

AUDIT REPORT 22'201**EARLY LEARNING AND CHILDCARE SERVICE****Executive Summary**

An audit has been undertaken of the systems and controls in the financial management of the Early Learning and Childcare Service (ELC). The Education, Children's and Leisure Services Committee of the 26th of January 2022 requested that Internal Audit provide greater clarity on the final financial position of the Early Learning and Childcare Service for 2022/23.

The Early Learning and Childcare Service covers childcare and education of children from birth to starting school. The Children and Young People (Scotland) Act 2014 introduced a statutory duty for Local Authorities to provide funded places for all eligible children in their area. This was part of a Scottish Government commitment to providing free funded places for a minimum of 600 hours per annum. Subsequently, an expansion programme was initiated with the requirement to deliver 1140 hours from August 2020, subsequently delayed to August 2021. To meet this requirement, the Scottish Government provided funding to Local Authorities. Moray Council submitted a funding bid in 2017, and decided that the delivery of the service was to be provided by a combination of Council owned nurseries, independent (private and third sector) early learning and childcare providers, and childminders. Details of the funding awarded by the Scottish Government, allocated Council budgets and yearly expenditure allocations from 2017 to date was as follows:-

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 Forecast as at 10/2/22 -£
Grant Award	405,000	1,109,181	5,847,000	9,675,000	10,792,000
Council Funding	3,402,000	3,402,000	3,402,000	3,402,000	3,572,000
Underspend from prior year	0	195,598	50,414	413,791	573,038
Total Funding	3,807,000	4,706,779	9,299,414	13,490,791	14,937,038
Budget Allocation Used	3,611,402	4,656,365	7,885,623	12,082,753	14,937,038
Capital Funded from Current Revenue	0	0	1,000,000	165,000	670,000

Appendix 2

Covid Spend	0	0	0	670,000	-670,000
Underspend Carried Forward	195,598	50,414	413,791	573,038	0

The scope for the audit, as detailed by the Education, Children's and Leisure Services Committee Report, was a requirement to provide greater clarity on the final financial position of the Early Learning and Childcare Service for 2022/23. However, discussions have subsequently been held with Senior Officers, and the scope for the audit has been expanded to include a review of the 2021/22 financial year to determine the reasons for the variance reported between budgeted and actual expenditure. In addition, the reasons for a change in the financial position reported in previous years were also to be investigated.

The audit was carried out in accordance with Public Sector Internal Audit Standards (PSIAS).

The audit has reviewed systems and procedures for the delivery of the ELC Service. This has included reference to financial information, discussions with officers and reviewing supporting documentation. The following points were noted from the audit undertaken:-

- Yearly funding available for ELC had been determined from the Scottish Government funding award and the existing Council budget prior to expansion. The ELC Service has successfully expanded the delivery of childcare hours in accordance with Scottish Government requirements. This has been undertaken at a cost significantly below the total yearly funding that allowed the transfer of funds to meet capital expenditure pressures. For 2021/22 an underlying overspend which has emerged can be met from reserves carried forward due to previous year ELC underspend, and a further transfer of funds into the Council Budget regarding pay awards for pre-expansion staffing.
- It is appreciated the difficulty in determining the 2022/23 ELC budget due to the uncertainty regarding future funding from the Scottish Government. However, a "zero-based" budgeting exercise should now be undertaken as a matter of urgency to accurately forecast the financial needs of providing the fully expanded ELC service. This exercise should be done in consultation with the Accountancy Section. Determination of demand for places should be undertaken based on predicted numbers of children and the number of hours requested. Other chargeable costs should also be reviewed to ensure that the correct balance between cost and quality is achieved. With increasing staffing costs, partnership provider payments, Additional Support Needs and meal costs currently indicate a £1.9m shortfall for 2022/23 separate from any Scottish Government funding reduction. These cost areas need to be fully analysed, reviewed, and forecast based on reliable demand indicators. However, the Scottish Government has recently indicated a

reduction in the grant award. If Council funding remains the same, this will result in a projected overspend of £3.3m in 2022/23.

- The current Early Learning Childcare (ELC) Manager has been in post for just over a year. It is appreciated that the pandemic has changed working practices and has made the delivery of training and support more difficult. However, it was found that no face to face training had been provided to assist the ELC Manager in the effective financial management of budgets. In addition, elements of the ELC budgets are also administered by other officers within the Council. As the Service has now fully expanded, the financial management arrangements of the ELC Budget should be reviewed to ensure future variances can be easily highlighted.

Recommendations

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.	
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
Key Control: Appropriate controls operating to ensure effective budgetary arrangements.						
6.1	Anticipated demand should be the cost driver in deciding budgets for Partner Provider Payments and Council Owned Nurseries. Registration forms and other available databases should be used for this purpose.	High	Yes	Analysis ongoing with the development of cost analysis spreadsheets for improved future budget forecasting	Early Years Officer	31/01/2023
6.2	The current catering arrangements need to be assessed to ensure the correct balance is achieved between costs and quality both within and outwith term time.	High	Yes	ELC catering costs and future service delivery are being reviewed	Catering Manager	31/08/2022

Appendix 2

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No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
Key Control: Appropriate controls operating to ensure effective budgetary arrangements.						
6.3	Benchmarking of costs in the delivery of an ELC Service with other Local Authorities should be undertaken to highlight any significant variances for further investigation,	Medium	Yes		Early Years Service Manager	31/12/2022
6.4	The ongoing ASN service review should inform the appropriate support cost to be met by the ELC sector, in line with support for other educational sectors.	High	Yes		Project Officer	31/12/2022
6.5	A review of current staffing and recruitment arrangements of Council owned nurseries should be undertaken to ensure the appropriate balance between costs and quality of service is achieved.	High	Yes	Review of current recruitment arrangements underway- per Committee paper to ECLS 9/3/22	Early Years Service Manager	31/08/2022

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Key Control: Appropriate controls operating to ensure effective budgetary arrangements.						
6.6	Further financial management training should be provided to the Early Learning and Childcare Manager.	High	Yes	Further financial training also to be provided to the Head of Education (Chief Education Officer)	Head of Education (Chief Education Officer)/ Head of Financial Services	31/07/2022
6.7	Financial management arrangements of the ELC Budget should be reviewed to ensure future variances can be easily highlighted.	High	Yes	I agree that the ELC budget should be reviewed to ensure it is appropriately constructed and reported on following the expansion phase and as we enter business as usual, to ensure that the components of the budget are appropriately allocated and assist the budget manager to manage their budget, with clear	Head of Financial Services	30/09/2022

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No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
				and appropriate lines of responsibility.		