

Finance and Public Administration Committee

Post-legislative scrutiny of the Financial Memorandum for the Children and Young People (Scotland) Bill

Written submission from Audit Scotland

Purpose

1. The Finance and Public Administration Committee has invited Audit Scotland to provide evidence to support its Post-legislative scrutiny of the Financial Memorandum for the Children and Young People (Scotland) Bill, with a specific focus on the expansion of early learning and childcare to 600 hours per year that was proposed by the Bill. This briefing summarises key findings from Audit Scotland's work on early learning and childcare to date and relevant themes from our broader work. These include the importance of timely and reliable financial information, which should be regularly reviewed throughout implementation of policy, and the importance of considering outcomes at the planning stage.

Audit Scotland work on early learning and childcare

2. Audit Scotland has produced two reports on funded early learning and childcare (ELC). Our [Early learning and childcare](#) 2018 report examined how effectively the Scottish Government and councils were working together to improve outcomes for children and support parents by expanding access to funded ELC. This covered both the expansion of funded ELC from 475 hours per year to 600 hours per year from August 2014 and the planning for further expansion to 1,140 hours a year. Our [Early learning and childcare follow up report](#), published in March 2020, provided an update on planning for the expansion to 1,140 hours. That expansion was initially due by August 2020 but was extended to August 2021 due to the Covid-19 pandemic.

Funding for, and spend on, funded ELC

3. The original Financial Memorandum in 2013 indicated that the costs of extending early learning and childcare provision to 600 hours were estimated to peak at £108m in 2016/17, reducing to £96m by 2019/20. In a letter to the Convener of the Finance Committee on 12 September 2013, the Scottish Government set out its intention to provide an extra £4.2m per year in addition to the amounts set out in the Financial Memorandum to meet the costs of the ELC expansion. On 24 January 2014, a supplementary Financial Memorandum was introduced to include amendments to the Bill at Stage 2 increasing the numbers of two-year-olds eligible for funded ELC. This increased the estimated costs of extending funded ELC to a peak of £166m in 2016/17, reducing to £156m in 2019/20. We did not specifically comment on the Financial Memorandum for the expansion to 600 funded hours in our reports.

4. Our 2018 report included information on the additional revenue and capital funding allocated for the expansion to 600 hours. This was distributed to councils on the basis of the Grant Aided Distribution formula and the estimated numbers of two-year-olds in workless households. We also reported the published information on

council spending on pre-school education from the Local Financial Returns, which provide annual information on the financial activity in councils.

5. The Scottish Government's financial review of ELC concluded that over the three years 2014/15 to 2016/17, councils received £329 million additional revenue funding for providing ELC. But they only increased their spending on ELC by £189 million. Our report highlighted that COSLA disputed the accuracy of the funding gap for a number of reasons, including limitations in data quality. COSLA also felt that the review failed to adequately account for the need for councils to deliver efficiencies to balance budgets over the review period.

6. Our 2018 report highlighted inconsistencies in how councils compiled local financial return information, making it difficult to conclude how much of the variation in council spend was genuine variation and how much was a result of these inconsistencies. Limitations in the available financial data made it difficult to examine the financial impact of different models of ELC and changes to flexibility. We recommended that the Scottish Government and councils collect better information on the cost of different models of ELC and their impact on children's outcomes to allow them to better plan for the expansion to 1,140 hours. We have highlighted the importance of comprehensive financial information to support planning and decision making in previous audit work.

7. The entitlement to funded ELC almost doubled to 1,140 hours from August 2021 and was not included in the Financial Memorandum, which reflected the policy at that time. The funding for this expansion was distributed on a different basis to the 600-hour expansion and it took more account of how the expansion would be delivered locally. A multi-year funding settlement was agreed for the expansion to 1,140 hours. This was distributed to councils on the basis of financial templates submitted by councils to the Scottish Government, outlining the costs of their expansion plans, after some adjustments.

Impact on outcomes

8. Our 2018 audit highlighted that the Scottish Government implemented the increase in funded hours of ELC without considering different options to improve outcomes for children and parents, and the potential impact and cost of these options. We recommended that future major policy changes are backed up by options appraisal, supported by economic modelling.

9. In 2018, we reported that the impact of the expansion to 600 hours on outcomes for children was unclear, as the Scottish Government did not plan how to evaluate this. This lack of planning meant it was difficult to assess the cost and impact of the increase in funded hours and whether the policy was delivering value for money. As we have highlighted previously, this is a key requirement in [Planning for outcomes](#). Significant gaps in the data at that time included a lack of accurate cost and spend data on funded ELC; incomplete data on staff providing funded ELC; and a lack of data on the number of hours of funded ELC children received. Work was ongoing to address some of these gaps at the time of publishing our 2018 report.

10. By the time of our 2020 report, we found that the Scottish Government's plans to evaluate the expansion to 1,140 hours were well advanced. An evaluation strategy

was being finalised which would measure both the short-term objectives and the longer-term outcomes of the policy. At this stage, work was under way to capture important baseline information, but challenges remained. For example, it was not clear how the longer-term economic benefits will be assessed, or how family wellbeing will be measured. A delay in updating software used to record children's data meant that there were some gaps in the baseline equalities information.

Commentary on cost estimates for financial planning from our audit work

11. [Developing financial reporting in Scotland](#), published in July 2013, and [Update on developing financial reporting](#) (March 2015) highlighted the importance of comprehensive and reliable financial information to help support decision-making, for example, by allowing decision-makers to analyse options and prioritise activities. The update noted '*As improving outcomes is a long-term goal, financial planning should also have a longer-term lens. An honest assessment of gaps in funding will help identify any future threats to achieving outcomes.*' In [Planning for outcomes](#) (June 2019), the Auditor General highlighted the importance of considering longer-term outcomes and reflecting this in financial planning.

12. Cost estimates need to be kept under review. In [Managing the implementation of the Scotland Acts](#) (March 2018), the Auditor General said: *Budgeting, financial monitoring and reporting require further development to enhance transparency and support effective scrutiny. More detailed estimates of costs need to be developed and refined as decisions are made about service delivery and long-term IT solutions.*

13. In [Social security: implementing the devolved benefits](#) (May 2019) we reported that *the Scottish Government does not yet have a clear understanding of the key things needed to deliver all remaining benefits in the way it intends. This includes not monitoring and reporting on how much it will cost to fully implement all the benefits.* Our latest report [Social security: progress on implementing the devolved benefits](#) (May 2022) said that the implementation costs have not been routinely reported on publicly and that the scale of staffing required to implement and administer the benefits is much larger than the Scottish Government initially estimated.

14. Our [Social care briefing](#) (January 2022) stresses the importance of including realistic costs in financial memorandums accompanying parliamentary bills for legislative change as the Scottish Government takes forward its plans for a National Care Service.

Conclusion

15. We have identified some key points through our audit work that we would like to highlight to the Committee:

- The need to be clear from the outset about the outcomes that policy is expected to deliver, and to consider the different options for achieving those outcomes – the Scottish Government did not do this for the expansion to 600 hours of funded ELC.
- Financial projections and budgets should be based on detailed cost estimates and scenarios to deliver the intended outcomes – gaps in the available

information made this difficult when planning to deliver the expansion to 600 hours.

- Comprehensive, good quality and timely financial information is needed to monitor and report on progress as policy is implemented – gaps in the information made this difficult.