

The Scottish Childcare Payment

Gordon Hector

About Reform Scotland

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Foreword

In critiques of devolution, and the SNP's tenure in government more specifically, the expansion of early years provision and childcare is often cited as an area of great success. The importance of the sector, both in terms of child development and helping parents maintain or gain employment, is widely recognised and Scotland's commitment to early years should certainly be welcomed.

Despite this success, there have always been some problems in the system. For example, Reform Scotland has previously highlighted the issue of 'birthday discrimination', which means that children who start school at the age of 5 (normally born between March and August) receive more early years provision than their peers who start school at the age of 4 (normally born between September and February), creating an attainment gap before children even begin school. This is because while there is a single entry point for starting school, entitlement to early years begins after a child turns 3.

This paper from Gordon Hector builds on our previous work and provides an important overview of some of the problems that are now arising across the sector. Early years very much relies on a mixed economy of providers, but as Gordon highlights, the current system is leading to the reduction, or collapse in some cases, of the more flexible childcare provided outside of the state sector. This can also have knock-on impacts on childcare available for under twos.

There is always a danger of legislating and forgetting. This paper is an important reminder of the need to review and adapt to ensure the continued success of early years expansion in Scotland.

Chris Deerin
Director
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Summary

Devolution has seen a gradual expansion of early years provision in Scotland. The Standards in Scotland's Schools Etc Act 2000 placed a legal duty on local authorities to offer nursery provision and enabled them to use external providers to meet demand. The Act gave eligible three and four-year-olds an entitlement to 475 hours of early years provision. The Children and Young People (Scotland) Act 2014 then expanded the entitlement from 475 hours per year to 600 hours. More recently, legislation has been amended again and children are now entitled to 1,140 hours of tax-payer funded early years provision from the term after they turn three. Two year olds in receipt of certain benefits or who are care experienced are also entitled to the provision. This is a generous entitlement and represents a major funding increase. Overall, total capacity is up and total costs to parents have reduced.

But the payment mechanism has created unintended effects:

- **A collapse in flexible childcare.** Partnership childcare providers are paid partly through councils. Councils have offered the free hours mostly through nurseries. Provision of the most flexible forms of childcare has rapidly contracted – childminders by 35%, playgroups by 55% and creches by 61% since 2014.
- **Reductions in more flexible nurseries.** Councils both run their own nurseries and fund private and voluntary nurseries. Private nurseries are more likely to be flexible than council nurseries: most council nurseries are term-time only and offer fixed hours, whereas private providers tend to operate all year round and offer more flexible times. However the funding passed on by the council is below the true cost of providing care, particularly for smaller nurseries. As a result, private nursery provision is contracting. Since 2018, the number of private nursery services has fallen by 4.5% - a net loss of 65 individual services.
- **Poor provision for ages one to two and school-age children.** Local authorities must ensure that early learning and childcare is available for any ages Scottish Ministers specify. At the moment, this is all three and four year olds, and some disadvantaged two year olds. This means most parents have no entitlement for children under two, or for wraparound care for school-age children – creating wildly different incentives on parents at different ages. There is no real policy logic for this approach. It means that 1140 hours came at a huge opportunity cost: investing heavily in one age group instead of linking spending to the age groups and family backgrounds most likely to benefit.
- **Confusing accountability.** Because councils also set quality criteria on funding, the role of other inspectors and regulators in quality oversight is confused.
- **Confusing benefit systems.** Finally, back-office systems are duplicated because other aspects of childcare support are treated through the benefit system.

At best, this means that Scotland is limiting the impact of a major investment by creating a lop-sided sector.

At worst, childminding and the private and voluntary sectors will rapidly decline, ultimately reducing parents' options and undermining the aims of the free hours expansion.

This is the paradox of early learning and childcare funding in Scotland: it has simultaneously created a generous system *and* created the risk of a systemic collapse.

This project reviewed six short-term options to avoid that situation. The highest-scored option was to switch to simply giving parents vouchers of the value of the funding – a 'Scottish Early Learning and Childcare Payment' worth around £5000 at age three and four.

This would maintain the level of support parents receive, but clarify quality oversight, make it much easier to access different kinds of childcare, and enable future moves to more equal treatment of different ages – all without the Scottish Government spending any more. This is similar to proposals previously advocated by Reform Scotland.¹

Giving parents cash for childcare without any strings attached also scored highly, but creates new operational challenges.

Extending the free hours entitlement to all under-twos may feature in future Scottish Government policy. This would reduce costs to parents, but without wider changes would likely accelerate the collapse of non-council provision.

Above all else, vouchers are an approach which asks parents to resolve the inevitable trade-offs between flexibility, quality and affordability which any early learning and early years system faces. This family-centric approach is much closer to the ethos supposed to define devolved services, and creates much more flexibility for future policy to better link childcare with wider family support.

Scotland has invested heavily in early years. But it also accidentally made big choices about what kinds of care are valued and at what age. It is time to put parents in charge of those choices.

¹ [The Virtual Voucher - Reform Scotland](#)

The context: increasing early learning and childcare provision in Scotland

Funding for early years education and childcare support has increased in Scotland throughout devolution. This has primarily been through an expansion of 'free hours' – the number of childcare hours that a parent is entitled to receive for their child at no cost. The entitlement introduced since 2016 is for 1140 hours for all three and four year olds, with additional support for some two year olds. Implementation was delayed due to Covid-19 but by the end of 2021, all local authorities were able to offer a place to every eligible child.

The Scottish Government states that the main aims of the expansion in ELC are to:

- improve children's outcomes and help close the poverty-related attainment gap
- increase family resilience through improved health and wellbeing of children and parents
- support parents into work, study or training

Audit Scotland notes that there is no single figure for the cost of the expansion and that the Scottish Government does not know a total cost.² However, by any measure the cost is significant. Ring-fenced funding for local authorities to implement the 1140 hours programme rose to an additional £521 million per year in 2023-24.³ The budget also sets aside £11.4m of direct costs to the Scottish Government to oversee the programme. Physical space for around 18,480 places was created, in a building programme costing £476 million over several years.⁴

Overall, the total capacity of the system has increased. The total number of places across all forms of childcare rose 4.8% between 2014 and 2021.⁵

² https://www.audit-scotland.gov.uk/uploads/docs/report/2023/nr_230601_early_learning_childcare.pdf

³ <https://www.gov.scot/binaries/content/documents/govscot/publications/corporate-report/2022/12/scottish-budget-2023-24/documents/scottish-budget-2023-24-level-4-data/scottish-budget-2023-24-level-4-data/govscot%3Adocument/scottish-budget-2023-24-level-4-data.xlsx>

⁴ https://www.improvementservice.org.uk/_data/assets/pdf_file/0023/39641/IS-ELC-Progress-Report-November-2022.pdf

⁵ <https://www.careinspectorate.com/images/documents/6815/Early%20Learning%20and%20Childcare%20Statistics%202021%20Final%2014092022.pdf>

The problem – payment via councils for funded hours

Providers are compensated by their councils for providing free hours. This has benefits. It means that the funding can be strictly targeted on early years education and childcare. Parents do not have to directly handle any money. Parents can split the free hours between different providers, across different council areas.

It has, however, significant costs and there are six major problems.

1. Unintended consequences – a crisis in nurseries.

Why do private nurseries matter? For parents, the answer is usually the time they cover: 95% of private nurseries are open in school holidays, compared to just 35% of council nurseries; 90% of private nurseries offer a choice of whole or part-days, compared to 60% of council nurseries.⁶

Councils set rates for private providers. In theory, funding goes equally to any provider, allocated per child eligible. Councils use a range of methods to set rates, which typically include sampling, modelling, and engaging with providers in their area.⁷

But nursery sector bodies argue there is a gap between true costs and paid rates:

- In July 2022, the National Daycare Nurseries Association published an analysis of the proportion of free hours provided by private and voluntary nurseries, compared to the spend on them. This found that across Scotland, 30.2% of free hours were provided by the private and voluntary sector – but they received only 21.5% of funding.⁸
- Across Autumn 2022, the Scottish Private Nurseries Association issued FOI requests to councils to see local updates on costs to providers. It then compared the true costs identified in this study to the published rates. SPNA states the lowest gap was 9%. The highest was 25%.⁹
- Previous Reform Scotland research looking at the 600 hours system found significant bias against private providers – for example, councils capping the number of private providers they would let offer the hours. This means that in some places, the expansion was built on a presumption against private provision.¹⁰

All nurseries face increased running costs due to inflation and competition for staff with council-run nurseries. As a rule, the smaller the nursery, the greater the pressure because fixed costs like buildings, energy, insurance or admin make up a proportionally higher cost, and staff turnover has a bigger impact in smaller teams.

Some councils dispute the claim that they pay below true costs. The Scottish Government has not specifically commented, though recently Ministers have appeared to concede the point.

⁶ Supplementary tables to Care Inspectorate stats 2021, table 8a

⁷ <https://www.gov.scot/publications/funding-follows-child-national-standard-early-learning-childcare-providers-guidance-setting-sustainable-rates-august-2020/pages/2/>

⁸ <https://ndna.org.uk/news/private-and-voluntary-nurseries-expected-to-deliver-more-for-less/>

⁹ Information provided by PSNA

¹⁰ <https://reformscotland.com/wp-content/uploads/2021/01/Virtual-Vouchers-Reform-Scotland-May-2015.pdf>

The definition of 'sustainable' is partly a matter of interpretation. Views will differ on what kind of margin is acceptable, or what kind of efficiency in nursery management is reasonable.

However, most data supports the argument that funding is below cost, with a particular impact on smaller nurseries:

- This July, the Scottish Government published a review of financial sustainability of providers. 42% of private nurseries stated they had 'significant concerns' over their sustainability – up from 19% in 2021. A further 28% were 'unclear' on their overall sustainability.¹¹
- The same study found that the number of private sector providers has declined 4.5% between 2018 and 2023 – a net loss of 65 services. There are 155 fewer third sector services. But in the same period, local authority services increased by 66.
- The report stated that 'There has also been a shift in the structure of the sector with a move towards larger services. Service cancellation rates of private and third sector services are higher for smaller services.'
- These numbers are clearly influenced by wider cost pressures across the economy. But the trend pre-dates recent inflation rises. Between December 2014 and December 2021, there was a net gain of 110 council services – and a net loss of 12 private services.¹²
- Care Inspectorate annual reports (which only go up to 2021 for full annual results) show that while there are 5% more nurseries than 2014, the average nursery has 20% more children attending.¹³

In short, the free hours have created a lopsided nursery sector: an overall expansion, but at the cost of significant pressure on private and voluntary nurseries, particularly smaller nurseries.

2. Unintended consequences – a collapse in flexible forms of childcare

Childminders are usually flexible, and on average are rated as being of better quality by the Care Inspectorate than daycare.¹⁴ They are often one-person outfits. They are often reluctant to bear the paperwork required to register with councils, particularly if they work across multiple council areas.

¹¹ Financial Sustainability Health Check 2023:

<https://www.gov.scot/binaries/content/documents/govscot/publications/research-and-analysis/2023/07/financial-sustainability-health-check-childcare-sector-scotland-2/documents/financial-sustainability-health-check-childcare-sector-scotland/financial-sustainability-health-check-childcare-sector-scotland/govscot%3Adocument/financial-sustainability-health-check-childcare-sector-scotland.pdf>

¹² Care Inspectorate - this compares the 2021 Childcare supplementary statistics table 6b with the 2014 Childcare Statistics table 2b

¹³ Care Inspectorate 2021 Childcare Supplementary statistics

¹⁴ <https://www.careinspectorate.com/index.php/publications-statistics/93-public/datastore/6624-datastore-as-at-31-march-2022-csv>

Some councils value childminders - Orkney's entire non-council provision is delivered by childminders.¹⁵ But most have focused more on recruiting nurseries. Angus, Falkirk, East Ayrshire and West Lothian pay childminders a lower rate than daycare. An audit by the Scottish Childminding Association published in November 2022 found that seven councils had not confirmed that parents can use free hours childminders, even though this is the national policy.¹⁶

Given these barriers, under one-third of childminders are approved to provide free hours – and the proportion actually delivering them is below one-fifth. The number delivering free hours also dropped between 2020-21 and 2021-22.¹⁷

Combined with other pressures (such as increased regulation and travel costs) childminding has rapidly contracted: 11,000 childminding places in Scotland have been lost since 2016 - with 35% fewer childminders registered.

SCMA modelled future decline, and projects a 64% decline by 2026, or a further 10,555 places, if no action is taken.¹⁸

The pattern is similar for other types of childcare outside nurseries. Between 2014 and 2021, the number of children and family centres dropped 23%, playgroups 55%, and creches 61%.¹⁹

The extension of free hours, in other words, has accelerated the collapse of some of the most personalised and flexible forms of childcare.

3. Inconsistency across ages

The Standards in Scotland's Schools Etc Act 2000 placed a legal duty on local authorities to offer nursery provision and enabled them to use external providers to meet demand. This provided children in Scotland with a legal right to early years education for the first time. Initially, this entitlement was for 475 hours. It increased to 600 hours, and more recently to 1,140 hours. This latest expansion is the equivalent of around 20 hours per week across the year, or 30 hours a week in term time. Funding stops at school age.

Younger and older children also rely on childcare provision (older children through wrap-around care either side of the school day) and the targeted support for three and four years olds has significant consequences for the way early learning and childcare is used and provided:

- **Pushing up costs for other ages.** Almost every nursery offers free hours for three and four year olds. If they face funding shortfalls for that provision, they either cut costs, or more often push up prices for children and hours not receiving funding. For most, the logical place to look is fees for one and two year olds.

¹⁵ <https://www.gov.scot/publications/overview-local-authority-funding-support-early-learning-childcare-providers/pages/3/>

¹⁶ <https://www.childminding.org/Media/Docs/Common/ELC%20Audit%202022%20-%20FINAL2.pdf>

¹⁷ <https://www.childminding.org/Media/Docs/Common/ELC%20Audit%202022%20-%20FINAL2.pdf>

¹⁸ <https://www.childminding.org/Media/Docs/Common/ELC%20Audit%202022%20-%20FINAL2.pdf>

¹⁹ CI 2021 report

- **A birthday lottery.** A child's entitlement begins the term after they turn three. However, all children start school at a single entry point in August. Previous research by Reform Scotland has demonstrated that younger children who start school at the age of four will end up receiving less early years provision than their older peers. If they are in a partnership nursery, their parents will end up being entitled to less financial support. A single entry point two years in advance of starting school would equalise the entitlement, as well as making it easier for nurseries to plan staffing in advance.²⁰
- **A blindspot for school-age care.** Only around a quarter (27%) of all childcare in Scotland accepts six-11 year olds, and the number of holiday playschemes has dropped 30% since 2014.²¹ For comparison, Ireland's recent childcare reforms create support up to age 15; around 80% of children in Denmark are enrolled in wraparound care.²²

The three objectives for the 1140 hours expansion were to improve children's outcomes, support family resilience, and support parents to work or study. In this context the treatment of different ages is striking. Age three is when the Curriculum for Excellence begins, but beyond this the Scottish Government does not claim that age three has any wider significance in child development or educational outcomes. Nor has it set out in any detail how it expects families to build resilience and balance work and family life across a child's first decade.

But it has, in practice, created a clear set of signals. It suggests that parents should *not* expect significant support before age three; should then *absolutely* find daytime care at age three and four, at least in term time; but should then expect nothing beyond the school day and the school year.

This is reflected in the total rate of daycare (ie, nursery) registration, shown in Care Inspectorate registration trends shown in graph one. This shows that the proportion of three and four year olds registered in daycare is much higher than any other age. It also shows that this was already the case, before the expansion of free hours from 600 to 1140 hours.

The implication is that free hours funding went more on increasing support for children *already receiving some nursery care*. There is little evidence measuring the scale of this effect in Scotland, but the same dynamic has been studied in England. One study found that for every one child who took up a free nursery place, three received funding whose parents would have paid for the care anyway.²³ Free hours in England are being extended to the under-twos, and one estimate is that only 15% of the hours now funded will be additional. The rest would have been purchased anyway.²⁴

Policy debate in Scotland – and in particular the Scottish Government's assessments of impact – needs to be much more alert to this kind of dynamic effect, and the opportunity costs it suggests. For the same investment, policy could have targeted

²⁰ <https://reformscotland.com/wp-content/uploads/2020/11/Closing-the-early-years-gap.pdf>

²¹ CI 2021 report

²² <https://www.oecd.org/education/school/37423394.pdf>

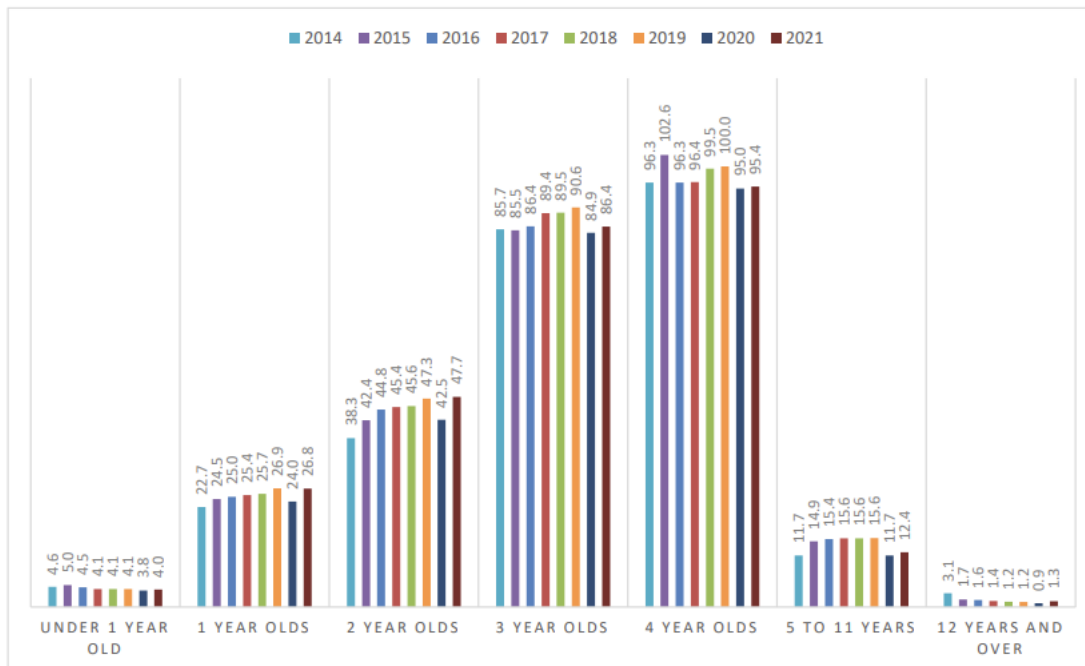
²³ <https://www.nuffieldfoundation.org/project/the-impact-of-nursery-attendance-on-childrens-outcomes>

²⁴ <https://ifs.org.uk/sites/default/files/2023-03/Spring-Budget-23-Changes-and-challenges-in-childcare.pdf>

lower income groups more, or worked harder to increase uptake for a wider age range. Or it could have picked whatever combination of income, hours and ages the evidence suggests has the greatest additional impact on children's outcomes, family resilience, and parents' ability to work or study.

Instead, the emphasis on particular age groups created not a holistic early learning and childcare system, but more a nursery system for three and four year olds - for no real reason.

Figure 2: Rate per 100 population children registered in daycare of children services



4. Unclear accountability

Councils are supposed to act as the 'primary guarantor of quality' of funded hours. Councils have a minimum quality standard linked to inspection ratings, which has been phased in gradually.²⁵

This creates a mechanism for enforcing quality. But councils take different approaches to registering partners. Some recruited nursery providers through a full tender exercise, creating a five-year contract with its own application process.²⁶ There are occasional media reports that councils have stopped providers offering free hours at short notice, without any clear explanation.²⁷ Some are setting their own quality regimes and visit schedules – when providers can already be inspected by both the Care Inspectorate and HM Inspector of Education, and have staff registered with the Scottish Social Services Council.

²⁵ <https://www.gov.scot/publications/funding-follows-child-national-standard-early-learning-childcare-providers-interim-guidance-update-requirements-early-learning-childcare-settings-local-authorities-august-2022/>

²⁶ Eg, East Ayrshire: <https://docs.east-ayrshire.gov.uk/crpadmmin/2012%20agendas/cabinet/21%20September%202022/Early%20Learning%20and%20Childcare%20-%20Annual%20Review%20of%20Sustainable%20Rate%20for%20Providers%20and%20Childminders.pdf>

²⁷ Eg, <https://www.eastlothiancourier.com/news/21382783.owners-stunned-dismayed-four-nurseries-lose-funding-1-140-hours/>

Free hours muddies oversight, in other words. In the short term it duplicates paperwork for providers –and in the long term, it is no longer clear whether councils, the Scottish Government, or care inspectors and registers are accountable for the quality of any given setting.

This risks everyone thinking it is their job. Or worse, assuming it is someone else’s job. Across the entire system, the proportion of settings rated as good, or scoring highly in a number of areas, has dropped since 2014 – though this may be driven primarily by decline in childminding.²⁸

5. Lack of flexibility for parents.

Free hours has overall increased capacity. But about one in ten parents say they find free hours lacks flexibility. About one in 20 do not use their full entitlement because they cannot get the provision they want.²⁹

Most councils have user-unfriendly application processes, such as set application windows or requiring applications a year in advance. If a parent wants to mix childcare across local authorities – which is particularly common in the central belt – they have to submit multiple applications. This means that not only do many parents face gaps in the care they want, they have limited options for changing their package once started.

6. Duplication of public systems

Other childcare support is carried out largely through the tax and benefit system. The UK Government’s ‘tax free childcare’ is an account system where every £8 paid in by eligible parents receives a £2 top-up to spend on any registered childcare provider. Universal Credit also has a childcare element.

There are also UK-wide benefits for wider family support such as Child Benefit, and Universal Credit has a top-up for more children. Devolved benefits for wider family support such as the Early Learning Payment, the Best Start Grant, and the Scottish Child Payment are managed by Social Security Scotland. Usually the entitlement is based on receiving a UK-wide benefit but there is still a separate application for claimants.

Eligibility for additional free hours of early learning and childcare for two year olds is based either on a child having been in care, or if the parent receives certain UK-wide benefits. Again, parents have to apply and usually give evidence of receipt of the benefits.

In effect, parents experience up to four support systems: UK-wide ‘tax free childcare’, UK-wide benefits, Scotland-specific benefits, and free hours which itself can mean multiple council systems. This means time and effort working out which benefits they are entitled to, and then keeping track of whatever systems they are claiming.

²⁸ Care Inspectorate stats 2021

²⁹ <https://www.gov.scot/publications/parents-views-use-early-learning-childcare-scotland-2022/pages/4/>

For governments, it duplicates systems. The Scottish Government is paying both £535 million a year to run the social security agency - and then also £11m to oversee the free hours roll-out.

Free hours: the importance of trade-offs

All of this creates a situation where Scotland is spending significant sums on early learning childcare, but with inefficiencies and problems built into its design. Increasing the free hours entitlement has increased the total number of places in the system. It has overall reduced costs for parents. But this has come at the cost of a collapse in more flexible forms of childcare, confusing accountability, duplicating systems, and pushing non-council nurseries into ever-greater pressure.

At best, without any change, these problems will remain and a major public investment will underwhelm.

At worst, it will entirely undermine the expansion of free hours. Many in the sector believe that without changes, the situation in private nurseries and childminding will accelerate. Provision will be concentrated into ever-bigger, less-flexible, term time-only nurseries – or even reach a tipping point and see a total collapse of the private sector. Either scenario will fatally undermine the aims of the funded hours expansion.

The paradox of early years funding in Scotland is that it has hugely expanded support at the same time as threatening to overwhelm the sector. Free early learning and childcare hours are both a solution and a problem.

The solution – rewiring payments

Early years education and childcare should be seen as a complete system. The best policy is one that considers the interaction of costs, regulation, staffing, subsidy, and culture – and sees these themes as interconnected.

But much of that is a long-term solution, when there is an immediate risk of the existing system boiling over. Because so many issues can be traced back to the specific mechanism of paying for specific age groups through councils, this is an obvious starting place for short and medium-term changes. This could focus on changes either to the age criteria, or to the mechanics of payment.

Six broad changes could be considered:

- Changing age criteria:
 - Equalising the entitlements by age, so that parents still have the same number of hours overall but can take them at any age.
 - Equalising the entitlements by age, but with policy direction so that the existing spend is spread more evenly across a wider age range.
 - Expanding free hours to cover under-threes and/or school wraparound care.
- Changing funding:
 - Equalising payments so that it is more equally shared between different types of provider and in line with true costs.
 - Switching to vouchers amounting to the equivalent cost of the free hours, given directly to parents to cash in at any providers. This would be £5000 for three and four year olds, under the current age criteria.

- Switching payment of an equivalent cost of the free hours, directly to parents, with all childcare settings charging parents directly (with the same overall entitlement of hours, ages, and means-tested support).

These changes could be combined: for example, vouchers could be introduced at the same time as age equalization, or other packages.

Deciding between these options should be on the basis of their influence on:

- costs to parents
- costs to the Scottish Government,
- the likely influence on quality
- the likely influence on flexibility
- the ease of implementation by the Scottish Government (practical and political)

These options are discussed in the table below. To create consistent comparisons, each option was given a rating based on performance against these criteria, summarised below. Green (3 points) is good performance, amber (2) is middling, and red (1) is poor performance.

The default scenario of no change is shown for context.

Option	Costs to parents	Costs to Scottish Government	Quality	Flexibility	Implementation	Score
No change: the default scenario for childcare	Costs heavily subsidised for 3 and 4 year olds, targeted support for under-2s and little for school-age care	Funding of approx. £600m per year.	Generally high-quality provision but with significant patches, and risks from unclear accountability; general trend away from highest-rated forms of childcare like childminding	Collapse of flexible forms of provision, growing crisis in private nurseries, more emphasis on council nurseries which tend to be less flexible	Overlapping public systems with complex mechanisms for deciding rates paid by councils to providers	10/15
Equalise hour entitlement across age range 0-5 with parents able to take hours at any age	No direct change. Time costs for working out how to take entitlement.	Cost-neutral but risk of parents spending hours entitlement in different spend profile; implementation costs through new system for monitoring.	No significant change to default	More flexibility for parents – but with clear risk of front-loading hours and then running out. No change to bias towards council nurseries.	Likely to require complex new ways for tracking how much entitlement each child has used over several years	9/15
Equalise hour entitlement so same entitlement is spread across different ages	Impact will vary by different ages. Overall neutral, Possible long-term reduction in cost if supply of childcare is more sustainable	No significant change. Potential saving as takeup for 1-2s might be lower.	No significant change	No change to bias towards nurseries	Likely to face political resistance as some parents will lose out; different costs for 1-2s might require new rate-setting process	11/15
Expand free hours to under-3s	Net saving: likely to reduce costs to parents for hours funded, but push up prices for remaining free hours	Increase in funding – likely to be significant	No significant change to default	Without wider changes, likely to guarantee collapse of flexible childcare and accelerate contraction in private nursery provision	Can be implemented without any new legislation or structures; minor process efficiency by removing need to test eligibility for 2-year olds	10/15
Equalise funding across providers	Likely net reduction of costs, by allowing providers to end cross-subsidy of free hours by other hours	If shortfalls on costs are 7-25%, fair to assume equivalent increase in funding is required to equalize for nurseries	No significant change to default	Should stop decline of PVI nurseries; would need wider policy action to address flexible/childminder decline but likely to help	Can be implemented without any new legislation or structures	13/15

Switch to direct vouchers for parents	No direct change, but in long-term likely to support lower costs overall through more resilient sector.	Likely to be cost-neutral or saving to SG; voucher administration likely to be marginally simpler than existing system	Clarifies accountability	Creates real flexibility for parents with genuine provider neutrality	Requires new voucher system to be created (or addition to tax-free childcare). Creates many future options/flexibilities.	14/15
Switch to direct payments to parents	No direct change, but in long-term likely to support lower costs through more resilient sector. Payment to parents may not be spent on childcare & interaction with benefit entitlement and work incentives may be complex if counted as income.	Cost of SSS (or SG) implementing system likely to be same as cost to SG of free hours administration.	Clarifies accountability	Creates real flexibility for parents with genuine provider neutrality	Possible political resistance to direct payments. Simplifies back-end as councils no longer need to set rates but significant new operational pressure on Social Security Scotland or SG to implement.	13/15

Analysis: the flexibility of a Scottish Early Learning Childcare Payment

Overall, this suggests that finding a way to simply give parents the cost of their entitlement would best retain the benefits of the recent expansion, but avoid many of its downsides – for no additional spending. Vouchers have fewer downsides than direct payments, but both options are preferable to either the status quo or expanding free hours.

Further development should consider detailed aspects of design including:

- **Options for streamlining accountability.** Reform Scotland previously proposed tying provider eligibility for vouchers to existing registration and inspection regimes, rather than new processes. This remains the most elegant solution for making sure vouchers are spent on childcare but also equalising the use of different kinds of childcare.
- **Options for structuring early years support more intelligently.** The simplest option for introducing vouchers would be to keep payments at the equivalent level to the hours, using the Scottish Government's own estimates of the value of the hours to parents. This would be £5000 a year, per child, for three and four year-olds. But a major benefit of this approach is the future flexibility it creates once introduced – there are far more options for smoothing payments across different ages, means-testing or targeting additional funding by income, or reflecting other considerations like rural areas or parents who study.
- **Political possibilities.** With policy design options comes political options. It feels likely that given a choice between 1140 free hours or receiving a 'new' £5000 voucher, most would accept the latter, particularly if it is billed as easier to use with childminders, creches and playgroups. Or if the spend was targeted differently, new winners would be created. Compared to other childcare reforms, this is a more electorally savvy approach to ironing out problems.
- **Interaction between social security and childcare support.** In the long term, childcare should be a seamless part of the wider family support systems with a coherent set of work incentives, benefit levels and application processes. Since 2016, the Scottish Government has created a new devolved benefits agency, Social Security Scotland. There are concerns about the agency's capacity to take on new payments – which might make direct payments impractical. But moving towards a voucher system still shifts the basis of childcare closer to that used for wider family support, by basing application and assessment on individual households. That lays the foundations for better integration between childcare and the tax and benefit system in the future, even if SSS is not directly involved in vouchers.
- **Reduced administration costs.** The Scottish Government spends £11.4m to run the free hours system. Council resource costs purely to implement 1140 hours vary, but are generally in the range of one to five staff. The whole system builds in complexity around rate-setting and calculating costs of hours, as well as councils accrediting partners. A voucher could retain some of that infrastructure to set rates, or could strip it out by having a cash value which is updated each year by the Scottish Government. Any system which reduces complexity should also save money. So, while implementing a new voucher system does have costs, its administration would likely still end up cheaper than the current system.

Conclusion: updating early years education for a new age

Underpinning the current situation is a deep confusion over what we want childcare to achieve. The Scottish Government – and opposition parties – usually state their desire for

affordable, flexible, high-quality early years education, which gives children a good start in life and enables parents to work.

These things are held in tension. Any individual policy can increase the flexibility of childcare *while also* making it more expensive. Or vice versa.

Perhaps the defining feature of early learning and childcare policy in Scotland is that it refuses to confront trade-offs. It takes a fundamentally static view, assuming that subsidy in one part of the system leaves the rest unchanged.

That is not how systems work. In practice, current policy has both helped parents *and* created the risk of systemic collapse. It has both increased capacity, and started moving firmly towards a model of term-time, council-led, nursery-based care.

Either policymakers need to be honest about this fact. Or, we could stop pretending that policymakers are in any position to decide family priorities at all. There is no single 'right' childcare option – individual families will prize different combinations of cost, time, education styles, flexibility and their other commitments.

Switching the payment mechanism so it runs through parents would therefore have a number of practical benefits, without any new spending. But perhaps its greatest value is that it places complex questions about the purpose and structure of early years support in the hands not of the government, or councils, or providers – but parents.

