

## Local Authority Early Learning and Childcare Finance

---

This document is intended to explain the background to the funding of Early Learning and Childcare (ELC) provision as administered and delivered by local authorities.

### What are local authorities responsible for?

As set out in the [Children and Young People \(Scotland\) Act 2014](#), local authorities are responsible in their own areas for:

- Securing that the 1140 hours of early learning and childcare is made available for each eligible pre-school child. This must be available at least 38 weeks each year delivered in sessions of 10 hours or less.
- Consulting a representative sample of parents of pre-school children about how it should make early learning and childcare available and publish plans that show how it will make ELC available.
- Give due consideration that the method by which ELC is available is flexible enough to allow parents an appropriate degree of choice when deciding how to access the service.

### How do they fulfil this responsibility?

Delivery of funded ELC in almost all council areas requires capacity from both the local authority's own services (often through education estates) as well as having partnerships with private, and third sector providers including childminders.

Nationally about 70% of all funded childcare is delivered in local authority settings, with around 28% in private, or third sector settings, and 2% with childminders.

As local authorities have a duty to commission services that meet the needs of their population, no matter where they reside, this can involve circumstances where they run services where ELC provision would not be commercially viable for other providers, such as in remote and rural areas.

For example, the [Financial Sustainability Health Check](#) highlighted that the majority of smaller registered childcare services are delivered by local authorities. The analysis showed that, as at 31 March 2023, local authorities delivered 59% of services with a registered capacity of 25 or less (and 81% of services with a registered capacity of 1-10 places).

## How are local authorities' ELC budgets decided nationally and locally?

ELC budgets are not set nationally. Each year the Scottish Government sets its budget through a legislative process in the Scottish Parliament, including the funding allocated through the [Local Government Finance Settlement](#). The Settlement distributes funding to councils, covering different service areas including social work, housing, roads and transport, leisure and recreation, and education including ELC. The collection of all of these areas is referred to as the General Revenue Grant.

Through this budget-setting process, the Scottish Government has set the notional total national figure each year for delivering funded ELC and then this is distributed to local authorities based on ELC-related indicators. From 2022-23 onwards, all funding related to ELC is distributed to local authorities through one formula. This is a change from previous years, where a number of different individual funding lines, each with their own methodology, made up the total ELC funding. The formula now used to determine how much of the total each local authority receives is as follows:

- 75% client numbers
- 20% deprivation numbers (including equity and excellence leads)
- 5% rurality count

You can see the calculations and individual allocations for each local authority in the [2024-25 Green Book Tables](#), however, it is important to note that these are not allocations for ELC, but simply a way of allocating an element of the total funding in a way that recognises the drivers of need in providing ELC.

From 2024-25, in line with the [Verity House Agreement](#) which states that the default position will be no ring-fencing or direction of funding, all the key ELC funding streams have been consolidated into the General Revenue Grant, incorporating money previously included for free school meals. The total ELC funding that has been baselined into the general revenue grant is now £1,001.5m. The Scottish Government is working with the Improvement Service, COSLA and local authorities to develop an outcomes and measurement framework for funded ELC, which will fulfil important shared accountability and improvement goals in relation to funded ELC whilst acknowledging the legislative underpinning for the policy.

Once the local government finance settlement is confirmed, each council is required to set their own budget including decisions on allocating funds to different services and policy areas reflecting local needs and priorities. It is for locally elected representatives to make decisions on how best to deliver services to their local communities, including ELC services, whilst fulfilling their statutory obligations and a jointly agreed set of national and local priorities. This is always a difficult process with the public sector operating in an increasingly challenging financial context both [nationally](#) and in local government.

## Fixed costs in local authority ELC delivery: who sets local authority ELC employees' pay?

As noted above, the majority of funded ELC is delivered through local authority owned and operated services, and therefore for most councils their own provision will represent the biggest cost in their ELC service. Staff costs make up the largest proportion of the overall cost of delivering ELC services. Staff in local authority settings are direct employees of the council. The pay levels and terms & conditions of local authority workers are negotiated nationally with three recognised unions: Unison, Unite and GMB. Hourly rates for individual jobs are determined locally through a process of job evaluation and the council's pay and grading scheme. These will regularly be modified by nationally agreed local government pay awards.

Job evaluation ranks each job based on the demands of the role. The rank order of jobs is then cross referenced to a pay and grading scheme. This ensures everyone is paid equally for equal work within the same employer. This process includes ELC employees, as well as everyone from leisure centre workers, refuse collectors, and social workers. National and local bargaining arrangements with the recognised unions and UK equal pay laws mean **ELC teams in councils have no authority to set pay levels independently**.

## Setting of sustainable rates for the delivery of funded ELC

Local authorities set hourly rates locally that are paid to funded providers in the private and third sectors, and to childminders, to deliver the funded ELC entitlement.

These rates should be sustainable and meet the following:

- The rate will support delivery of a high quality ELC experience for all children.
- It will be a rate that reflects the cost of delivery, including the delivery of national policy objectives.
- The rate will allow for investment in the setting – staff, resources, and physical environment; and
- It will enable payment of the real Living Wage for those childcare workers delivering the funded entitlement.

In April 2019, [guidance was published to support local authorities to set sustainable rates](#) for funded providers in the private and third sectors, including childminders, from August 2020.

The principles in the guidance highlight the importance of the rate setting process being underpinned by an evidence-based approach; transparency; and partnership working between local authorities and funded providers in the private, third and childminding sectors.

The guidance also highlights that from a local authority perspective the rate must be sustainable for authorities in terms of the budgets available, and that the following points are also important to consider when setting a sustainable rate:

- The rate does not have a detrimental effect on the local authority's ability to continue to pay for the service in the long-term.

- The wider package of ‘in-kind benefits’, which are separate to the sustainable rate, available to the funded provider as part of their contract with the local authority. The type of support provided by local authorities to funded providers could include (but is not limited to):
  - training programme resources.
  - support for workforce planning.
  - marketing and recruitment support.
  - funding for staff to undertake relevant qualifications.
  - grant funding for specific resources.
  - buildings support.
  - regular contact through local authority ELC meetings.
- The rate does not need to be cross subsidised by parents and carers through charges for non-funded hours.

In 2024-25, the Scottish Government is providing £16 million additional funding to local authorities to enable childcare workers delivering funded ELC in private and third sector services to be paid at least £12 per hour from April 2024. The commitment will also be applied in a fair and sustainable way for childminders. To outline how this additional funding should be reflected in rates set, the Scottish Government and CoSLA published Guidance for setting sustainable rates for the delivery of funded ELC in 2024-25. This update acts as a complement to the Sustainable Rates Guidance published in April 2019.

In December 2023 the Scottish Government and CoSLA published their [Review of Sustainable Rates](#). The review committed to a comprehensive update to the sustainable rates guidance, alongside other actions including the continuation of a range of support from the Improvement Service to support local authorities with the sustainable rate-setting process, and consideration of how cost data can be improved to produce more robust financial evidence for rate-setting.