

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	22 February 2018
REPORT TITLE	Internal Audit Report AC1815 – Pre-School Places
REPORT NUMBER	IA/AC1815
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Pre-School Places.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Pre-School Places.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. IMPACT SECTION

7.1 **Economy** – The proposals in this report have no direct impact on the local economy.

7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. The proposals in this report will have no impact on improving the staff experience.

7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.

7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

8. APPENDICES

8.1 Internal Audit report AC1815 – Pre-School Places.

9. REPORT AUTHOR DETAILS

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ABERDEEN

CITY COUNCIL

Internal Audit Report

Education and Children's Services

Pre-School Places

Issued to:

Helen Shanks, Head of Education and Inclusion
Fraser Bell, Head of Legal and Democratic Services
Steven Whyte, Head of Finance
Sacha Will, Service Manager (Early Years) - Acting
External Audit

EXECUTIVE SUMMARY

During 2016/17, the Council made payments totalling £2.6 million to partner providers in fulfilling obligations under the Children and Young People (Scotland) Act 2014 to provide 600 hours of pre-school education to all three and four-year olds, and eligible two-year olds per annum.

The objective of this audit was to consider whether these statutory obligations are being delivered and that adequate control is exercised over expenditure, and to consider if plans are in place to deliver the Scottish Government's expansion of early learning and childcare (ELC), which comes into force in August 2020.

The results of testing were generally satisfactory with recommendations being made to enhance written procedures, ensuring that partner providers submit required documentation, reviewing the timing of funding payments, and evidencing attendance by pupils. The Council has plans to deliver the required expansion of ELC on a phased basis up to 2020.

1. INTRODUCTION

- 1.1 The Council has a statutory obligation under the Children and Young People (Scotland) Act 2014 to provide 600 hours of pre-school education to all three and four-year olds, and eligible two-year olds per annum.
- 1.2 During 2016/17, the Council made payments totalling £2.6 million to partner providers in respect of this.
- 1.3 The objective of this audit was to consider whether statutory obligations are being delivered and that adequate control is exercised over expenditure, and to consider if plans are in place to deliver the Scottish Government's expansion of early learning and childcare (ELC), which comes into force in August 2020.
- 1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Helen Shanks, Head of Education and Inclusion, and Sacha Will, Service Manager (Early Years) – Acting.

2. FINDINGS AND RECOMMENDATIONS

2.1 Statutory Obligations

- 2.1.1 The Children and Young People (Scotland) Act 2014 is the driver for early learning and childcare provision. The Council has an obligation to provide 600 hours of pre-school education per annum for eligible children for at least 38 weeks a year for sessions which must be no less than 2.5 hours. To be eligible, a child should be under school age (i.e. 3 or 4-year olds) or a two-year old who is looked after by a local authority, subject of a kinship care order or where parents are in receipt of certain benefits. The Council's internal providers offer 5 daily sessions of 3.17 hours per day over a 38 week period, which equates to 602.30 hours per annum. A review of funded hours provided by a sample of partner providers confirmed that the minimum 600 hours per annum is being provided.
- 2.1.2 According to the Aberdeen City Early Learning and Childcare Delivery Plan, explained further in section 2.6, below, 27% of eligible 2 year olds, 82% of 3 year olds and 91% of 4 year olds within Aberdeen City are accessing 600 hours of Early Learning and Childcare, and the Council is in a position to meet its statutory obligations in relation to availability of free Early Learning and Childcare hours, based on demand.
- 2.1.3 The National Care Standards Committee was set up by Scottish Ministers to develop national standards, including those for Early Education and Childcare. Early education and childcare providers are expected to register with the Care Inspectorate and meet standards with regards to quality of care and support, environment, staffing and management. Providers should ensure that adult / child ratios (1:3 – 1:10) are achieved, that staff are appropriately qualified, and that space standards (2.3 m² - 3.7 m²) are met.
- 2.1.4 The Care Inspectorate carries out inspections of each registered provider to ensure ongoing compliance with standards. A report, including gradings for standards, is issued and is available on the Care Inspectorate website. Inspections are carried out on a 36 month cycle for providers with a "Good" or better rating (ratings range from Unsatisfactory to Excellent.) For any providers not meeting a "Good" rating or better, inspections are carried out annually.
- 2.1.5 The Council has engaged with 40 partner provider nurseries, in addition to 48 internal providers, to provide early education and childcare places. A review of all partner providers was undertaken to ensure that all were registered with the Care Inspectorate, and had an inspection carried out within the timescales noted in 2.1.4 above. All were registered, and have had a report carried out within the last 36 months. All but one partner provider evidenced adequate or better for all areas graded. In the one exception, the provider has not been utilised to provide childcare facilities.
- 2.1.6 A review of internal providers evidenced Care Inspectorate registration for all, and generally good reports for all but one, where "weak" grades were given for the standard of care and management, with adequate grades being given for environment and staffing. The Quality Improvement Team have implemented an improvement plan in collaboration with the appropriate Head Teacher.

2.2 Partner Providers

- 2.2.1 Responsibility for ensuring the Council meets its current statutory obligations regarding early years and childcare provision lies with the Early Years Team within Education and Children's Services. Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of error and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an

experienced employee being absent or leaving. The Service have written procedures in place covering the registration of partner providers, but not for the maintenance of Service records, and the payment of partner providers.

Recommendation

The Service should draft written procedures for records maintenance and the payment of partner providers.

Service Response / Action

Agreed. Written procedures for records maintenance and payment of partner providers will be developed.

Implementation Date

March 2018

Responsible Officer

Early Learning &
Childcare Administrator

Grading

Important within audited
area

- 2.2.2 The Council engages a number of private and third sector childcare providers to ensure that statutory obligations with regards to pre-school provision is met. Any provider wishing to enter into a partnership with the Council must be registered with the Care Inspectorate, and should submit an application for partnership, as well as evidence that it is a going concern, and has relevant insurance in place.
- 2.2.3 To ensure that a partner provider is able to fulfil its obligation to provide childcare places on an ongoing basis, upon application to register as a partner provider, they should provide the Service with a 3-year cash flow statement, and a Profile of Education Provision, which should demonstrate how the provider plans to deliver and improve its pre-school education provision.
- 2.2.4 Three new partner providers have been engaged in 2017. A walkthrough test was carried out for one of these partner providers to ensure all relevant documentation was on file, and that site visits were evidenced. Evidence of the Profile of Education Provision, insurance cover, partnership agreement, cash flow statement, and a chronology of site visits carried out were all on file. The Service advised that as the partner provider had previously been in partnership with the Council, the application was processed over the telephone by the Education Support Officer, and as such there is no evidence that the partner provider has confirmed that the details they have provided are accurate.

Recommendation

All partner providers should submit a written application form as part of the registration process.

Service Response / Action

Agreed. All partner providers will submit a written application form as part of the registration process.

Implementation Date

January 2018

Responsible Officer

Early Learning &
Childcare Administrator

Grading

Significant within audited
area

- 2.2.5 To clearly define the responsibility of all parties involved, a partnership agreement should be agreed with all partner providers. A review of the Service files confirmed that there is a current partnership agreement on file for all.
- 2.2.6 It is a requirement of the partnership agreement that the provider should maintain public liability insurance of not less than £5 million, and employer's liability insurance, and that

documentary evidence of insurance be made available to the Council. Evidence of current insurance was evidenced for all partner providers.

- 2.2.7 Although Partner Providers are required to provide evidence that they are a going concern by submitting a 3-year cash flow statement, this is not required at the renewal of the partnership agreement. However, the Service has advised that it is the intention to request a cash flow statement prior to the renewal of a partnership agreement. A recommendation has been made for tracking purposes.

Recommendation

The Service should request cash flow statements from Partner Providers prior to the renewal of a partnership agreement.

Service Response / Action

Agreed. The Service will request cash flow statements from Partner Providers prior to the renewal of a partnership agreement.

Implementation Date

September 2018

Responsible Officer

Early Learning &
Childcare Administrator

Grading

Significant within audited
area

2.3 Funding of Pre-School Places

- 2.3.1 The Council is obliged to fund a maximum of 600 hours per annum of pre-school places. For 3 and 4 year olds, this is spread over a 38 week period, equating to 15.78 hours per week. The hourly rate payable for 3 and 4 year olds is £4.10 per hour (£2,460 per annum maximum) and £5.50 per hour for eligible 2 year olds (£3,300 per annum maximum.) To secure a place, parents should complete an application form, which is countersigned by the partner provider, and submit it to the Early Learning Team. Details of the application are input to a database, which calculates payments due to providers, based on the weekly hours for each child, on a termly basis. Following this, a payment voucher is created based on a database funding report, and payment is processed through eFinancials.

- 2.3.2 Payments made to partner providers are made in advance of service provision, with one payment being made for each term (3 terms in total). Although payment in advance is beneficial for partner providers, it increases the Council's exposure to the failure of a partner provider, and the risk of payment being made for a child who vacates their place part way through a term. Payment of funding in arrears and/or part payment being made at the start of term, and at the end of term would alleviate these risks.

Recommendation

The Service should review the method and timings of funding payments to partner providers.

Service Response / Action

Agreed. The Service will review the method and timing of funding payments to partner providers. A risk assessment will be completed which will take into account the number of children who take up their funded entitlement in Partner Provider provision. It will use historical data to understand the level of risk and will also consider the impact on Partner Providers including the level of risk this provides to their ability to remain in partnership. Any changes to the method and timing of funding payments will be included in the new partnership agreement for 2018-19 and will be implemented thereafter.

Implementation Date

September 2018

Responsible Officer

Service Manager (Early
Years) – Acting

Grading

Significant within audited
area

- 2.3.3 The database records for a sample of 30 places were reviewed to ensure all were supported by a completed application form, that the form details matched the database in terms of weekly hours, and that the funding calculation for each place was correct. All place records reviewed on the database were matched by fully completed and checked application forms. However, one error was noted where the incorrect funding rate had been applied upon input of the application, resulting in an overpayment. The Service had identified the error, have corrected the database and recovered the overpayment. One other error was noted where the Service had not updated the database to indicate payment had been made. This increases the risk of overpayment due to payment being made again, where it was not previously noted in the database. This was raised with the Service, and has been corrected.

Recommendation

The Service should ensure that the database is accurately updated.

Service Response / Action

Agreed. The Service has already identified risks in relation to the current processing system which relies on manual inputting of data therefore increasing the risk of human error. A project proposal has been submitted seeking resources to enable the development of an automated system. In the meantime officers will remain vigilant.

Implementation Date

Implemented

Responsible Officer

Service Manager (Early Years) – Acting

Grading

Important within audited area

- 2.3.4 The total payments to 20 partner providers calculated by the Early Years Team for term one of the 2017/18 session were reviewed to ensure that the payment was correctly calculated, appropriately authorised, and was made to the correct supplier. This was found to be the case.

- 2.3.5 A sample of 10 partner provider placeholder leavers communicated to the Council by Partner Providers was reviewed, to ensure that they were processed timeously, and that any refunds due to the Council were accurately calculated and had been received from Partner Providers. All records had been timeously processed, and all refunds were correct and had been received by the Council. However, the Service is reliant on Partner Providers advising of leavers on a timeous basis to determine if all pupils are still attending their funded partner provider places.

Recommendation

The Service should review all Partner Provider class registers on a termly basis to ensure funded places remain attended by pupils.

Service Response / Action

Agreed. The Service will review the method and timing of gathering register data from partner providers. A risk assessment will be completed which will take into account the number of children who take up their funded entitlement in Partner Provider provision. It will use historical data to understand the level of risk. The risk assessment will also consider the impact on our Partner Providers and costs associated with gathering this data in our current manual system.

The Service has already identified risks in relation to the current system which relies on manual collation of data therefore increasing the risk of human error. A project proposal has been submitted seeking resources to enable the development of an automated system which would improve accuracy of data in relation to the uptake of places.

Any changes to the method and timing of the collation of this data will be included in the new partnership agreement for 2018-19 and will be implemented thereafter.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
September 2018	Service Manager (Early Years) – Acting	Significant within audited area

2.4 Budget Monitoring / Benchmarking

2.4.1 The revised budget for Partner Providers (staff costs, administration costs, transport costs, supplies and services and payments to partner providers) for 2016/17 was £3.348m, with an actual outturn of £3.121m. Monitoring is carried out on a monthly basis, and as at 31 August 2017, the revised budget was £3.384m, with a forecast outturn of £3.364m, a forecast underspend of £20,000.

2.4.2 Benchmarking data provided by the Service shows that the following rates were being paid per hour to partner providers by Scottish Councils as at April 2017:

Rates per Hour of Provision	Aberdeen City	Lowest	Highest	Number of Councils
2 Year Olds	£5.50	£3.50	£6.63	24
3 and 4 Year Olds	£4.10	£3.17	£4.58	32

The Aberdeen City Early Learning and Childcare Delivery Plan shows that, in 2016, the Council's average unit cost of provision for 3 and 4 year olds was £6.63.

2.5 Quality Assurance

2.5.1 To ensure that levels of funding paid are accurate, the Service carries out an audit of the registers of a minimum of 10% of Partner Providers. An audit was carried out of the registers of 5 partner providers in June 2017, relating to 2016/17. This identified a number of issues, which have been resolved with the Partner Provider, resulting in 2 refunds covering six childcare places. All refunds have been received. A recommendation has already been made at paragraph 2.3.5 in relation to reviewing class registers on a termly basis for the purposes of avoiding overpayments.

2.6 Childcare Expansion

2.6.1 In October 2016, the Scottish Government set out plans to expand early learning and childcare from the current 600 hours per annum to 1140 hour per annum for all three and four-year olds, and eligible two-year olds, by 2020. An action plan for 2017/18 was published by the Scottish Government in March 2017, and a Quality Action Plan was published in October 2017 to identify further actions required. The Scottish Government will work with Local Authorities and service providers to address issues of infrastructure and capacity. All Local Authorities were asked to develop a statutory Early Learning & Childcare Delivery Plan to guide the proposed expansion plans.

2.6.2 The Service submitted a report to Education and Children's Services Committee on 14 September 2017 seeking approval to submit a Draft Early Learning and Child Care Delivery Plan to the Scottish Government by 29 September 2017, and to approve presentation of the Early Learning and Childcare Financial Plan to Education and Children's Services Committee on 16 November 2017. The Financial Plan was reported to Committee, and approval to proceed was granted.

2.6.3 The Service has estimated that if no changes are made to service delivery, the Council will experience a shortfall of 2,920,650 hours by 2020. In addition, current provision is not

well positioned geographically, creating barriers to accessing childcare for a number of parents. Three priority areas of poverty currently have the highest proportion of pre-school children, leaving these areas short of available local places. These areas will therefore be targeted in phase 1 of the roll out of the increase in ELC hours between September 2017 and August 2018. Phase 2, between September 2018 and August 2019, will focus on increasing ELC hours in other areas of deprivation and where provision is not geographically well placed, with phase 3 before the August 2020 deadline, expanding provision in the remaining areas.

- 2.6.4 The Delivery Plan was drafted following consultation with key stakeholders (parents / carers, partner providers and Services across the Council). The Plan identifies proposed delivery models, phasing and prioritisation as described above, implications for the Council's Early Learning and Childcare estate, staffing and partner provider implications, project management and a detailed implementation plan, including risk management and a financial plan. In addition to meeting the requirements of the Scottish Government, the Delivery Plan will also engage local communities for the provision of childcare giving greater opportunities for parents and carers. The Plan was approved by Education and Children's Services Committee in September 2017, and was submitted to the Scottish Government, and is aligned to the Scottish Government's proposals.

AUDITORS: D Hughes
A Johnston
N Ritchie

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.