offered. However, as colleagues have said, that does not necessarily mean that the models on offer will meet every family’s needs. Those models should reflect the results of the consultation, but that might not work for everyone.

Craig Hoy: I wonder whether councils are basically providing what they can provide under the financial constraints, instead of looking at what parents actually need.

Given that councils, which are both providers and rule setters, determine the rates for the private, voluntary and independent—or PVI—sector, is there perhaps a contradiction or a conflict of interest in the whole system that the Scottish Government has overlooked?

Stephen Boyle: The sector is changing rapidly, Mr Hoy. The new legislation, which has resulted in the roll-out of the 1,140 hours expansion, has had a significant impact on the sector. I said in response to the convener that there has been significant investment in infrastructure and new building supply, and the workforce, too, has changed fundamentally, with 8,000 new people working in the sector. On top of that, some private providers’ business models have been disrupted. So, there has been a real change, and our report refers to the expectation that the living wage will be paid, that different terms and conditions exist across providers and that some statutory responsibilities remain with councils.

Is flexibility being offered to all? Probably not, and we have set that out in the report. I am not sure that I would say, though, that it amounts to a conflict of interest. In effect, what I am saying is that there is a statutory responsibility and a requirement in different parts of the country to have a mixed market that operates effectively. Recalling some of the risks that we set out in the

report—and going back to the example that you referred to—I would say that, if there were to be a failure on the part of a provider, responsibility would remain with the council to provide that service. That would not be a straightforward matter for the council, as not all provision would be available. The Scottish Government, local authorities and private providers need a mechanism for working towards stable provision across different sector settings.

The measures of stability in the sector, which we talk about in the report, are really important. Again, I will bring in Rebecca Smallwood to talk about this, but in that respect, I would just highlight the stability survey that assesses the volume of people who remain in post each year. On top of that, the Government has undertaken a financial health check of private sector providers and is awaiting its conclusions. It is not that the Government and councils are not aware of the issues; they very clearly are, and they are working through them. The right point for us to come back to this is when we are clear about the valuation arrangements and the totality of the investment. We are watching that carefully.

Rebecca Smallwood: The Scottish Government has carried out a financial health check in previous years, and we understand that more information on that will be available in the summer. Essentially, it looks at the sustainability of the whole sector, so it goes broader than just ELC to include, I think, out-of-school care providers. We expect that there will be actions associated with whatever comes out of that in the summer.

Another measure that has been looked at in the absence of good data on the movement of staff is the stability index. In the report, we talk about the potential movement of staff from funded providers to council settings. There is no great source of information on that, but we do have the stability index, which looks at whether someone is still in post after a year and which has been consistently higher in council settings than among funded providers.

Sophie Flemig: Perhaps I can add briefly to that. In the report, we make a specific recommendation about the need for data to be accessible, because we need to be able to make a judgment call on it. Obviously, there is a lot of anecdotal evidence. That is not dismissed—it is referred to. Indeed, in our audit work, we are at pains to have those conversations with providers, charities and so on.

The message is quite clear: as Rebecca Smallwood has just said, that data needs to be in place and needs to be comparable if we are to answer your specific question about movements between sectors and, therefore, the stability of

councils and the interplay with regard to where they sit in that respect.

09:30

The Convener: We have spoken a little bit already about flexibility and outcomes. One of the expected outcomes that there has, I think, been some measurement of was that the increased provision for pre-school education might lead to parents and carers taking a decision to defer their children going into primary school. On the evidence that you have produced in the report, that does not appear to have happened to the extent that people may have expected. Will you say a little more about that? Do you have any understanding of why that is? Is it a cultural thing? Are there other factors at play that mean that we have not seen the choice, which is there, being made to defer children's going into primary school?

Stephen Boyle: You are right, convener, and colleagues will want to comment on that. We cover that in paragraph 20 of the report. Parents have the relatively straightforward option to defer the entry to school of children whose birthdays fall in January or February, before the cut-off at the beginning of March, to the following school year, and, with further discussion, there may be that option for children whose birthdays fall in December or before that. The concern was that more deferrals would lead to more pressure on early learning and childcare settings. That has not been as much as was anticipated. Further work is under way on the pilot activity to review that impact in more detail, and that report is awaited.

I will bring in Rebecca Smallwood, who may have more detail to share on that.

Rebecca Smallwood: The pilot report was published on the same day that we published our report, so we have not included any of its findings in our report, but we have now seen it.

The legislation on deferrals is changing from August but, in advance of that, 10 councils were piloting a new approach that would let children with birthdays after August and up to December also defer. The pilot report showed evidence of a sharper increase in deferrals in the pilot areas compared with the rest of Scotland, but it is difficult to ascertain a specific trend. It concludes that more data is needed in future years. Things are complicated partly because of Covid and the impact that it has had on deferral rates more broadly. Whether parents' opinions about whether to defer their children were the result of the pilots in those areas rather than the impact that Covid might have had on those is difficult to disentangle, so that data is being monitored.

The pilot report highlights that there were localised capacity issues, which we highlighted in our report, as well. That has not been a more widespread issue, although I think that staff have concerns that that might change as that perhaps becomes more widely known about among parents. There is still a risk as to how that works in future.

The Convener: Who produced the report on the pilots? Was it produced by the local authorities or by somebody on behalf of the Scottish Government?

Rebecca Smallwood: It was commissioned and published by the Scottish Government.

The Convener: Has there been any response yet? Do we know what actions the Scottish Government will take in light of the report on the 10 pilots?

Rebecca Smallwood: I have not seen any actions from the Scottish Government, but the report has now been published.

Stephen Boyle: We can take a further look at that and, if need be, come back to the committee.

The Convener: Thank you. That would be helpful.

We speak about the expansion to 1,140 hours, but they are not mandatory. Do you have any data on, or have you done any work to understand, why parents and carers may exercise the right not to avail themselves of the 1,140 hours?

Stephen Boyle: Again, Rebecca Smallwood is on top of a lot of the detail of that, and she will set that out for the committee.

It is absolutely the case that they are not mandatory. Parents and carers cannot be forced to engage children and young people in pre-school education. However, that is not to say that we have not seen significant changes in behaviour and volumes of registrations. Three and four-year-olds are one part of it, but it is important to recognise that the policy broadened out statutory provision for vulnerable two-year-olds as well, with the intention, as part of the theme of earlier intervention and preventative spending, of delivering longer-term outcomes and objectives.

The reasons why some people do not engage are wide and varied. The report covers that, and Rebecca Smallwood can say a bit more about it. Much of it will come down to parental choice activity. Some of it will be about flexibility and the provision not suiting individual families' circumstances—we touched on that with Mr Hoy. That will always be a factor, but the legislation is clear that every single family's choices will not be able to be met. Rebecca Smallwood can take the committee through that.

Rebecca Smallwood: As the Auditor General said, we know that uptake is higher for three and four-year-olds, and two-year-olds tend to be the area in which we can see that there are more children eligible than are accessing the service. One of the main barriers that has been found previously—we have included this in our previous reports to the committee—to two-year-olds accessing the service is that councils do not know which families are eligible. It is difficult for them to promote uptake among families who might be entitled, because they do not have information on who those families are.

We have highlighted in the report that we have seen some positive progress in that area this time round, because data-sharing arrangements are now being put in place to allow councils to access information on who specifically, in their council area, might have an eligible child. Councils can then contact those families and let them know that they are eligible, and the families can then make a choice as to whether or not they wish to take up their place.

The new legislation that was brought in in October is allowing that data sharing to start, and we saw an update on that yesterday. In the report, we highlight that councils will be able to access the data once the governance arrangements are in place, and we know that 15 councils now have access to the data and have those arrangements in place. That is the most recent update.

The Convener: Okay. Thank you.

I have one final question before I bring in Willie Coffey. In paragraph 25 of the report, you refer to satisfaction surveys of parents in consideration of the flexibility of the arrangements and so on. If I have read it correctly, there was a much higher satisfaction rate among parents or carers when the children were living in households in which parents were not at work, for example. There also seemed to be a higher satisfaction rate in the more deprived areas. Do you have any rationalisation of that? Could you enlighten us as to why you think those are the results?

Stephen Boyle: Any answer would be in the realms of speculation, convener. I could offer a thought on the converse—why the satisfaction rate was not as high in families with parents who were working. Perhaps those families require precise provision in a particular location to support their requirements. For families with parents who are not working, perhaps the provision is closer to home, offers more choice, and is more open to flexibility.

When the Government is using that information as part of its longer-term evaluation, it matters that it captures families' views and the outcomes for children and young people. Sophie Flemig might

want to say a bit more about this, because it is of keen interest to her, but one of the recommendations that we made in the report is about taking children's views into account as part of the evaluation, as per article 12 of the United Nations Convention on the Rights of the Child. Making sure, as part of the wider evaluation, to engage properly with very young children who are using the service is a key next step for the Government and its partners.

On the earlier part of your question, any answer would be speculation.

The Convener: Was there quite a wide variance between those different groups of households? One of the stated and agreed public policy objectives of the expansion of early learning and childcare is about increasing levels of economic activity, is it not? If it is not serving the needs of parents and carers who are at work or want to go to work, that is a public policy issue that needs to be addressed, is it not?

Stephen Boyle: Yes, very clearly, convener.

I will move to the evaluation section for a moment—I am sure that Sophie Flemig will want to say a bit about this, too. From looking at the arrangements for evaluating the success of the policy, the value for money that has been achieved and the connections to the national outcomes, what we have seen so far is positive from the Government's perspective. The Government has captured baseline data. In its approach to evaluation, as set out in the aims of the evaluation, which are covered in paragraph 98 of the report, and the individual measures that the Government looks to assess, which are detailed in paragraph 99, one of the stated aims was very clearly to increase economic activity for families who are on a low income or who are not working.

The signs are positive, with some caveats. Rebecca Smallwood rightly mentioned some of the progress on data sharing, which was one of the barriers, and especially the fact that the earlier the intervention, the more likelihood there is of longer-term success. If that is not achieved for vulnerable two-year-olds, the long-term implication is much more significant.

Data sharing is in place, and that is really positive. We see that the building blocks are there, but lots of work still has to happen before the Government and councils can take an informed view that the policy has brought benefits to children and young people in terms of outcomes and economic success.

Sophie Flemig: Thank you for bringing up article 12 of the UNCRC. The team will keep me right, but I think that the audit is the third in the series. When we started, the focus was, as it should be, very much on quality, and children's

experience and the outcomes for them. We can see where potential trade-offs and complexities lie in making the approach work, because sometimes it may not be quite aligned with parental, let alone workforce, needs, so there is a tension that will be difficult to manage. It will look different for different families.

Overall, it needs to be brought back to children, and we make the recommendation to involve them. If I am not mistaken, they were involved at the very beginning. At the inception of the policy, two early years settings were involved, where children and parents were consulted about how best to go about the expansion. Those are good foundations on which to build.

There is also quite a lot of work in the charitable foundation sector that looks specifically at your question on the differential experiences between eligible two-year-olds and other children. The foundations are there, so I hope that, in the next audit, we will be able to answer that question more precisely. I reassure you that it is a keen interest of the Auditor General—if I can speak for him—and of the Accounts Commission to come back with an answer to the question whether the policy has worked and on what levels.

The Convener: Yes. Of course not all other things will be equal over that time, but it would still be very useful to have those assessments.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, everyone.

I want to stick with our very young friends the two-year-olds for a moment. Stephen, your report tells us that 25 per cent of two-year-olds are eligible, but that figure is going up. The number of families with two-year-olds who wish to take advantage of the policy is going up, probably because of the current economic circumstances. Do you have any sense of whether the demand is uniform across Scotland or whether there are pockets of Scotland in which there is more of an increase in demand and uptake than in others?

Stephen Boyle: I will bring in Rebecca Smallwood and Sophie Flemig to say what information we have about the geographical implications. You are right that that population group is liable to change directly in response to economic circumstances. That is all the more reason for the data and the accompanying policy objectives to be clear.

I will bring in my colleagues to give you the geographic information.

Rebecca Smallwood: The difficulty is that we know that 25 per cent of two-year-old children are estimated to be eligible, but that is an estimate. That goes back to the data-sharing issues. That is only an estimate of how many children are eligible;

we do not have the figure broken down at a council level. Although the Scottish Government publishes statistics on uptake among two-year-olds through its census, which are available at council level, we cannot say the extent to which that reflects the number of eligible children.

09:45

The estimate of the number of eligible two-year olds has not been updated in some time, because it relies on information from His Majesty's Revenue and Customs and the Department for Work and Pensions. The Scottish Government will be able to refine that as a result of data-sharing arrangements with councils. It will then have a better sense of the number of eligible children, and it will be better able to compare that with the uptake to get a more accurate measure.

Willie Coffey: As that demand increases, there is bound to be a consequential impact on the funding that is needed to support it. Is it unfair to say that at the moment?

Stephen Boyle: Sophie Flemig might want to say something more about that. As we see in the report, there are different views on whether, as the policy matures and is implemented and the infrastructure is put in place, there is a direct relationship between the change in the number of young people accessing the service and the level of funding that goes alongside that. COSLA and others have made the point that the costs do not follow each other directly; there are fixed costs that cannot be changed in line with the volume. That is something that really needs to be worked out. As Rebecca Smallwood mentioned, there needs to be clarity on the relationship between the cost and the number of places.

Willie Coffey: Your report also talks about some work that is going on to try to help the councils to identify the eligible two-year-olds. Some technical work is going on between the Scottish Government and HMRC. That is not the same as the work that is being done on the software issue, which we might talk about later—I understand that that is a different piece of work.

Has that work concluded? Is that technical ability to identify eligible two-year-olds complete? Rebecca, I think that you said that 15 councils are starting to reach out. When will the rest of them start to do that in order to identify the eligibility?

Rebecca Smallwood: The individual councils need to put their governance arrangements in place. The software that provides them with that information—I think that it is called “data pipeline”—is available. As soon as councils have their information governance arrangements in place, they can access the data. The remaining councils are just going through that process. We

do not have an update on timescales for the ones that are still outstanding.

Willie Coffey: Okay. I might come back to that when I ask you about the other software component that comes up later in the report.

I have a final wee query about access to the provision for kids with additional support needs. The satisfaction rates are pretty high. Your report tells us that satisfaction is at 88 per cent, broadly, but that there is an 85 per cent satisfaction rate among families with kids with additional support needs. Is there a story to share about whether we are fully delivering for families with kids with additional support needs?

Stephen Boyle: There is a bit of a story. Again, I am sure that Sophie Flemig will want to comment on this. It is one of the themes of the report. In totality, this is a good news story, but there are still risks around data. This is an example of how difficult it is for the Government and councils to fully assess the extent to which children with additional support needs access the expanded services. That is done through the use of census data, rather than in aggregate. There are connections between that and the point that you made about the quality of IT and software provision, the totality of which was designed to provide better monitoring and planning information to support councils. The area of children with additional support needs would be very affected by that.

That does not detract from the overall point, which you mentioned, that 85 per cent of parents of children with additional support needs are satisfied. Where they are not satisfied, there is commentary about staff not being fully or appropriately trained, lack of support in some aspects, communication and the hours that are being provided. There will always be concerns from individual parents but, while there is generally a high level of satisfaction, there is still more work to be done in this area.

Willie Coffey: Is work being undertaken to try to improve training across the board, for example, if that is the biggest element of concern?

Stephen Boyle: My colleagues might be able to comment on that.

Sophie Flemig: I cannot give you a clear answer. I do not want to add to the complexity. Will that training be delivered in some places? I am sure that it will. When we come back to the local spread, whether the workforce is being trained adequately and whether provision is available with the right hours, there will probably be a varied picture across different areas of Scotland because of workforce issues. For the risks that we have identified, we will keep looking closely at the cross-sectional complexities such as

additional support needs, geography and workforce.

As far as we can tell from the data that we have—Stephen Boyle has pointed out that we are looking forward to having more—that will be one of the key things in the next report, as and when we are ready to produce it. That will help us to come up with a firm answer to your question about what will be delivered where and what the specific plans are. However, councils definitely want to address the need. There is no doubt about that.

Willie Coffey: Thank you for that. I would like to see the picture as it emerges by council area—if that is possible, Stephen—in any future update that you give the committee.

I am very happy with your responses so far. If I can, I will come back in later with a question on the software issue that you raise in the report.

The Convener: Willie Coffey is also deputy convener of the Local Government, Housing and Planning Committee, so he has a particular interest in seeing how that spread works.

Can I return very briefly to infrastructure, capital spend and so on? In the report, you talk about completion rates. I think that you said that the completion rate had risen from 87 per cent to 95 per cent over the course of the year that you were looking at. What is the current completion rate?

Stephen Boyle: You mentioned the completion of 95 per cent by August 2022, convener, and there is a projection for all projects to be completed by 2025.

The Convener: Yes.

Stephen Boyle: My colleagues might want to say a bit more about the detail that sits behind that. However, in paragraph 40, we give a flavour of which local authorities have experienced delays, and some of the reasons behind those delays. Although not all the projects are completed, all the services are being provided. It is just that they are not all being provided in the new places that were intended. It is not that families with children and young people are waiting for buildings to be completed so that they can receive services. Contingencies are in place and services are being delivered. It is just that they are not yet in the new buildings.

I ask my colleagues whether they have any more detail beyond the 95 per cent.

Rebecca Smallwood: This is linked in with the monitoring that the Scottish Futures Trust does on capital spend. It also monitors progress on completion, so we know that more recent information will be coming out soon. We have not seen the May data collection yet, as it is still being worked through.

The Convener: Okay—thanks. I will move on to something that is an increasing part of our agenda and questioning, which is net zero targets. We have seen significant capital infrastructure investment, primarily in new buildings or in the refurbishment of existing buildings. To what extent were net zero targets set around these infrastructure projects, either by the Scottish Government or by the Scottish Futures Trust?

Stephen Boyle: Again, I will turn to my colleagues to provide a bit more detail. That is a really important question, convener. I will first reference some work that we have already done and then some further work that we have planned in that area.

In paragraph 42 of the report, we note that there were some additional measures with the capital investment, such as insulation, to help councils to achieve net zero aims in individual projects. The committee will be familiar with the report that we produced recently on the Scottish Government's arrangements to support net zero and the need for additional emphasis to be placed therein on governance risk management as part of the leadership that it is providing across the Scottish public sector to ensure that infrastructure projects are factoring in net zero ambitions.

We are planning some further audit work on how that is progressing and whether there is a clear connection between infrastructure activity and net zero at the heart of that. We are looking to bring that to the committee later this year. As it relates to the infrastructure projects, I suspect that there will be a mixed picture with regard to whether net zero has been an inherent factor in the infrastructure developments.

If colleagues have more information, I invite them to share that. If not, we will come back to you in writing.

Rebecca Smallwood: I do not have the specific dates to hand. My understanding is that the capital allocations were based on a metric that included specifications for insulation, but that might have predated the net zero commitment. It goes back to around 2016. It was in our first audit, I think, which was published in 2018. Some councils subsequently changed their arrangements, as we highlight in the report, which changed the specifications that they use relative to the metric that was used to allocate the money.

The Convener: I am reflecting on the report that you referred to, Auditor General, which you brought out earlier this year, where you reminded us that a climate emergency was declared in 2019. Four years down the line, we are in an emergency situation. What urgent action has been taken? Is anything being included in construction specifications around new public infrastructure that

recognises the seriousness of the emergency that we are facing?

Stephen Boyle: You are quite right, convener. The overall judgment that we made was that there was a lack of clarity in how the Scottish Government was arranging itself as part of its system leadership role to deliver on the net zero targets with a stronger focus on climate emission reductions and not adaptations, all of which will be relevant.

As that relates to individual projects, Rebecca Smallwood is quite right that there will be a timing difference. We are planning further audit work in this area to examine how well the climate emergency is translating into individual projects and sectors and what that will mean over the rest of the decade. We have work in progress on that front, which we will bring to the committee.

The Convener: We will be keen to hear the results of that investigatory work that you are doing.

I will ask one other question before I bring Sharon Dowe in. Again, it is about something that we have spoken about in other contexts at the committee over the last couple of years, and certainly over the last year or so, and that is inflation, especially in the construction industry. In paragraph 43 of the report, you refer to a concern that councils have expressed that construction inflation is estimated to be around 30 per cent. I suppose the fairly obvious question is: what is being done in terms of the allocation of funds to address that?

Stephen Boyle: You are right—30 per cent is the figure that we quote for the impact that inflation has had on capital projects. Over the past six to 12 months, we have seen the impact that inflation has had in the wider setting in respect of pay inflation, cost of materials and the cost of purchasing goods and supplies. How that has translated into individual allocations is less clear. There is not going to be enough to meet that. We set out in the report that, in capital expenditure terms, funding of £476 million was allocated for delivery of the projects, and spend is just shy of £600 million.

There are a variety of factors behind that. One is inflationary cost increases and another is that, as Rebecca Smallwood mentioned, councils have had licence to vary the specifications of their particular projects. There will be a debate about funding. Sophie Flemig is closer to that and she may wish to say a bit more about it, but we are not seeing the Scottish Government funding councils to the totality of what they have actually had to spend to deliver the projects. As I have mentioned a couple of times, there is a further debate between the Government, COSLA and councils about where that should best land.

I am sure that Sophie Flemig can say more.

10:00

Sophie Flemig: The reporting on the overspend of just over £100 million includes some projects that were not originally budgeted for or meant to be in the reporting but which have been included because of the delays to the implementation of the policy due to Covid. The overall budget has been a moving picture, which may make it harder to assess whether the increase is due solely to the inflationary pressure of rising costs or is also due to higher specifications and other factors. There is a mixed bag. That has not been the focus, but it will be important to disentangle those various factors, if that is possible. Rebecca, do you have any more detail?

Rebecca Smallwood: No. It is a complex picture.

The Convener: For reasons of transparency, if it was possible to disentangle any of that in order to understand what the different drivers of inflationary costs were and what was happening to the overall capital settlement, that would be useful. Presumably, it would be useful for local authorities in order to help them to prosecute their arguments for, perhaps, additional funding.

Stephen Boyle: Quite. That is not something that we have to hand today, convener. The committee might wish to explore that directly with the Government and the individual authorities.

The Convener: Yes. Thank you very much. I turn to the deputy convener, Sharon Dowe, who has a series of questions to put to you.

Sharon Dowe (South Scotland) (Con): Good morning. Your report highlights significant recruitment and retention challenges for the ELC sector. We note that the Scottish Government is working with stakeholders to draft a strategic framework for the ELC and school-age childcare workforce and an associated action plan to address the challenge, which are due to be published in summer 2023. To what extent will the development of that framework and action plan address the challenges that the ELC sector is facing? Is it on track to be published this summer?

Stephen Boyle: Again, Rebecca Smallwood will say more about what we know about the extent of progress to compile the strategic framework and action plan.

Workforce is a very strong theme in our report. As I mentioned, 8,000 additional people now work in the sector, but it is still fragile. One of the biggest risks will be the sustainability of the workforce across different providers. We have talked about the factors behind that, such as the cost of living and whether there is consistency in

the terms and conditions between council settings and private providers. There are also wider aspects about the availability of the workforce and the attractiveness of the sector as a place to work relative to other options. That will all have a bearing on the sustainability of the sector and helping the Government and local authorities to meet the wider objectives of this hugely significant investment of public spending and to deliver longer-term outcomes.

Before I pass to Rebecca, I want to draw the committee's attention to one of our report's key recommendations for the Scottish Government, which is that it should

"work with councils and other stakeholders to develop long term workforce plans"

to tackle some of the risks to sustainability and model and target what future demand will be. As Sophie Flemig and others have mentioned, it is very clearly part of our further follow-up and future audit work to see how that comes to fruition.

I will bring in Rebecca to say more about the framework and action plan.

Rebecca Smallwood: We have not seen any of the draft actions that are part of the strategic framework so, at this point, we do not know what that will cover. The most recent update that we had from the Scottish Government, when we cleared our report with it, was that it would publish over the summer. However, we have not seen a draft to be able to comment on the content—the actions—that that will include.

Sharon Dowey: Are we confident that the report will come out in the summer?

Rebecca Smallwood: That is the most recent update that the Scottish Government has given us.

Sharon Dowey: Okay.

Paragraph 49 on page 17 states:

"As in our last audit, representative bodies of private and third sector ELC providers ... report that their members have challenges in recruiting and retaining staff."

Can you set out in a wee bit more detail why staff stability is higher in council settings than in the private and third sector? Is there any more detail on what the Scottish Government can do to improve stability across the sectors?

Stephen Boyle: There will be many factors behind why people choose to work with a private provider, run a private business or work in a local authority setting. Terms and conditions will be a key driver of that, and they are not always the same. One factor is the extent to which private providers can, or choose to, pay living wage arrangements. One of the points that we make in the report is that there is not enough data about

whether the living wage is being paid by all private providers. Clarity is needed on that.

Earlier, Rebecca Smallwood mentioned the stability index, which is a mechanism to assess whether people remain in post for a year or more. There is variation: it looks as though there is more stability in the council setting and less in private and third sector providers. The factors behind that are not clear enough—that is one of the gaps. It is based on the index and national monitoring. The Scottish Government has recognised that and is working with the Scottish Social Services Council to try to get better data in order to look beneath more of the trends and see why people move between different sectors. Again, that will be really important intelligence as we expect the Government to implement our recommendation on producing a detailed workforce plan that takes account of the different sectors that provide services.

Sharon Dowey: I move on to funding for ELC. You mentioned that there is no comprehensive picture of how much councils have spent specifically on the expansion at national level. You mentioned the various complexities that can make it difficult for the Government to establish the overall amount that has been spent on implementing the expansion from 600 hours to 1,140 hours. Does that mean that we might never know the cost of implementing the policy?

Stephen Boyle: I am sure that colleagues will want to say a bit more and set out for the committee how we are in such circumstances. We stated in the report that, at a headline level, the Scottish Government does not know specifically how much was spent on the expansion of the programme for the additional hours up to 1,140. There are complexities. Some relate to data and some to information technology. Some are about the way in which information is reported by councils to the Scottish Government through local financial returns. It is also the case that this is the third time that the Scottish Government has not yet received the information that it needs.

It is too early to be definitive about whether we will ever know. The Scottish Government has plans in place. I mentioned earlier that it has secured more baseline information. Its evaluation arrangements are in the right place in terms of whether, at a high level, the policy will deliver value for money. It will make that assessment based on pre-pandemic provision and spending through to outcomes and spending next year and beyond. You have highlighted an important factor: that level of precision information is not yet available.

Rebecca Smallwood, and perhaps Sophie Flemig, will say a bit more about why we are in such circumstances.

Rebecca Smallwood: Councils report what they spend through local financial returns. They report on pre-primary spending. That is the closest that we have to funded ELC, but it can be a bit broader than just the funded ELC that is offered through the 1,140 expansion; it also includes council spending on other ELC that they might offer families. They might choose, on a discretionary basis, to offer additional hours to some families. They might choose to offer hours to families who do not meet the eligibility criteria for two-year-olds or younger children. Pre-primary spending is potentially a bit bigger than just the 1,140 hours.

The other complexity with the LFRs is that they do not differentiate between what was spent on 600 hours and what was spent on the extra 540 hours that were brought in through the expansion. We do not know what the split was. The expansion was phased in by councils over a number of years, so we cannot work out how much was spent on those extra 540 hours over time. We do not know what was spent on that bit of the expansion.

It is complicated for councils to do that. They took a range of approaches to piloting and phasing in the expansion. I think that we highlighted in our previous report to the committee that some councils chose to offer it in some settings but not in others. As they began to phase in the entitlement, they took approaches that best suited their local needs. They have all taken a variety of approaches, but some councils chose to incrementally increase the number of hours that children get, so it went from 600 to 800 and then up again to 1,000.

There is a variety of approaches, which adds to the complexity of councils being able to split out that money. The Scottish Government has requested that councils provide them with that information. Separate to the reporting that councils already do through the LFRs, the Scottish Government requested information from councils on a number of occasions to try to gather that information. There were a lot of data quality issues.

It is still not possible to get that national picture. Part of your question related to whether it ever will be possible. We know that the Scottish Government has plans to look at the value for money of the expansion, but it will take a different approach to that. It will not be able to sum up the total of what was spent on phasing in the expansion. It will look at what was spent on providing 600 hours of funded ELC in 2017-18, and it will be able to look at the outcomes that were being achieved for children and their families at that point, because it will have that baseline data that it has been gathering through the Scottish study of early learning and childcare. That

is gathering the outcomes information, so it will be able to compare the costs and the outcomes at that time for 600 hours with the costs and the outcomes that will be achieved in 2023-24. It will be able to draw a comparison between those two points in time to look at value for money.

Sophie Flemig: The complexity thrown in there is, as we all know, the pandemic. How do you account for the effects of the pandemic on outcomes? I think that it is the right approach to take when looking at best value in that sense but, as with every other policy, we have to take it with the caveat that we are looking at a different status quo from the one that we expected in 2017-18 when the baseline was taken. That is one of the additional complexities that is layered on top.

Sharon Dowey: It is complicated, then.

Paragraph 64 of the report states that, in 2023-24, the Scottish Government allocated £9.1 million less to councils for funded ELC than in 2022-23 and that COSLA is concerned that that reduction in funding may affect service delivery in the future. To what extent do you share COSLA's concerns?

Stephen Boyle: I am sure that Sophie Flemig from the Accounts Commission will have a perspective on that as well. We have not reached a judgment on that yet. There are different views in today's report between the Government and COSLA as to whether the funding that is made available and the model are right. It was mentioned to Mr Coffey earlier that the perspective of COSLA and the councils is that it is not a linear relationship. There are fixed costs that cannot vary with changes in funding that is more connected to individual child places. I have not reached a position on that. That is likely to come as part of our next stage, in which we will look at the adequacy of the funding model alongside whether it has achieved outcomes for children and young people and economic activity for families alongside a wider value-for-money judgment. In today's report, we recognise that it is a factor that needs to be resolved between the Government and COSLA.

Sophie Flemig: We are coming back to the inbuilt complexity in trying to respond to local needs. COSLA is suggesting that the picture may not in all cases mean that a reduction in children will, as Stephen Boyle pointed out, on a per capita basis lead to the same reduction in cost. Stephen Boyle listed the various factors in that. Obviously, that is highly dependent on the local provision. As with many things, it will not be uniform across the board.

In the report, we are clear that the financial pressures are, without a doubt, high. That is for the Scottish Government and for councils. Rebecca Smallwood has set out the complexities

that go beyond the expansion of the initial 600 hours, which is ring fenced, and the discretionary spend to respond to local needs. Undoubtedly, that will be part of the difficult choices that councils face. We are acutely aware and highlight that those pressures need to be discussed and addressed, and that local authorities and the Scottish Government need to work together to start with the right data to make informed choices on how to take the difficult decisions that lie ahead.

10:15

The Convener: Earlier, Craig Hoy had questions about the sustainability of providers. He has more questions on that.

Craig Hoy: I just want to delve a little deeper into the issue of sustainability of providers, particularly in the independent sector. You report that no national data is available on the demand for childcare across funded and non-funded ELC, and you recommend that the Scottish Government addresses that gap in data. What work is the Scottish Government undertaking to address that recommendation?

Stephen Boyle: You are right. Rebecca Smallwood might have an updated picture on that. Data gaps are highlighted throughout the report, and that is one that needs to be tackled so that the Scottish Government and councils have a more rounded picture of the drivers of sustainability of private providers. As we have already touched on, in the event of a provider being unavailable—whether it is due to quality or financial factors, as Tricia Meldrum outlined—there is still a statutory obligation to deliver the provision. In those cases, it will be challenging for local authorities to step in and make that provision. That perhaps speaks to the example that you raised earlier. Having wider data is key to understanding the scenario planning that they will need to do. Part of our workforce recommendation fits neatly alongside that. I will bring in Rebecca to say more.

Rebecca Smallwood: Our understanding from conversations with the Scottish Government is that it is considering how to address our specific recommendation on measuring demand. I am sure that it would be able to give you a more up-to-date picture.

Craig Hoy: I think that, earlier, Sophie Flemig used the phrase “anecdotal evidence” in relation to what is happening in the marketplace at the moment. I get the impression that the independent sector is squeezed and that, given that providers do not feel that they are being adequately funded for providing care, the expansion in care means that their opportunity to turn a profit, which is effectively why they are in the sector in the first

place, is, in effect, being squeezed into wraparound after-hours provision and breakfast clubs. To what extent do you get the impression that private sector providers are starting to shut their doors and move out of delivering that provision? Is there a risk that that will feed through to put more pressure on councils to provide it?

Stephen Boyle: There are a couple of factors there. As I mentioned, the market has changed fundamentally with the provision of up to 1,140 hours. That has a bearing on private providers’ ability to vary their income significantly. You mentioned a couple of areas where they are able to do so. There will be relevant factors behind that that are attributable to the cost of living and the desirability to staff of working in a local authority setting relative to a private setting.

There is emerging evidence. In the report, we talk about fragility. In recent years, the number of childminders in the sector has fallen by 29 per cent. We set out in paragraph 53 of the report that childminders are reporting recruitment and retention challenges. Some work is under way. Pilots are being undertaken to look at expanding their role in other parts of Scotland, particularly in rural and remote communities, with almost 60 new childminders having completed or applied for registration with the Care Inspectorate. That goes some way to addressing the fall in numbers but, in the round, those are the issues that the Government and councils need to address to ensure that there is sustainable market provision.

If those issues are not addressed—this speaks to the point that you raised in your question—the responsibility for delivering the provision will come through to local authorities, which may or may not have the workforce and the facilities to offer that service to families.

Craig Hoy: You have slightly pre-empted my next question. For remote and rural areas, childminding is a critical part of provision. To give an example, the Scottish Childminding Association has said that the workforce in the Scottish Borders has declined by 43 per cent over the past six years, that that could double by 2026 and that, at present, 386 families are affected by 56 businesses having withdrawn from the sector. Obviously, that will have major implications in those rural areas. To what extent is childminding, which is already a Cinderella service, at risk in Scotland as a result of the 1,140?

Stephen Boyle: I should first say that our audit has not looked at individual areas; rather, we have taken a national perspective. However, some of the figures speak for themselves. In the national picture, there has been a 29 per cent reduction in the number of childminders. Undoubtedly, the risk will be higher in remote and rural areas. There are risks, in totality, to the provision of the service.

To repeat the phrase that we arrived at, there is fragility for private providers—nurseries and childminders—that requires careful consideration by the Scottish Government and local authorities so that they have sustainable, mixed-market provision that can deliver the 1,140 expansion. We have made recommendations to that effect. We referred to the pilot activity that is being undertaken. Those are the kinds of steps that the Government, working with partners in local authorities, has to get right with the private providers.

Craig Hoy: Scottish Borders Council funded a childminding link worker. The childminding sector told me that that was vital to its operation. That funding has been withdrawn because of the pressures that local authorities face. To what extent does the wider financial environment in councils put at risk, for example, link or outreach workers who operate between councils and the independent, voluntary and third sectors? Could that also mean that greater pressures will wash back up on councils?

Stephen Boyle: Sophie Flemig may want to comment on councils' positions in particular. There are financial pressures, and choices will have to be made. The Scottish Government will want to make choices in the delivery of its policy intent, and some choices are for councils to make as well. How that feeds into individual posts and choices will be policy choices for those organisations. Workforce and financial pressures are two very clear risks that we set out in the report.

Sophie Flemig: Stephen Boyle has summed it up. There will be pressures and questions relating to priorities. We highlighted the fact that they will be difficult. They are not for us to comment on, as they will depend on the circumstances in individual councils, but your examples highlight the fact that we keep coming back to that complex picture and to just how complex and interconnected it is. It goes beyond the expansion in childminding, in which we have seen a trend over years.

Stephen Boyle has pointed to the work that the Scottish Government is doing with the Scottish Childminding Association after commissioning, in 2020, a root-cause analysis of the issues not just to do with losing childminders but with registration. People are talking about where solutions could lie, including across inspectorates, so colleagues from the Scottish Social Services Council and the Care Inspectorate will be involved in the conversations. Whether that is at pace with where we go with policy change in future is not for us to comment on, but actors are aware of the fragility, as Stephen Boyle has termed it, and are moving to address that.

The Convener: Before I ask my next question, I had better remind members of my entry in the register of members' interests.

I want to ask about the living wage and fair work practices. You remind us that an ELC living wage and fair work implementation group has been established. You have also mentioned that there is a paucity of data about the living wage and whether it is enforced. Does that organisation not have in its terms of reference some responsibility for getting that data? It is an implementation group, so I presume that it needs the data in order to understand whether the promises that have been made are being kept.

Stephen Boyle: In a moment, I will bring in colleagues to provide any detail that we have on the group's terms of reference.

I note the specifics of the question. As we have reported, the application of the living wage—some of that will be reflected in the requirements of local authorities for providers—is a significant change for some private providers. That may—you can tell from the language that I use that there is just not enough data on this. That is one of the factors that we drew out in the report. There needs to be better information, given how central private providers are to the sustainability and delivery of the service. There must be better data so that we can understand what impact that is having. We draw on survey information about sustainability indexes to assess the overall movement of the workforce in different sectors. There needs to be clear action that comes from the report so that there is far more clarity on what impact terms and conditions are having, and on the application of the living wage across different providers.

I turn to my colleagues and ask whether we have more detail on the specifics of the question.

Rebecca Smallwood: That group will be developing an approach to monitoring the living wage, but that just has not happened yet. In the report, we said that the group was to discuss that at its next meeting, but we have not seen the minutes of that yet, and we cannot see what progress has been made.

We also highlighted that some information on the living wage will come through the financial health check that we have already discussed this morning. That is due to come out in the summer. We also know that some councils are doing work on that themselves, but we cannot report on a national picture at the moment. That is why we recommended that that needs to be monitored and the information needs to be gathered.

The Convener: Okay. That is helpful. The terminology that we use is "living wage and fair work". I presume that "fair work" covers things such as the use of zero-hours contracts, the right

to trade union membership, trade union recognition and so on. Will that be monitored, and will data on that be collected?

Stephen Boyle: We expect so, convener. The Government has its fair work principles, and it can set out clearly its expectations in the procurement requirements and guidance to councils. That may be part of the budget allocation ring-fencing conditions. As Rebecca Smallwood has said, that is something that we will factor into our consideration as part of work on our next audit. The committee may wish to explore that with the Scottish Government.

The Convener: That is a very clear answer, which is very helpful. Thank you

Willie Coffey has some more questions to put to you.

Willie Coffey: Stephen Boyle referred to a piece of software that was in development but has stopped being in development. I am not clear what it was supposed to do. From what I see in your report, data exists at a local level, but it is difficult to assimilate that and provide a national picture without using the education management software. Can you tell us a little bit about what the software was meant to do and how work on it is progressing?

Stephen Boyle: Yes, I can. I will bring in Tricia Meldrum to say a bit more to the committee on where we are with the software. The intention was that that software would address some of the data gaps to support the monitoring and evaluation arrangements that we covered earlier on this morning, particularly for the two-year-old group. It was intended to offer that but, at a high level, it has not progressed as intended. There have been issues between SEEMiS, which is the Scottish local authority-owned company that oversees education management software, and its provider, which have resulted in delays and changes in grants to support the delivery of the project.

I turn to Tricia Meldrum, so that she can set that out for the committee.

Tricia Meldrum: The software was due to be in place for the initial date of the expansion, in August 2020. When we last reported, in March 2020, there were already delays, and it was not going to be available on time. Part of that was due to delays in signing the contract, but there were also technical issues. There have been further delays since then, and they increased over that period. The contract with the third party developer was terminated in February last year. A new grant to the limited liability partnership has been agreed with the Scottish Government, and that will allow it to develop some of that in-house and to be supported by external parties.

10:30

The last we heard was that it is estimated that the software would be completed by March 2024, but we do not know when it will go live in the councils. That means that there are gaps in recording information on individual children. Rebecca Smallwood mentioned that, at the moment, there is data that comes through an annual census. That is at a point in time, so it will tell us how many children are taking up ELC or are registered for ELC at that point in time. However, it does not tell us about individual children throughout the year or the characteristics of individual children to get the full picture that we really need to understand who is using ELC, who is not taking it up as we would expect, where the Scottish Government might want to target its efforts to increase uptake and such things. There are gaps in some of the data.

Councils are planning and managing the services, but they have to do things in workaround and inefficient ways. If they had the software, they would be able to do that consistently and provide consistent national information.

Willie Coffey: Was the initial project abandoned three years ago? The report states that it has taken three years to get to where we are.

Tricia Meldrum: The contract was terminated in February 2022.

Willie Coffey: Is the main problem the fact that changing to a new vendor or a new software developer is not necessarily going to resolve data inconsistency? If it is there, it is there. Is work going on to try to make sure that the data that local councils collect is in a consistent form that allows the software to present us with the national picture? Is that one of the issues that sits at the heart of this?

Tricia Meldrum: I do not think that we have that level of detail. It has been about technical issues and issues with the development of the software as such. I could not get into the detail behind that.

Willie Coffey: Okay. I am always curious about what the actual cause of a software failure is when that comes to the committee. However, that is really crucial to allow us to make any progress in assessing the impact of the whole policy. I presume that this lies at the heart of it. If we are to be successful at all in evaluating the impact, outcomes and so on, we are going to need some kind of data analysis tool like that to draw on and to tell us what the picture is across Scotland as a whole. Is that fair to say?

Stephen Boyle: I agree with that, Mr Coffey. A software tool will take us so far, but if it requires human beings to enter the data and to use it properly, there is always a risk that, if it is not

applied properly, we will not get that level of consistency.

We draw the committee's attention to exhibit 4, which summarises the data gaps that already exist. We have covered many of those this morning. There is a need to get this right. I refer to a recent blog that Audit Scotland produced on high-quality data being essential for delivering, planning, monitoring and evaluating public spending and its associated outcomes.

Next steps are required on data, and we have set out some of those in our recommendations. Those will be crucial. We say, in a balanced way, that the intent, with the aims and the measures that the Government has to evaluate the policy, is in the right place. Addressing some of those data gaps will give it the best opportunity to make a rounded assessment of whether the £1 billion—let us not forget—annual investment is delivering the intent.

Willie Coffey: At the Public Audit Committee, the story of data gaps is a common and familiar one in a number of areas. Do you think that your messaging to the Government and its agencies about data, data quality and data gaps is fully understood so that such issues can be addressed, as you just hinted? Is it fully understood to enable us to develop and get the tool right?

Stephen Boyle: I am more optimistic now than I perhaps was 12 months ago that there is an improving understanding of the need for high-quality data.

Five years ago, I think, Audit Scotland produced a "Planning for outcomes" report, which set out what is required for delivering policy: baseline data, milestones, effective governance and the right data to make an evaluation assessment. There are some signs of progress. Only last week, our report on the courts backlog gave an example of an organisation that had used data well in difficult circumstances, so we know that it can be done. Even in today's report, there are examples of baseline data being in place to form the assessment. The assessment will be better still once some of the data gaps to which we refer are addressed.

Willie Coffey: Our favourite subject is value for money. We are always interested in the definition of that, what it means, who sets the criteria and whether we can apply those criteria and use the data that we have to give us the answers that we seek. Where do we stand on that? Do we have in place criteria that are clear enough to assess and determine value for money for the whole scheme?

Stephen Boyle: Value for money is a shared judgment for the Government, public bodies and local authorities. As you know, there is an onus on public bodies to deliver value for money and a

personal onus on accountable officers to deliver value for money for public spending. Specifically in relation to the expansion of early learning and childcare, we have made a positive judgment that the measures that are in place give a strong foundation to make a value-for-money judgment.

Rebecca Smallwood mentioned some of the criteria. I draw the committee's attention to paragraph 99. The Government intends to use a range of measures to assess whether its expansion of early learning and childcare has met the intentions behind it of improved outcomes for children and their families and of more economic activity. There are positive signs. What comes next matters.

Willie Coffey: I emphasise that our ability to determine whether there has been value for money will depend largely on consistent, quality data being gathered and on that data being analysed fairly within councils and across the country as a whole.

Stephen Boyle: Absolutely. Without reliable data, we will not be in a position to make a rounded assessment on value for money.

Willie Coffey: Thank you very much.

The Convener: I am sure that we will return to that theme as early as next week.

Sharon Dowe: My question is on the views of children, which you touched on earlier. Paragraph 103, on page 32, refers to a recommendation made in the 2020 Audit Scotland follow-up report

"that the Scottish Government considers how to include children's views in the evaluation of the policy."

The report explains:

"The Scottish Government is working with stakeholders on whether and how to do this in a meaningful way, given other research priorities and capacity to undertake the work, but has yet to finalise plans."

To what extent is the Scottish Government committed to seeking the views of children as part of its evaluation work?

Stephen Boyle: The Government is considering how best to do that. I am quite sure that Sophie Fleming will want to come back in on the point about it finding a way of doing so meaningfully. We are talking about a very young population and one that turns over very quickly—children spend only 18 months to two years in that early learning and childcare, although vulnerable two-year-olds are there slightly longer. Finding the best way to seek the views of those children matters, and it is consistent with article 12 of the UN Convention on the Rights of the Child. The Government is thinking about that but has not yet finalised its plans. It is, accordingly, one of our recommendations.

Sophie Flemig: We cannot speak to the specifics of what the plan looks like—that is not for us to say—but we have highlighted the issue in two reports and made it clear. As I said, when the policy was being set up initially, there were consultations. Stephen Boyle talked about the meaningfulness of the engagement, and that might be where those priorities come in. It is a different way of working, but the Scottish Government has shown, not just in the ELC expansion but across the board, that there is willingness—in fact, eagerness—to work with the youngest children, too. That is to be welcomed.

We have set our expectations and look forward to seeing what comes back. I reassure you that we are just as interested in that point as you are.

Sharon Dowey: Thank you.

The Convener: Craig Hoy has a final, short question.

Craig Hoy: I should have asked this question earlier. In relation to the dynamic within the sector, is any work under way to assess whether, even though the independent sector is still quite large, there has been consolidation of ownership, with small independently owned and managed nurseries selling up to bigger, more commoditised companies with a cookie cutter approach? Is there market fragility partly because ownership is in far fewer hands now?

Stephen Boyle: I have just checked with my colleagues, and we have not done any evaluation of whether that is a factor. It probably was not one of the factors that led us to make the fragility judgment. It is more about the availability of staff, some of the factors in remote and rural areas, the changing composition of childminders and local authorities' reliance on them. If it is a factor—there is no reason to doubt you, Mr Hoy—councils and the Scottish Government should be very alert to that and to what influence it has on the quality and sustainability of the sector.

Craig Hoy: If we lose one nursery, we lose one nursery, but if a holding company that owns 70 nurseries pulls out of Scotland, that could be critical.

The Convener: I second that, but maybe from a slightly different perspective. If there is a concentration or consolidation of ownership, it would be useful to monitor that, because that, in turn, will affect the way that the sector functions and its relationship with the public sector. We would certainly welcome a bit more evidence on that.

I thank Sophie Flemig from the Accounts Commission and, from Audit Scotland, Rebecca Smallwood, Tricia Meldrum and the Auditor General for their evidence, which has been very

enlightening. Thank you very much indeed for the work that you have done on the subject. It is, by everybody's understanding, an extremely important piece of policy work, and the auditing of it is especially important. We would certainly like to ask you to give it active consideration in the future, because it is an important piece of new developmental work that has much broader implications for young people, the wider economy and so on.

I will now draw the public part of this morning's session to a close.

10:42

Meeting continued in private until 11:05.

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