

Internal Audit Report

Early Years Cross-Boundary Places

25 September 2024

CEJ2404

**Overall
Assessment**

**Substantial
Assurance**

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This Internal Audit review was conducted for the City of Edinburgh Council under the auspices of an addition to the 2024/25 internal audit plan approved by the Governance, Risk and Best Value Committee in May 2024. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management’s responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Overall Assessment

Substantial Assurance

Overall opinion and summary of findings

The Early Years Cross-Boundary Places arrangements are in line with statutory guidance, and controls are in place to ensure that all funding due is being received. Only some minor improvement actions were identified.

Specific improvements related to Early Years include ensuring that there is a formal record of approvals for proposals and ensuring the draft Early Years Delivery Plan 2024-27 is reviewed every two years and includes clear version control.









Wider improvements identified are related to the Strategic Programme Board (SPB) including obtaining evidence of formal approval of proposals from the Senior Responsible Officer and ensuring the current draft terms of reference for the SPB is finalised, is reviewed at agreed intervals, and version control included to detail the outcome of reviews. Also, guidance documents for projects and proposals on the Orb should be reviewed and updated.

Areas of good practice identified

- compliance with statutory guidance was confirmed by the Council's Legal Team
- financial modelling was in place and used to inform decision making on the cross-boundary placements decision
- the Council engaged with key stakeholders, including the Scottish Government and Private / Voluntary / Independent (PVI) providers
- the Council communicated the cross-boundary decision to PVI providers in sufficient time for implementation
- the cross-boundary decision proposal was submitted to and subsequently approved by the Strategic Programme Board.

Audit Assessment

[See Appendix 1 for Control Assessment and Assurance Definitions](#)

Audit Area	Control Design	Control Operation	Findings	Priority Rating
1. Policy and Governance			Finding 1 – Cross-Boundary Places Proposal: Formal Approval and Guidance	Medium Priority
			Finding 2 – Draft Early Learning and Childcare Delivery Plan	Low Priority
2. Stakeholder Engagement			No findings identified	N/A
3. Strategic Programme Board			Finding 3 – Strategic Programme Board: Terms of Reference	Low Priority
4. Risk Management			No findings identified	N/A

Background and scope

The City of Edinburgh Council (the Council) is required by statute to provide to eligible children 1140 hours of early learning and childcare over a period of at least 38 weeks and up to 52 weeks each year and will make available funding to providers in the private, voluntary and independent sectors within the Council area.

Due to a review of the overall funding distribution for early years learning and childcare, funding from the Scottish Government for Edinburgh's Early Learning and Childcare 1140 expansion was reduced from £46.4m in 2021-23 to £41.3m in 2022-23 and then reduced again to £40.4m in 2023-24. A further reduction of £1.9m is to be applied in 2024/25. The overall reduction of £7.9m is therefore a major budget pressure. To enable delivery of a high-quality service, the Council has revised the model of delivery for early years learning and childcare.

[Section 47 \(1\) of the Children and Young People \(Scotland\) Act 2014](#), provides that each education authority must ensure that the statutory funded early learning and childcare entitlement is made available for each eligible young child belonging to (i.e. residing in) its area. As at March 2024, 174 children from nine other local authorities currently receive a funded place in Edinburgh with 150 of these places in private provider settings, at a cost to the Council of approximately £1.2 million to provide these places.

On 23 January 2023, information was shared with the Education, Children and Families Committee which considered a reported £6m cut in funding from the Scottish Government for provision of the [Early Years Service](#), and how to maximise the use of local authority places by reducing the need to commission external provision and providing places for children from other local authorities whose parents/carers work in Edinburgh. This resulted in a determination by the Council's Strategic Programme Board on 30 November 2023 to remove cross-boundary families in 1140 funded hours private/voluntary/independent (PVI) nurseries provision.

A decision was taken to continue to fund existing cross boundary places in private settings but phase this option out from August 2024. Existing funded children who are not Edinburgh residents will continue to be funded. If they

have a younger sibling who attends the setting and will be eligible for funding during session 2024-25, the Council will also fund this child to prevent the need for the parent to use more than one early years setting. Parents who are not Edinburgh residents and require full day all year-round provision to work in the city will be able to access this in one of the full year 8am – 6pm local authority settings. If they need additional hours beyond their funded entitlement, they will also be able to purchase these from a local authority setting.

On 21 March 2024, Full Council approved a motion titled [Early Years Provision and Out of Catchment](#) which requested that “*the Chief Internal Auditor should commission an urgent audit of early years funding and cross boundary places to ensure that the arrangements meet the Statutory Guidance and that the Council is ensuring that all funding due is being received or is otherwise offsetting the costs to the children's home authorities*”. The request for the audit as an addition to the 2024/25 internal audit plan, was subsequently approved by [GRBV](#) in May 2024.

In the motion, Members raised concerns about the potential impact on PVI nurseries who may rely on funded hours placements from families outwith the Edinburgh Council area.

At the March 2023, [Full Council meeting](#), Members also requested a report on the decision of the Strategic Programme Board to bring all cross boundary funded early learning and childcare places in house and remove the need to pay external providers to deliver this provision. The report was presented to the [Education, Children and Families Committee](#) on 16 April 2024.

The Strategic Programme Board is an officer led forum chaired by the Executive Director of Corporate Services, which is responsible for the Council's Change Programme and has delegated responsibility to ensure the Council meets the budget challenges as set out in the Financial Strategy and Medium-Term Financial Plan as reported the [Finance and Resources Committee](#) on 20 June 2023.

Scope

The objective of this review was to assess the adequacy of design and operating effectiveness of the key controls established to ensure that the early years funding and cross boundary places arrangements meet the Statutory Guidance and that the Council is ensuring that all funding due is being received or is otherwise offsetting the costs to the children's home authorities.

The audit was conducted in line with the motion and subsequent discussions held at Full Council, Education, Children and Families Committee and GRBV Committee meetings.

Alignment to Risks and Business Plan Outcomes

The review also provided assurance in relation to the following Corporate Leadership Team (CLT) risks:

- Strategic Delivery
- Financial and Budget Management
- Programme and Project Delivery
- Supplier, Contracts and Partnership Management
- Governance and Decision Making
- Service Delivery
- Regulatory and Legislative Compliance
- Reputational Risk

Business Plan Outcomes:

- Core services for people in need of care and support are improved.

Limitations of Scope

The following areas were specifically excluded from the scope of this review:

- consideration of the decisions on individual placements.

Reporting Date

Testing was undertaken between 12 August and 9 September 2024.

Audit work concluded on 10 September 2024, and the audit findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1: Cross-Boundary Proposal: Formal Approval and guidance

Finding Rating	Medium Priority
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Schools and Lifelong Services advised that, prior to submission to the Strategic Programme Board (SPB), all proposals should have authorisation to proceed recorded by either the Service Director or the Head of Service.

Although the Service Director advised that they verbally approved the cross-boundary places proposal ahead of submission to the SPB on 30 November 2023 and it is confirmed that they attended this meeting, there is no formal record of this approval, recorded in the proposal document as required.

In addition, the proposal document, titled Project High Level Scoping Document (referred to as the 'mini PID'), is required for Strategic Programme Board proposals, but the document is not contained within the project management and change portfolio [guidance](#) on the Orb.

Risks

- **Strategic Delivery** – proposals are not thoroughly scrutinised before submission which could hinder service delivery and strategic objectives
- **Programme and Project Delivery** - if proposals provided to the SPB are not formally recorded as approved by the relevant senior officers, there is an increased risk that they have not been fully reviewed and approved by these officers
- **Governance and Decision Making** – reduced oversight from senior management on submitted proposals to the SPB.

Recommendations and Management Action Plan: Approval of SPB Proposals and guidance documents

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
1.1	All proposals that are provided to the Strategic Programme Board for approval should include a formal record of approval by the Senior Responsible Officer before submission, in line with the requirements of the 'Project High Level Scoping Document' (referred to as the mini PID).	The Corporate PMO agreed that the approval process currently tracked in emails, would also be formally recorded on the Project High Level Scoping Document. Effective immediately.	Executive Director – Corporate Services	Corporate Programme Management Office Manager	31/10/2024
1.2	The project management and change portfolio guidance on the Orb should be reviewed to ensure it contains all necessary guidance and templates. In particular, the document titled 'Project High Level Scoping Document' (referred to as the mini PID) should be added to toolkit with guidance.	The Change Portfolio section of the Orb was created by previous Change Portfolio, which has been disbanded. The information included on the pages is still relevant to wider change projects across the Council. We have considered this recommendation but	N/A	N/A	N/A

		would not publish the Project High Level Scoping Document on this page. It has been created specifically for Medium-Term Financial Plan projects and is only issued if it is deemed that specific cashable savings will be the outcome of the project and that the project is eligible for inclusion in that Portfolio			
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Finding 2 – Draft Early Learning and Childcare Delivery Plan

Finding
Rating

Low Priority

All local authorities are required to publish an Early Learning and Childcare Delivery Plan, in line with the requirements of [Children and Young People \(Scotland\) Act 2014](#) (the Act). The Council's Early Learning and Childcare (ELC) Delivery Plan 2024-27 is currently in draft and includes information on improvement projects, workforce development, and reducing health and wellbeing inequalities. The final ELC Delivery Plan is expected to be published on the Council's website in September 2024. As this is an operational document it will not require committee approval.

In line with the Act, the ELC Delivery Plan should be reviewed every two years. Schools and Lifelong Services advised that the Plan was developed for implementation in 2020 but, due to the Covid-19 pandemic, the implementation of the plan was pushed to 2023, with the view that a new Plan would be published in 2024.

The current version of the draft ELC Delivery Plan does not include version control, and does not state when it was last reviewed, who undertook the review, and when it should next be reviewed.

Risks

- **Strategic Delivery** – there is an increased risk that key plans are not reviewed at the required frequency, and by the correct colleagues
- **Regulatory and Legislative Compliance** – there is no formal evidence that legislative requirements are being complied with
- **Governance and Decision Making** – without evidence of a regularly-reviewed plan there is a risk that it is not up-to-date, which could affect decision making.

Recommendations and Management Action Plan: Early Learning and Childcare Delivery Draft Plan

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
2.1	<p>The draft Early Learning and Childcare Delivery Plan should be updated to include a version control table which includes the following as a minimum:</p> <ul style="list-style-type: none"> • name and date for committee approval (if relevant) • lead officer responsible for review • date of the next scheduled review. 	<p>Publish the EY delivery plan on the early years website with details of the lead officer and review date.</p> <p>The Delivery Plan will be reviewed every two years in line with the bi-annual parental consultation, and the next review will be scheduled for 2026.</p>	Executive Director – Children, Education, and Justice Services	Head of Education - Early Years, Parents & Operations	<p>20/09/2024</p> <p>31/12/2026</p>

	In addition, the Plan should be reviewed every two years in line with the bi-annual parental consultation, and the next review should be scheduled for 2026.				
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Finding 3 – Strategic Programme Board: Terms of Reference

Finding Rating	Low Priority
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The Strategic Programme Board (SPB) is responsible for the portfolio of programmes, projects and initiatives falling within the remit of the Council's Change Programme. The SPB has a Terms of Reference (ToR) that sets out the purpose of the Board, its governance structure, programme objectives, and Board membership.

The ToR states that it should be reviewed every quarter and, although this requirement is being complied with, the most recent reviews have not been recorded in the ToR's revision history and approvals table. In addition, it is noted that the ToR is still in draft, and a final version has not been issued.





Risks

- **Strategic Delivery** – Strategic Programme Board objectives may be outdated and not fit for purpose, and do not clearly outline responsible officers and the related scheme of delegation
- **Governance and Decision Making** - without a regularly reviewed terms of reference there is a risk that it is not up-to-date and aligned with remits and authorities, which could affect decision making
- **Programme and Project Delivery** – roles and responsibilities for colleagues are not clear, and members of the Strategic Programme Board do not fully understand their roles and responsibilities.

Recommendations and Management Action Plan: Review of Strategic Programme Board: Terms of Reference

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
3.1	The current draft Strategic Programme Board Terms of Reference should be updated in line with its quarterly review schedule and should be issued as a final version. Additionally, the ToR should include a version control table to clearly record the date of reviews, and any revisions and amendments made as a result.	<p>The Management Team agree that the recommendations in this section will be implemented.</p> <p>A review schedule will be created.</p> <p>A finalised version will be approved.</p> <p>A version Control table will be added.</p>	Executive Director – Corporate Services	Change and Delivery Manager	30/11/2024

Appendix 1 – Control Assessment and Assurance Definitions

Control Assessment Rating		Control Design Adequacy	Control Operation Effectiveness
Well managed		Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory		Sound design achieves control objectives	Controls consistently applied
Some Improvement Opportunity		Design is generally sound, with some opportunity to introduce control improvements	Conformance generally sound, with some opportunity to enhance level of conformance
Major Improvement Opportunity		Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
Control Not Tested	N/A	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit

Overall Assurance Ratings

Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Finding Priority Ratings

Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Appendix 2 – Areas of Audit Focus and Control Objectives

Audit Areas	Control Objectives
Policy and Governance	<ul style="list-style-type: none"> • there is a clear and accurate understanding of the relevant statutory guidance for early years funding and cross boundary places • proposals to remove the cross-boundary funding were supported by a clear and accurate analysis of current local authority and PVI needs, use and funding arrangements • financial modelling is in place to aid understanding, monitor and inform decision making on cross boundary placements including funding due and being received from children’s home authorities and any arrangements for offsetting such costs, where relevant • a manageable and affordable delivery plan for delivery of early learning and childcare within available funding is in place and reviewed every 2 years in line with requirements.
Stakeholder Management	<ul style="list-style-type: none"> • the Council has engaged with relevant stakeholders including the Scottish Government, local authorities, potentially impacted families and PVI providers during proposals to understand impacts and explore potential solutions • clear communications have been issued to advise potential future families and other PVI providers of the decision and timeline for implementation.
Strategic Programme Board	<ul style="list-style-type: none"> • a terms of reference is in place for the Strategic Programme Board which sets out the delegated authority on programme and project decision making • a clear proposal on maximising use of local authority places and the removal of cross-boundary places for private/voluntary/independent (PVI) nurseries provision was presented and approved by the SPB.
Risk Management	<ul style="list-style-type: none"> • current and emerging risks related to early years funding and cross boundary places are identified, recorded, and managed within a service risk register, and are regularly reviewed to ensure appropriate mitigating actions are in place and remain effective, with escalation to divisional and directorate level risk committees where required.