

[REDACTED]
NDNA Network Chair
[REDACTED]
[REDACTED]
[REDACTED]

Welsh Audit Office
24 Cathedral Way,
CARDIFF
CF11 9LJ
9TH September 2016

Dear Sir,

In May 2014 Wrexham County Borough Council Wrexham acquired funding from the Welsh Governments Vibrant and Viable Places Regeneration Framework, and subsequently used the fund to open a day nursery at 82 Rhosddu Road Wrexham called **Sprouts**.

Members of the National Day Nurseries Association operating their own day nurseries in Wrexham voiced their opposition to this venture on number occasion to the leader of the council and various other councillors for a number of reasons, not least because the nursery was opened when there was a surplus of childcare places in Wrexham, particularly in the Grosvenor ward where **Sprouts** nursery is situated.

This information is available is available in the **Child Care Sufficiency Audit** that each local authority has to produce.

At no time did WCBC officers have any discussion with existing providers about they they could potentially fill any identified shortfall, or initiate any.

Sprouts nursery has had the effect of displacing children from the private sector by significantly undercutting the cost of day-care, and WFIS referring children to the nursery. The members of the NDNA Network advised WCBC that they would ultimately have to use public funding to sustain the nursery if they were to offer childcare below the market value – The leader of the council Mark Pritchard said to me on a number of occasions that the council would not put any subsidy in to **Sprouts** nursery and that it had to be sustainable

Our complaint is that:-

1. WCBC opened the nursery without recourse or accountability, or a clearly costed business plan.
2. **Sprouts** nursery offers childcare places at a subsidised rate that the private sector cannot match, and remain sustainable. WCBC claim the average childcare cost in Wrexham are £3 45 per hour. However that is across all childcare including part time and term time only, and not like for like. The average cost to deliver full day-care childcare in the private sector in Wrexham is from £4.50- £5.00 per hour which is much lower than the national average.
3. The nursery has subsidised RENT– payroll – refuse collection – H.R. – no VAT on goods – insurance - advertising – and Wrexham Family Information Centre acting as a referral service.
4. The nursery since opening has had to rely on sustainability grants from WCBC, including a grant of £10.000 awarded within weeks of the nursery opening up. During the setting up of Sprouts, there would not have been any income other the council employing staff and paying payroll from other sources
5. **State aid can occur whenever state resources are used to provide assistance that give organisations and advantage over others. The provision of any service which is subsidised from any source of public funding contravenes the State Aid regulations and is open to legal challenge. It can distort competition, and displacing children from other childcare business and providers.**

6. The project was not brought to the Early Years Childcare and Development Partnership (this is a statutory partnership) for discussion, which all private and third sector childcare providers are represented.
7. No impact Statement was undertaken on how the opening of the setting would affect other childcare providers in the area.
8. When the members of the NDNA were eventually informed by WCBC that they were opening a childcare setting we were supplied with misleading information on the numbers of children they would be registered for and their target market.
9. WCBC claimed that the private sector were not operating the longer opening hours that parents wanted, as identified by Wrexham Family Information centre. The data for this assertion came from 2013 Childcare Sufficiency Audit where **a very small** number of parents from across the whole of Wrexham County Borough Council wanted longer opening hours and some at weekend,
10. **Sprouts** nursery only opens an extra 15mins in the morning and in the evening - a half hour more than some other childcare providers in the area who operate with no subsidy.
11. The private sector were not given any specific data that there was a gap in the market, (which should have been address at the EYDCP meetings) or approached to find out if the sector could accommodate the extra hours, without using funds to open a setting based on questionable data.
12. WCBC Early Years Development and Childcare Partnership is not fit for purpose, as WCBC does not use the appropriate mechanism to consult when they have a vested interest in a setting.
13. **Sprouts** nursery made a financial loss of £49k in the first year – this is the bottom line figures and would be substantially higher if the Sustainability grant and other ‘back office’ costs that have been absorbed into other Council budget headings.
14. The yearend loss was absorbed into WCBC Education Budget as they have an element of provision within the same building but is totally separate.
15. The benefits of **Sprouts** nursery to not outweigh the negative effect that it has had on the private sector. And other community based provision run by the Third Sector
16. **The UK and EU support strong State aid rules to ensure aid is well targeted to address market failures and avoid negative effects on competition**

It is now 12 months since we raised the issue of **Sprouts** Nursery with the leader of the council, and I have his own personal reassurance that no public money would be used to support this nursery. However this had been a promise that he has been unable to keep, and even with the financial support it has been given by WCBC the nursery has ended its first year with a significant financial shortfall of nearly fifty thousand pounds.

Since **Sprouts** nursery has opened numerous questions have been asked of WCBC under the Freedom of Information Act, and their response has been economical and tardy.

https://www.whatdotheyknow.com/request/sprouts_nursery_rhosddu_road_-_comment-62647

Even with financial support from WCBC, **Sprouts** nursery made a loss of 49+K in the first year, which WCBC says will be paid back in the next financial year. I fail to see how this can be done, however Councillor Mark Pritchard informed me that the governance of **Sprouts** has been passed over to Youth Services and the financial loss was absorbed by the education budget

It is difficult to see how they will be able pay this money back into the public purse and break-even – is this loss to be absorbed by public funds?

I ask that the Welsh Audit Office look at the conduct of Wrexham County Borough council, and their failure to consult with the private and third sector childcare providers – The failure of the Early Years Development Partnership to abide by its statutory obligations, and consult with members before opening a council run day nursery, and to assess what options were open to address any childcare issues.

The failure of WCBC to put in place a reporting system where all concern and information from the EYDCP meetings from childcare organisations and the Third Sector are reported to a development board within the council, instead of the acting chair deciding what information from the meetings were going to be passed on and to whom.

The culture of a one way system of information is prevalent, and this information is used for the advantage of WCBC.

WCBC's disregard of the data they collected for the CSA which indicated that there was already an oversupply of childcare places in the Grosvenor Ward, and to address the shortfall in childcare in other areas of the borough

Their failure to implement an impact statement or consultation with other childcare providers before opening their own nursery.

The use of public money to sustain **Sprouts** nursery by undercutting the private sector, where State Aid Rules might apply to promote a level playing field and to ensure that there are no unwanted effects.

I thank you in anticipation of your response to this matter

Yours Faithfully

[REDACTED]

Sprouts Childcare, Wrexham: Concerns raised by [REDACTED], NDNA Cymru



On 6th March 2015

The meeting took place with the leader of the council – Cllr Mark Pritchard – Cllr Neil Rogers – Rebecca Lowry
John Davies (education) Cllr Arfon Jones - [REDACTED] Wrexham Network Chair NDNA – [REDACTED] Secretary
Wrexham NDNA

| Concern from NDNA | Response from WCBC | Action to be taken |
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| Why this development has been approved when the Childcare Sufficiency Assessment states there is already adequate provision within the Grosvenor ward | The Sprouts Childcare facility is located in the Grosvenor ward but serves a much wider demographic. It is about providing childcare for the Town Centre locality in line with the Regeneration programme of Vibrant and Viable Places. | The existing nurseries within walking distance of the TC and already cater for these parents – and there is existing capacity |
| Due to the childcare provision already within the Grosvenor Ward, this will result in displacement of childcare places and sustainability issues for those childcare providers already in the ward | WFIS Childcare team offer a broad range of support for all childcare providers including the Day Nurseries in Wrexham, should they wish to take it up. They also hold a number of different funding streams, including Sustainability funding, which any provider struggling with an identifiable sustainability issue can access to support them through. | Childcare Team to circulate team Statement of Purpose to all childcare providers again to explain how they can support any setting. |
| Nurseries within this ward have capacity to offer additional places | Parents tell us that they continue to struggle to access childcare that offers a-typical hours, and weekend care. This has been an issue raised year on year via CSA consultation and feedback from parents following childcare enquiries to WFIS. Providers within WCBC are supported via WFIS Childcare Team (with funding as well as business support) to consider how they can expand or reshape their service to meet identified gaps or local parent requests. | If parents are telling WCBC that are continuing to struggle with extended hours why wasn't this information shared with us. The support we need is information from WFIS |
| What formal consultation process took place regarding the development of 'Sprouts' facility | <p>Consultation about demand for services in the childcare market took place extensively for the Childcare Sufficiency Assessment 2014, with parents, providers, employers and other stakeholders. This consultation was used as the needs analysis for the childcare element of the two phase bid to Vibrant and Viable Places for capital funding.</p> <p>Discussion took place with the Local NDNA Network on 9th September 2014 about the proposal once we knew that the project had been approved by Executive Board of WCBC and had been successful in having funding approved by Welsh Government.</p> | <p>Not with the private sector. No discussions took place with EYDCP or any impact statement undertaken</p> <p>There was no discussion or consultation on the 9th September – we were TOLD that there was a nursery opening up in Rhosddu Road</p> |
| Why was Regeneration funding approved to allow the creation of a childcare provision within Grosvenor ward | The VVP funding is for regeneration projects. The building that currently houses Sprouts has been regenerated using this funding, as is within the scope of the project. The building has been regenerated as fit for a new purpose – delivery of childcare provision, which creates jobs and traineeships (regeneration) and to enhance the local infrastructure (childcare) which supports the wider regeneration agenda for the Wrexham town centre. | This project could have taken place in an area lacking in sufficient childcare as demonstrated in the CSA – not just to make use of an empty building which could have been sold |

Concerns raised at meeting with Leader of the Council on 20th May 2015




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| <p>Sustainability of providers in the Grosvenor ward. Anecdotal reports of one provider losing children to Sprouts and needing to make staff redundant. What support can WCBC provide?</p> | <p>There are a number of services that can support the member of staff who has been made redundant. There are jobs and traineeships being created throughout the VVP programme (not just at Sprouts itself) and if they are a parent, there are a number of different projects that can support them back into employment. If they contact WFIS on 01978 2929094, a parent advisor will be able to support them access the services they need.</p> <p>WFIS Childcare team offer a broad range of support for all childcare providers including the Day Nurseries in Wrexham, should they wish to take it up. They also hold a number of different funding streams including Sustainability funding, which any provider struggling with an identifiable sustainability issue can access to support them through.</p> | <p>The member of staff who lost their job would probably have liked to have remained employed by the nursery – not been thrown onto the jobs market.</p> <p>No nursery wants to get to the stage of applying for sustainability grants because WCBC are putting us out of business.</p> |
| <p>Will Sprouts be able to access grant funding that is not accessible to private providers as a consequence of it being in the ownership of WCBC?</p> | <p>Sprouts Childcare does not have access to any funding that is not available to the whole of the childcare sector. Private providers can access more funding, such as Jobs Growth Wales, that Sprouts cannot by the nature of it being managed by the Public Sector.</p> <p>Third sector childcare providers can access a wide range of grant funding that meets their social/charitable aims, and these too cannot usually be accessed by the LA.</p> | <p>No business that we know have 125k as a gift to set up, and further 35k for sustainability. That sort of money comes from a business loan. WFIS grants are only to fill short term financial gaps and has to be accompanied by a business plan</p> |
| <p>Why was there no consultation directly with existing providers?</p> | <p>Consultation about demand for services in the childcare market took place extensively for the Childcare Sufficiency Assessment 2014, with parents, providers, employers and other stakeholders. This consultation was used as the needs analysis for the childcare element of the two phase bid to Vibrant and Viable Places for capital funding.</p> <p>Discussion took place with the Local NDNA Network on 9th September 2014 about the proposal once we knew that the project had been approved by Executive Board of WCBC and had been successful in having funding approved by Welsh Government.</p> <p>The time constraints with submission of the full VVP bid, of which Childcare is only one part, necessitated a limited consultation process. Members approved the project based on the most recent CSA being taken to be an appropriate needs assessment for the project.</p> | <p>NDNA members asked representatives from WFIS to cooperate with us in exchanging data so that we could inform them of childcare vacancies and they could let us know the changes in the market.</p> <p>What was this discussion supposed to achieve the project was well underway or so we now know. WE questioned the project and were not give the full facts</p> |
| <p>Reliability of the CSA</p> | <p>The CSA is undertaken as a valid, process driven research project. It is underpinned by detailed guidance from Welsh Government, and its content is governed by this guidance. The final report is submitted to Welsh Government who have commissioned external partners to independently review each submission.</p> | <p>Some of the data in the CSA is questionable. We were told Sprouts was opening in response to parents wanting extended childcare.</p> |

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| | Wrexham has consistently been praised for the rigorous and comprehensive nature of its CSA reports by the reviewing agency. | However this only equates to 4 parents from the limited response from parental questionnaires |
| Is Sprouts receiving revenue funding from WCBC, now or in the future? | No. The funding received was capital funding only. Sprouts received a start-up grant from funding held by WFIS is to support flexibility of delivery in response to the Action Plan of the CSA. This funding is provided by Welsh Government to support the delivery of the Childcare Sufficiency Action Plans developed by each LA. | Why did Sprouts need additional funding from WFIS 10k only 2 weeks after it had opened its doors. |
| Is Sprouts required to pay business rates or rent and if so, how are they funded? | Yes. These are funded from generated income. | We would like this confirmed and what is the rent and rates |
| Are we aware that the proposed day rate for Sprouts is undercutting the existing providers as they only offer 10 hours a day? | Sprouts fee structure was set in relation to the average daily fee charged for parents accessing Day Care provision across Wrexham. Settings have a very varied fee structure so it is difficult to compare like for like, as some settings charge for nappies/meals/outings/pick ups etc, so it's very difficult to state that one setting is undercutting another. Settings in Wrexham charge between £25.00 and £45.00 per 10 hour day (£2.50 - £4.50 per hour). | No private nursery offers childcare at £2.50 per hour. No setting is sustainable offering childcare at this rate without additional funding. These figures are questionable and are unsustainable for a 12 hour day |
| How is Sprouts managing to pay staff currently? | Through earned income and the funding received from WFIS. | INDEED Does WFIS intend to continue to support |
| What consultation has there been with the EYDCP and why doesn't WCBC work more closely in partnership with the EYDCP or have elected members on the EYDCP? | EYDCP was not in a position to be consulted with at the time of the development of the VVP bid. WCBC manages and coordinates the work and delivery of the EYDCP as it is a statutory group as tasked by the Childcare Act 2006. There are revised, recently agreed Terms of Reference, membership and reporting structure in place which enables the group to share and raise issues which can be directed to elected members if appropriate via the Partnership Delivery Board 2. |  EYDCP Terms of Reference 2015 to 21  EYDCP Membership 2015 final.docx |
| The Sprouts Business Case relies heavily on the CSA as justification for the establishment of Sprouts and refers to the following gaps in provision: No flexibility in terms of opening hours No support for SEN Lack of welsh medium provision Lack of high quality care/provision Can we provide evidence of the above? | Yes. The CSA is undertaken as a valid, process driven research project. It is underpinned by detailed guidance from Welsh Government, and its content is governed by this guidance. The final report is submitted to Welsh Government who have commissioned external partners to independently review each submission. Wrexham has consistently been praised for the rigorous and comprehensive nature of its CSA reports by the reviewing agency. | |

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| | Please see page 30 onwards for some of the detail regarding demand analysis, which needs to be read in conjunction with the supply data earlier in the document (where the detail about the number of places for each ward is presented). Page 38 details analysis of the consultation with providers and states that analysis shows that 51 of the 84 settings who responded are not in a position to offer sessions to be taken flexibly by parents. | |
| Representatives are keen to work with WCBC as partners as we continue to respond to any growing demand for childcare places within WCBC | This is appreciated. The EYDCP serves to work collaboratively to address the gaps in the market and should the settings have identified a gap that they would like to make a proposal about, they should table it at EYDCP via their sector representative | If this is the intention of the EYDCP then they should start to process of working collaboratively with the non maintained sectors. It should be independent and accountable. |
| If Sprouts was a Welsh medium nursery, not one with just a percentage of staff who speak Welsh, it would be less of a concern to providers, or if it provided holiday playschemes. | These are recognised areas for development. The EYDCP serves to work collaboratively to address the gaps in the market and should the settings have identified a gap that they would like to make a proposal to act upon, they should table it at EYDCP via their sector representative | There should be an elected member of WCBC on the EYDCP who is working on behalf of the membership. |

Concerns raised by Cllr Arfon Jones by email on 20th May 2015

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| What was the total spend on Sprouts including the £35,000 overspend? | Capital funding was £162,000 including the additional £35,000. There was no overspend on this project. Welsh Government offered existing VVP projects the opportunity to bid for more money. We took this opportunity to future-proof the building, by installing new windows, carpets and fire doors internally with the additional £35,000. WCBC Legal were consulted with regards to State Aid during the process of developing the business plan. | WCBC is offering childcare which undercuts the private sector – one of the principals of state aid is that it does not undermine the existing private businesses in the area. |
| As well as the £10,000 sustainability budget WFIS provided, are salaries paid from ITEC/LLL budget and if so how much? | Sprouts expenditure is covered by Sprouts income. The £10,000 grant from WFIS is the only funding other than the Capital grant from VVP. No other funding has been received by Sprouts. | The cap on sustainability funding. Is normally £500 They have favourable rent, and are subsidised in other ways by WCBC |
| Sprouts will be self-sufficient after 12 months so what revenue monies will keep it going in the first 12 months? | Income generation from parental fees provides the revenue income, coupled with the WFIS grant. Sprouts Childcare was predicted to cover its costs at 17 children a day and this continues to be the working principle. This will be reviewed with Finance colleagues within the next month. | This is only possible over shorter hours or with increased fees |

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| <p>Could you please provide me with details of the criteria for Sustainability Grants.</p> | <p>Attached</p> <p>  </p> <p>Childcare Sustainability Grant A Form Nov 13.doc WG OSC Application CHILDCARE FUNDING GUIDE 15 -</p> | |
| <p>Could I have a copy of the revenue business case for Sprouts for the first 12 months identifying sources of income as the business case states the business will be self-sufficient after 12 months.</p> | <p>At present we are working to the original business case shared in summer 2014.</p> <p>Sprouts Childcare was predicted to cover its costs at 17 children a day and this continues to be the working principle. This will be reviewed with Finance colleagues within the next month.</p> | |

Response from
Rebekah Jackson
Childcare Coordinator
Wrexham Family Information Centre

From: Arfon Jones [REDACTED]
Sent: 04 December 2015 14:03
To: Trevor Coxon
Subject: Questions to the Executive Board.

Questions to the Executive Board.

1. The terms of reference of the Early Years Development Childcare Partnership is legally required to "secure sufficient childcare provision and to assess on an annual basis the sufficiency of childcare in the Local Authority area" Why then was the decision to establish Sprouts Nursery not subject to consultation or collaboration with private nursery providers who were partners represented on the EYDCP. Has Wrexham CBC dealt with this matter in accordance with the TOR of the EYDCP and the relevant legislation?
2. Wrexham Council opened Sprouts on the basis that it should, "intervene strategically in the childcare market in order that, as far as possible, childcare is available for those families who require it" because there were no Nurseries that opened before 7am and that there was a supposed demand for childcare at that early hour. What other 'strategic interventions' did the council consider besides the establishment of Sprouts in order to address the gap in the childcare sufficiency assessment?
3. The establishment of Sprouts Nursery has in the professional opinion of childcare specialists had the opposite effect to what is the legally required outcome of securing sufficient childcare provision, it has made the private sector childcare providers less sustainable and potentially reducing provision by undercutting market rates by 25% from £4 an hour to less than £3 an hours. Is this sustainable for Sprouts to continue like this and can you provide evidence of this sustainability to members
4. Do the number of children who attend Sprouts before 7am and after 6pm confirm that there was an unmet need and have the expected outcomes been achieved? Can you provide the numbers?
5. In light of the concerns around the purpose and operation of the EYDCP will you consider a review of the partnership to determine whether the council is fully committed to the partnership and to ensure that ALL partners in future are engaged and are consulted on all matters to do with Childcare provision?

Could you please acknowledge receipt and whether I will be allowed to ask the questions

Diolch,

Arfon Jones, BSc(Hons), MA.
Cynghorydd-Plaid Cymru - Councillor.
Gorllewin-Gwersyllt-West.
Cyngor Bwrdeistref Sirol Wreccsam.
Wrexham County Borough Council.

VVP – Sprouts – Comments from [REDACTED]

Is the committee aware that the VVP funding used for Sprouts nursery to deliver ‘affordable childcare’ has undermined the existing childcare provision in Wrexham by delivering childcare at an unrealistic and unsustainable rate – therefore displacing children from already established nurseries in the private sector.

Is the committee also aware that undermining the stability of the existing provision in the private sector, will ultimately reduce the number of childcare places on offer to working parents – therefore putting WCBC in a difficult position of meeting their target to find sufficient childcare places, - to satisfy the annual Childcare Sufficiency Audit – which WCBC is obliged to complete for the Welsh Government – unless – they are prepared to invest in valuable ratepayers money to set up and sustain future demand for childcare due to lack of provision.

Response

The claim that Sprouts is delivering childcare at an ‘unrealistic and unsustainable rate’ is unsubstantiated. Based on information provided by the childcare providers themselves as part of the CSA, £34.90 is the average daily cost of childcare in Wrexham. Sprouts daily rate had just been increased from £34 to £36.50 for a full day. With no reduction in fees for parents accessing service for what may be considered a ‘standard day’ of 8.30am to 5.30pm, it is actually a more expensive alternative for parents, as according to publically available information, other settings offer rates that are more competitive than Sprouts for these ‘standard days’

There are currently 14 families using the service between 6.30am – 7.00am and 6.00pm - 6.30pm.

As at 31st December 2015, there were 42 children using Sprouts. Since the nursery opened, 55 children in total have been registered.

As the cost of childcare at Sprouts is now higher than the average in Wrexham and the service receives no subsidy from WCBC, there is no evidence that Sprouts should be viewed as unfair competition.

As previously detailed within the formal response to the NDNA in April and again in May 2015 and as part of several FOI responses, it is reiterated that the childcare facility receives no subsidy from WCBC. Its earned income pays for all costs

It is believed that no more than 3 children have moved from existing provision to Sprouts. The reasons for these moves vary, but parents have cited costs as a factor.

In their response to a question asked by me on the 6th January 2016, the Employment, Business & Investment Scrutiny Committee stated categorically that: As the cost of childcare at Sprouts is no higher than the average in Wrexham and the service receives no subsidy from WCBC - it should not be viewed as unfair competition.

YET figures released for the financial year ending 31st March 2016 show a loss of £50K even though they raised their prices 6 months after opening.

Does this mean that the statement they made was misleading – or – does it indicate poor financial management?

Note: The council should be doing all they can to protect the existing jobs that are provided by the private and third sector, and work collaboratively to provide good quality childcare for parents that is intrinsic to the economy of Wrexham, instead of working to undermine the sector.

**Wrexham CBC
M - CHILDRENS SERVICES
MEDA02 - SPROUTS NURSERY
Account Detail Details
Year Ended 31st March 2016**

| Account Detail | YTD Actuals | |
|----------------------------------|------------------------|---|
| Total 0 - TOTAL EMPLOYEES | 162,475 | |
| Total 1 - TOTAL PREMISES | 15,050 | |
| Total 2 - TOTAL TRANSPORT | 1,568 | |
| Total 3 - TOTAL SUPPLIES | 11,147 | |
| Total 6 - TOTAL SUPPORT SERVICES | 50 | |
| Total 8 - TOTAL INCOME | -140,587 | |
| <hr/> | | |
| Grand Total | 49,703 | Deficit Carried Forward to 2016/2017 Financial Year |

https://www.whatdotheyknow.com/request/sprouts_nursery_rhosddu_road_-_comment-62647