

Part 5

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A Board Awareness of Financial Position

A.1 Warnings to Board

A.1.1 The Board normally only debates an issue when the Chair of the Board agrees with the Chair of the relevant Committee that it is serious enough to warrant members being brought into the discussion. All members do, however, receive all the minutes from every Committee, together with the attendant papers, and can therefore inform themselves even though there may have been no formal discussion. This is an acceptable practice for a Board which has to deal with so many different areas where the main concern must be the provision of educational services. The Board may go “into committee” at times to discuss sensitive matters. Normally the issues discussed are then mentioned in the minutes.

A.1.2 Over the years there have been regular warnings to the Board through the Finance Committee papers on the financial position of individual services. As the staff have been indicating that the Board has been expected to balance its budget at year end there have not been debates on financial matters at every Board meeting.

A.1.3 Specific warnings were given the Board in November 2003¹ in connection with the accountability review with the asbestos problem in schools, insurance costs and special education needs being mentioned. In the February 2004 Report the Board was told that expenditure for the first 11 months² only came to 90% of the annual budget and was thereby assured there was no problem. Even the financial statement in April 2004 indicated under spending of £5.83m, but a caveat had been added that this would change because of accruals and that unspent balances were to be carried forward. At the May 2004 meeting, figures of a school surplus of £12.5m and a centre deficit of £10m were mentioned.

A.1.4 The Board was aware of pressures from reports other than Finance. Thus the policy on Education Otherwise Than at School (EOTAS) debated in February 2003, and on Special Educational Needs (SEN) debated in May 2003 with its reference to the allied impact on transport costs, indicated serious pressure points.

A.1.5 It came as a great shock to the Board members when the 2003/04 deficit was announced. Once the Board Chair was informed on 21 June 2004 of the potential deficit in the 2003/04 accounts, the Chairman’s committee set up a Working Group, chaired by the Chairperson of the Audit Committee, to consider the action needed. This Group was kept informed of the various revisions of the size of the deficit. All Board members and Principals were informed by letter on 19 July 2004 of the deficit. The CE’s presentation in August to both the Board and the principals gave his assessment of the reasons for the deficit.

¹ Part 3 Section C4

² Part 3 Section F1

A.2 Warnings to Finance Committee

A.2.1 The warnings to the Board came through the Finance Committee. As well as the points mentioned in the previous section,³ the block grant expenditure at December 2001 was £4.4m over 2001/02 budget but staff said monitoring was difficult because of a delay by DE in funding threshold and job evaluation payments. In January 2002 Committee members were concerned about maintenance and transport and in the following month⁴ about threshold payments. By end June 2002 the aggregate budget was overspent by £2.5m but staff said Board was within budget. The asbestos problem caused difficulties, with finance staff having to be evacuated in September 2002. Action to reduce the number of schools running a deficit was reported to the Committee in 2002.

A.2.2 In May 2003 the Committee was told that the special education budget of £16.66m would need to be supplemented and, in June, that it needed to have priority for additional funds. In September 2003 job evaluation costs in CASS and HQ were concerning the Committee which also noted the distortion due to an asbestos problem. In spite of these warnings savings of more than £1m were recorded in the half year returns. Reference to increases for rates was mentioned in March 2004. In general throughout 2003/04 there were no very large variances shown in the monthly returns. The Committee frequently approved virement between accounts.

A.2.3 In August 2004 the CE presentation informed the Committee of the reasons⁵ he felt had caused the problem, including a high deficit in the non-delegated budgets. He indicated the services where savings would have to be found in 2004/05.

A.2.4 Due to the 2003/04 difficulty, monitoring returns were limited in 2004/05. Details of the Recovery Plan were given to the Committee in November 2004.

A.2.5 The Committee had been told that the allocations from DENI were on a resource (accruals) basis but there was no indication in the regular monthly monitoring return whether it was in cash or included accruals or deferred income etc.

A.3 Warnings to Audit Committee

A.3.1 The Audit Committee did not involve itself with management accounts except where systems etc were covered as part of audit programmes. Members were also on other committees so they knew what warnings were being disclosed to Finance and others regarding services with pressures on their budgets. Through involvement with the Risk Management process the Committee had started to get indications of potential problem areas direct from line managers.

³ Part 3 Section D3

⁴ Part 3 Section D2

⁵ Part 3 Section F2

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A.3.2 Matters of difficulty in getting agreement on the format etc of the final accounts, following the change from cash accounting, exercised the Committee since 2000.

A.3.3 Internal audit repeatedly raised the problem⁶ of no obvious link between budget authority and service responsibility from 1997/98. In 2002 the Audit Committee were informed of the NIAO management letter which had referred to the difficulties found in introducing accruals accounting. In March 2004 they requested a full report⁷ from staff on all the issues raised in a NIAO report on LMS.

A.3.4 As regular monthly returns were showing few serious variances, and the staff were as bullish as in past years when their projections of finishing the year without a deficit had apparently been proved correct, there was no reason for the Audit Committee to feel it necessary to examine working practices. They had been assured regarding propriety of the use of funds and the systems of internal control. At its October 2004 meeting the Committee did not apparently discuss the 2003/04 deficit⁸ or the reasons why it happened. These had been explored in the wider Board/Finance Committee area.

A.4 Conclusion

A.4.1 Regular warnings and advice on the financial position of the Board was given regularly to the Board. This was provided through monthly reports to the Finance Committee which took a serious role in keeping a watching brief that expenditure would not exceed the funds available. This is an acceptable structure for the Board's oversight function.

A.4.2 When pressures arose on any service the Finance Committee was kept informed of the area where the problems occurred. The Board was also aware of the main areas of concern through the consideration by other Committees of their problems. In all instances the members were aware that Finance staff forecast that the accounts would be in balance at year end. This had been the case since 1997.

A.4.3 Within the limits of the financial information available to the CE it can be taken that the Board was kept fully aware of the financial position.

B Financial Reporting to Board

B.1 Board

B.1.1 All financial reporting to the Board is through the Committee structure. The main financial references are through Finance but all staff are responsible for giving their committees necessary financial information.

⁶ Part 3 Section E2

⁷ Part 3 Section E3

⁸ Part 3 Section E4

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Libraries and Youth have taken a particular interest in their financial position and have managed their budgets satisfactorily.

B.1.2 The Board had been given special briefing⁹ on the audit report on procurement of the Accruals Accounting Project and the CE's appearance before the Public Accounts Committee. The Board agreed in 2003 that the Remuneration Committee would assess the CE's post in relation to performance related pay. After the 2003/04 deficit was found, the Working Group was closely involved in all decisions on behalf of the Board. The Board fully supported the CE and his staff on the action taken to contain expenditure. The latest information, Recovery plan and proposals for savings in 2004/05 were discussed at the Board 30 September 2004 meeting.

B.1.3 The issues taken to committees, other than Finance and Audit, covered quite complex aspects of the delivery of the many services required of the Board. They often dealt with matters requiring considerable resources¹⁰ of staff or money. Recent examples include Special Education, EOTAS, Pre-school Expansion, The Early Years, and English as an Additional Language. These were thorough analyses. Occasionally a unit cost is quoted, usually in relation to the existing provision, or there is a figure of past expenditure. There has, however, tended to be little or no attempt to spell out options with associated staff and/or financial forecasts for delivery of the particular service.

B.1.4 The Committees could have demanded such information before deciding on future action or to enable more rigorous questioning of the validity of the resources being made available through the budget process.

B.2 Finance Committee

B.2.1 The Finance Committee opened its doors to all Board members when discussing the initial budget. There was good general discussion. The paper given to them had amended bids etc from line managers to give a total agreed by SMT to the DE, DCAL and DEL allocations. For the 2003/04 and 2004/05 budgets the only staff at the Committee were from Finance plus the CAO in 2003 and the Property Officer in 2004.

B.2.2 The Finance Committee was given regular monthly Finance Reports. These monitoring returns were in two parts, with a covering terse note from the CFO on main aspects. One gave details of allocations from Departments since the last Committee meeting with the reason for each amount and the budget where the funds were allocated. The other return gave the details of spend in cash terms and budget by 13 services, plus 4 school categories, both for the month and aggregated to the end of the previous month. The budget for the year, with the %'age spent to date and the %'age spend for the previous year, were also given. The Committee met on the third Monday of the month and received expenditure information within 20 days of the end of the month.

B.2.3 Over the years aggregate expenditure variances tended to be reasonably small in %'age terms, even where the CFO was indicating

⁹ Part 3 Section F2

¹⁰ Part 3 Section F1

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pressures on a service. At end January 2004 the total expenditure was recorded as 82.8% for the year compared with 80.38% in 2002/03, and it was £80k over aggregate budget, but the spend in January was high. By end March 2004 the recurrent expenditure return suggested a surplus of £5.7m¹¹ with an actual spend of £228.6m for the year. The only service shown in real trouble was transport with a deficit of £414k which was 3.25% of budget.

B.2.4 Not all budgets had been entered into the monthly Finance Reports by May. This negates the value of variances in those months.

B.2.5 Monitoring reports have been in disarray since mid 2004 as Finance staff grappled with the deficit problem and worked with line managers to refine the budgeting system and reports. Total spend to date for each of the Departmental allocations was given to end September 2004 with a caveat that budgets will be subject to significant change until budget holders have signed off their budgets.

B.3 Audit Committee

B.3.1 The Audit and Risk Committee worked very closely with the Internal Audit and External auditors. It was very active in relation to general financial accounting matters and value for money. It took good care to follow best practice and Treasury guidelines¹² and was assured of this in a 2002 independent assessment of the IA unit. The Committee's terms of reference and composition were further reviewed in 2003. This determined the detail of information to be provided to the Committee. The arrangement with an outside expert appointed to the Committee was felt to be valuable.

B.3.2 The Committee had responsibility for oversight of Risk Management Policy and saw the implementation of this as a means to assist staff to identify weaknesses in management and take appropriate action to rectify these. Senior managers were being invited to give presentations to the Committee on the Risk registers for their command.

B.3.3 The Committee was rigorous in its examination of IA plans and reports. It feels it is well served by both the internal and external auditors. It has pressed for adequate staff to be available to IA at all times. A strategy for the audit of schools was agreed in 2002. Members requested an update on the Accruals Project in September 2003.

B.4 Conclusion

B.4.1 It would have been preferable if staff from the operating divisions for education, youth and libraries had always been present at the Finance Committee meeting discussing the budget. This would have given the Board members an opportunity to question them on their budget lines.

B.4.2 The system of monthly finance reports to the Finance Committee was perfectly adequate to keep the Board informed on the financial position.

¹¹ Part 3 Section D3

¹² Part 3 Section E1

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The problem was they were effectively in cash terms. It was not evident to readers that problems of accruals, deferred income and pre-payments etc had been taken sufficiently into account so that variances were meaningful. The recorded variances were usually small enough to be containable. The Board had no reason to question the accuracy of the statements indicating that there would be end year surpluses.

B.4.3 There was a strong involvement of the Board in the audit reports and the audit programmes. Through the Audit Committee the Board was aware that financial accounting appeared to be under control. In addition considerable action had been taken to evaluate risks throughout the organisation which should have alerted staff to potential difficulties in their management of resources.

B.4.4 The various Committees were closely involved in understanding the policies of the Board and received thorough analyses of the problems. The papers on these frequently lacked detail on future cost projections or determination of options and their associated staff and/or finance costs. These are important aspects of any policy consideration and it is unfortunate that questions had not been raised on their omission. Closer implementation of this aspect of financial management would not have avoided the 2003/04 deficit but greater attention to it might have triggered questions on the total resource charges and their timing. Apart from this caveat, financial reporting to the Board was satisfactory.

C Fulfilment of Board Responsibilities

C.1 General

C.1.1 The main interest of many members of the Board is to deal with matters directly concerning educational provision. As such financial issues are seldom at the forefront of their priorities when considering Board business. Nevertheless the structure of the Board and Committee discussions ensures that financial propriety and integrity are not neglected. Members clearly recognised their strategic role leaving day to day operational matters to staff.

C.1.2 Considerable reliance was given to the Finance Committee deliberations and the points brought by them to the Board. With the extent to which the regular finance reports reminded the Committee of pressure points, but the final accounts had shown a surplus, the members had understandably been satisfied that financial controls were adequate. It was a great surprise to the members to learn of the magnitude of the 2003/04 deficit.

C.1.3 The minutes indicated a good measure of questioning of officials by members. Training had been given¹³ on accruals, end year flexibility and the Oracle computer system but it was recognised that busy lay people could not be expected to be expert in these aspects. To fulfil their strategic function the Board recognised that they were dependant on information coming from the staff who they regarded as experts. Challenging of underlying assumptions or

¹³ Part 3 Section F1

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the nature of options to be considered are conditioned by background knowledge of the Board members.

C.1.4 Getting reports in cash terms only from the finance experts was not conducive to encouraging anyone to ask if any check had been, or was going to be, made on the likely level of year end accruals. Discussion of job evaluation and teachers threshold payments was more likely to be centred on the impact of the total amount and effect on schools than on whether some would have to be classed as an accrual, pre-payment or deferred income if not paid in year.

C.1.5 Even though Departmental letters giving initial allocations referred to items such as reducing HQ expenditure by a %'age each year, these points could easily be ignored when considering budgets for the next year. When members were not reminded of such instructions from the Departments during the year it is not surprising that questions were not asked about the attainment of these targets.

C.1.6 The services and school types shown in the regular expenditure reports had been in place for some time and had an appearance of being useful. It was not immediately clear to Board members that these did not represent actual budget headings with individuals who could be held responsible for managing the expenditure on each line, or forecasting potential accruals. From the point of using financial returns as an aid to indicating the economy and efficiency with which Board resources were used these had little value. The debate on special education did show that this line in the Finance reports did not cover all the expenditure by the Board on special education measures.

C.1.7 Consideration of the initial annual budget by the Board was somewhat restricted by the papers put to them equalling the total of the Government Departments' allocations. The absence of senior staff, other than the CE and CFO, who could have been questioned on the purpose of, and need for, their particular budget or how they would be using the funds, was not conducive to encouraging Board members to challenge the proposed provisions.

C.1.8 The involvement of the Board in encouraging completion of the Risk Register showed a commendable pressure to get staff thinking of how they could handle risks.

C.2 Conclusion

C.2.1 The systems in place gave the Board a good measure of the financial position. Timely action had been taken on the basis of the available information.

C.2.2 The responsibilities of the Finance and Audit Committees are contained in the Corporate Plan. Neither of these Committees has a clear mandate to have an overview on the extent to which adequate financial management information systems are in place to give assurance that management is paying adequate attention to economy, efficiency and effectiveness in their operations. The Finance Committee also covers

Property which takes up the majority of papers and discussion time. The Board should consider if they have the correct mix of duties in both Committees.

C.2.3 Once the problem of the deficit on the 2003/04 accounts was found the Board acted decisively and quickly. Setting up the Working Group under the chairmanship of the Chair of Audit to work with the staff in developing an overview of expenditure and containment policy, and bringing in outside consultants, was a sensible response. The support given to the CE and his staff helped to demonstrate that prompt action was needed.

C.2.4 Given the information supplied to the Board, it has to be taken that the Board fulfilled its responsibilities but lessons must be learned from the present difficulties.

D Financial management Systems

D.1 Corporate and Business plans

D.1.1 The 1998 report on strategic and financial management in Boards recommended that delegation from a CE to a CFO should be clearly defined and in writing. The only description for the CFO¹⁴ was prepared in 1985 when the vacancy was advertised. It has no reference to specific delegations. The description requires the CFO to have a pivotal role in management of the Board's finances and includes financial management information. The Acting CFO got a list of delegated duties in November 2004. These had prime duties associated with compliance with all rules and directions and DFP guidance. Other delegated authority related largely to effective financial control and monitoring systems.

D.1.2 Care is needed with the interpretation of certain aspects flowing from descriptions. Thus the CFO had considered in the appraisal of his 2002/03 objective of improving efficiency that he had achieved the target of ensuring that the Board lived within budget. While finance staff have a powerful role to highlight when a budget holder is over budget, or warning the CE if the projections indicate that a deficit is likely, actual spending decisions depend on operational managers. Many reports etc refer to a recommendation to produce better information but did not spell out in detail just what action was proposed for the next year or period and so similar targets appear the following year.

D.1.3 A Corporate and Business Plan¹⁵ is prepared annually by SEELB. This sets out the framework for its activities and how it will achieve its mission. As such it starts by detailed plans against objectives. Previously it was based on each unit preparing a service plan but this was changed in 2002/03 to a Balanced Scorecard approach. The objectives are high level aims to support the mission statement. The latter is to raise the standards of learning and levels of achievement of the people of the Board's area.

¹⁴ Part 3 Section C9

¹⁵ Part 3 section G1

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D.1.4 The corporate scorecard objectives for 2004/05 fall into four sections Results; Customer; Internal Processes; and Organisational Learning and Growth. The 5 objects under Results include improving value for money and living within budget. Under Processes is an aim of improving service delivery. These give a proper top down direction which should lead to good management practices.

D.1.5 In the Business Plan for 2004/05, the many “Added Value Measures” under raising standards, and “Compliance” under statutory obligations, show a thorough determination of items to be tackled to improve the services. Unfortunately these are not accompanied by any indication of the resource costs of delivery or the priority for attention if existing resources are insufficient.

D.1.6 Delivering “Value for Money” includes devising financial performance indicators for all services while a 2003/04 target was to update financial procedures to maintain an effective system of internal control, targets similar to those dating from 2000/01. The Business Plan gives undertaking two Best Value studies on behalf of all Boards in 2004/05 as a target. None of the above addresses the preparation of an economic appraisal of the proposals and some Best Value studies were shown elsewhere to be missing such rigorous assessment of the resource costs. The SMT were appraised in March 2003 of Treasury guidance on economic appraisals.

D.1.7 A combination of the above type of business planning accompanied by rigorous assessment of the financial control of risk should set the scene for a very strong approach to sound management. The failure to include reference to financial risks within individual registers or to include options for service delivery under additional controls has apparently led staff to ignore this awkward but essential aspect of their risk management.

D.1.8 Unfortunately the financial thinking and procedures to give the necessary impetus to linking plans, risk and finance were not available before 2003/04 and will take some time to put in place. It needs to be stressed that introduction of the above measures would by themselves not necessarily have avoided the 2004 difficulties especially when regular financial reports to line managers appeared to show expenditure within budget. However, having more staff taking a greater interest and involvement in sound financial management should have increased the possibility of someone raising an appropriate query, even if only to consider a contingency plan which had been recommended¹⁶ to the Board in 1998 but not apparently available.

D.1.9 It is regrettable that the Finance Department risk register¹⁷ prepared in 2003 was considerably incomplete and did not cover potential problems with accruals, end year flexibilities or deferred income. Coverage on these should have alerted the CFO to the need to introduce a financial control system to track those aspects not caught within the Oracle computer system. Action to rectify this failing would have given sufficient warning to avoid, or at least mitigate, the 2003/04 account problem.

¹⁶ Part 3 Section C1

¹⁷ Part 3 section G1

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D.1.10 Associated with using information to improve management is the need for good Financial Management Information Systems. This has been recognised in many reports and audits including the accountability review¹⁸ with DENI in October 2003. Some SMT members have already started to try to identify requirements.

D.1.11 DENI in its allocation letter¹⁹ for 2004/05 stressed that there was a need to read across between the Board's financial plans, targets, etc and those set out in the Corporate and Business plans. The RAP for 2003/04²⁰ Parts 1 and 1A did not readily match Part 2. There was only a tenuous reference to changes in pupil numbers and in one example to staff numbers but no direct targets for those who controlled specific lines of the budget existed. This weakness was addressed at a DENI/CFOs meeting in September 2004 when the possibility of merging Business Plans and the RAP was to be considered.

D.1.12 A linked problem arises where a target is set by agreement with an individual²¹ but that person is not in control of the means of achieving the target. An example is the CFO target to ensure the Board lives within budget but spending decisions are taken by dozens of other staff. There is a related problem with the monthly expenditure returns sent to the Finance Committee in that each line is rarely under the control of a single individual. Even though schools have delegated budgets which Principals have to control there are mandatory and discretionary payments controlled by individuals in the Board and some Board services, such as special education, are at least partially re-allocated to within schools.

D.1.13 An Accruals Accounting Project (AAP) was led by SEELB on behalf of all Boards²² to provide core elements for an accruals based financial management information system. The project started in 1999 but a major software update had to be introduced in 2003. The original plan to include payroll had to be abandoned before the system went live.

D.1.14 Reviewers of the Project in 2002 said that the main benefits would be from improved access to management information and resultant ability of management to use that information to effect change. Costs were now charged at cost centre level with more comprehensive reporting facilities available to both finance users and budget holders and to many with on-line access.

D.1.15 There are many manuals governing financial procedures and the Oracle computer system has power to enable data to be captured²³ by Board, cost centre, finance, function, and project. Budget holding can be set at service, division or cost centre and there are strong facilities to allow the profiling of budgets over the year by whatever method most suits the type and timing of expenditure. Reporting arrangements can be quite flexible to suit an individual manager's requirements or can be obtained by on-line access.

¹⁸ Part 3 section G2

¹⁹ Part 3 Section C1

²⁰ Part 3 Section C3

²¹ Part 3 Section C7

²² Part 3 Section C6

²³ Part 3 Section C8

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D.1.16 Provided purchasing is done through a module of the Oracle system encumbrances of goods ordered, but not yet paid for, can be readily available. One difficulty is that not all Board managers use this system and Schools control their purchases through a different system. Some expenditure, such as utility bills, do not require invoices and there are different billing periods between schools. Payroll uses a number of systems different from Oracle although the information from these can generally be transferred into Oracle for computation of expenditure returns and final accounts. A facility (OFA) exists in the system to produce projections from monitoring data but no has yet mastered the methodology to use it.

D.1.17 The limitations imposed on financial information by the above mean that the Oracle system, as presently used, is not particularly useful to help with the determination of the level of accruals or with providing budget holders an up to date indication of their resource rather than cash spending. Other measures have to be put in place to deal with these difficulties.

D.1.18 Because Oracle is a powerful system which can turn out reports as soon as data is entered, and these reports can be to the complete hierarchy of managers, it appears to have mesmerised staff into thinking that the reports were all that were needed to control the operations of the Board. Because reports can have many lines and produce totals and sub totals accurately and immediately does not mean they are the whole story.

D.1.19 The consultants assisting with the AAP²⁴ reminded the Board in 1998 that to ensure proper delivery of the system required matching inputs to outputs with the financial and management system supporting decision making and allowing selection of the best alternative. To be effective the machinery has to be properly harnessed to, and used by, the people who take the decisions.

D.1.20 The culture change needed to get all line managers to take action to assess the financial implications of present and possible future mechanisms for delivery of their services will take a long time. At the same time line managers will need to be able to use the financial information systems to assist them in their assessments of options and alternative actions. Implementation will require constant close attention by all senior managers, not to try to drive but to encourage and help their juniors.

D.2 Budget preparation

D.2.1 The 1998 review stressed that budget management²⁵ required clear definition of the roles and responsibilities of budget holders. It also recommended that a bottom-up approach to budget preparation be adopted. The job descriptions for senior managers²⁶ specify that they are responsible to promote efficiency and effectiveness in the sections for which they are responsible. Allocation of appropriate resources and evaluation of resources are included. The General Ledger Business Procedures covers budget holder

²⁴ Part 3 Section C9

²⁵ Part 3 Section B3

²⁶ Part 3 Section C9

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roles and responsibilities. It recommends budgets are set and reported on at the level at which they need to be monitored.

D.2.2 The budget process follows classic lines²⁷ with operational managers collating proposals around the start of the calendar year from their juniors and discussing it with them. SMT (the eleven top managers) amend these if necessary and then produce proposals for their area of responsibility. These have for the 2004/05 initial budgets been discussed at a SMT meeting so that a collective decision can be taken to amend them to fit within the total available from the Departments. They are then produced by the Finance department as Sections 1 and 1A of the RAP. The targets in RAP Section 2 are prepared by line managers taking account of the Corporate Plan but do not necessarily link to the resources required to deliver them.

D.2.3 Previously the system was not so robust at taking a collective view. This may have been due to an unclear structure for some budgets, inadequate funding, decisions at a higher level without reference down to the budget holders, complexity of the coding structure or a lack of impetus from senior managers to try to make the budgeting system work.

D.2.4 The same iterative process is not followed for the half year RAP revision which is done by Finance.

D.2.5 When SMT and the Board agree an initial RAP, SEELB has a timetable where Resource managers prepare a draft budget and formally agree it with a profile by cost centre over the year. The profile is input to Oracle by Finance but its form should be determined by operational managers. The budgets are processed into Oracle by Budgetary Control in Finance²⁸ and resource managers must then confirm their correctness in writing. The same process applies to any additional funds received. Finance took overall responsibility²⁹ for the integrity of the Board's budget and ensuring that all budget holders remained within budget allocations when the transfer was made to accruals accounting. The rationale for this was that budget holders had difficulty understanding the move from cash to accruals and a significant resource would be needed to change this.

D.2.6 SEELB has introduced in 2004³⁰ a detailed attempt to clarify and improve the role of budget holders. The proposals also cover Resource Managers who are line managers with one or more budget holders working to them. The processes are not yet finally agreed but the exercise is being taken forward with operational staff in the lead. This should help to close the gap³¹ between budget data in the Oracle system and control.

D.2.7 The large number of earmarked and Executive Programme Funds³² added to the Departmental allocations during the year did not fit easily into this pattern of budget setting as the purpose of these monies effectively defined in most instances the service and budget for their use. Once the funds

²⁷ Part 3 Section D2

²⁸ Part 3 Section C9

²⁹ Part 3 Section D2

³⁰ Part 3 Section C9

³¹ Part 3 Section H5

³² Part 3 Section C1

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had been incorporated into the RAP³³ delivery is the responsibility of the Board. Recently the DE has been including more and more of the funds which had been provided as earmarked into the Block grant.

D.2.8 DE has over the years taken on the provision of additional funds to pay for certain items of expenditure, for example job evaluation costs and some elements of teachers' pay. Because of this, Board staff had not been forced to estimate the costs in detail to include in their own estimates. Protracted negotiations on these issues can lead to substantial amounts of back pay falling in a different year and this has led to the need for accruals etc. The impact of these policies has not therefore fallen on the preparation of budget by holders so that ownership of the budget was weakened.

D.2.9 DENI was careful to specify their funding as being expressed³⁴ in resource (accruals) terms to set the maximum level of resource consumption for the financial year and a key target was to contain expenditure within the limits notified. All staff were aware of this key target. The RAP and the budget totals were made equal and the final RAP, including allocations during the year, was some 10% above the initial one in 2003/04. Budgets allocated by the Board to different services were effectively in cash terms and this is simple for holders to follow.

D.2.10 The categories required in the detailed RAP1A³⁵ returns indicate how certain service expenditure and centre items would be allocated to different types of school. There is no clear link between these items and the individual budget holders responsible for managing those particular resources or the budget holder for the centre item expenditure. There is no reference to deferred income, accruals or prepayments in any of the RAP papers. Only in one RAP1A Initial for 2003/04 is there mention of end year flexibility relating to 2002/03 where it has the effect of increasing the delegated schools total by almost £3m. This point was raised by PwC³⁶ in 2004. Budgets were increased during the year as further funds became available to the Board.

D.2.11 There were difficulties in setting clear budget lines³⁷ to an individual who could be held completely responsible for that particular expenditure. Thus classroom assistants in primary and post primary schools had their expenditure absorbed into mainstream education, not special education.

D.2.12 Even though Departmental letters with the initial allocations may have been delayed, the budget process should be completed to the level of Board staff having decided the level of resources and priorities they would be content to apply for the coming year. These could even be cleared at SMT level, only needing a final round of discussion at SMT to finalise proposals within the resources made available to them.

D.2.13 The difficulty of forecasting for services dependent on external factors, such as statementing and its associated transport, or job evaluation requiring negotiations, is not a reason for not attempting to make an estimate. The people in the best position to know the background and how the service

³³ Financial Memorandum for the South Eastern Education and Library Board Section 2

³⁴ Part 3 Section C1

³⁵ Part 3 Section C3

³⁶ Part 3 Section H2

³⁷ Part 3 Section C8

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is coping should either be, or be closely associated with, those who sign for the payments, the budget holders. The finance staff can help with calculations but are not in possession of the basic facts driving such changes. Finance should generally be at a sufficient remove from the operational decisions to allow them to have a challenge function on budgets to encourage managers to consider the robustness of their estimates and whether adequate alternative options have been considered.

D.2.14 For some years the F10 returns³⁸ indicated that even by the end of May not all budget information had been entered into the Oracle system. This was evident to all line managers and Finance, and action should have been taken by all of them to require compliance before this date. Getting line managers to sign for reports, even with strictures quoted in the letters regarding non-compliance on entering budgets etc, are bureaucratic and soon fall into abuse if no one enforces the requirement. A summary of comment received in 2003/04 indicated a continuous level of dissatisfaction at being asked to confirm agreement to budgets or reports. Variances are useless if the budget data is not correct.

D.3 Monitoring and control

D.3.1 Reporting to be more meaningful was a recommendation³⁹ of the 1997 report on a SEELB overspend the previous year. The 1998 consultants reviewing strategic and financial management expected that specification of a new management information system⁴⁰ under the proposed Accruals Accounting Project would ensure that both accruals and commitment information would be available. DENI correspondence from 2001 reminded Boards⁴¹ of the need to change from cash to resource (accruals) accounting. In 2003 reminders went to Boards that their performance on Prompt Payment was poor⁴² and needed to be improved. A review of ELBs resource budgeting and accounting and financial control arrangements was scheduled to commence in October 2004.

D.3.2 The Accruals Accounting project was to assist with the introduction of resource (accruals) accounting⁴³. SEELB undertook it on behalf of all the Boards who were represented on various project boards, user groups etc. A key justification for the project was to allow weakness in the system of budget functionality to be addressed. The first objective included introducing accruals accounting to the Boards. The further stage was defined in the Outline Business Case and User Requirement for this project⁴⁴ as providing related financial management information systems.

D.3.3 A 2002 review found the project had met its primary aim of the introduction of accrual accounting costs across all Boards with improved access to management information and the resultant ability to use that

³⁸ Part 3 Section D3

³⁹ Part 3 Section A2

⁴⁰ Part 3 Section B4

⁴¹ Part 3 Section C1

⁴² Part 3 Section C5

⁴³ Part 3 Section E3

⁴⁴ Part 3 Section C6

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information to effect change. The financial management information system has not proved to be able to provide budget and line managers with a computerised means of readily knowing the complete resource costs of their decisions.

D.3.4 Relatively few line managers have embraced the on-line access provided as a third objective. Most prefer to let finance staff operate the interface with the computer on their behalf. Skills in understanding the computer screens and keying in data are easier to learn for finance staff doing these tasks frequently and should perhaps lead to fewer coding and keying errors. This takes control away from budget holders and can lead to disputes over who was responsible for errors and omissions. Computer checks on data entry should confirm that total budgets have been entered correctly etc.

D.3.5 Profiling of budgets⁴⁵ was done by finance staff. This should have been under the control of line managers working with finance staff as they should have been in touch with the impact of new or altered factors affecting the timing of payments. If monthly profiles are set wrongly then the monthly variances are of limited value as a management tool.

D.3.6 Difficulties with the monitoring and control of special education were recognised and consultants were appointed in 2004 to advise on how this complex subject should be managed. A major failing had been identified in the five Board Best Value study on this as insufficient suitable management information.

D.3.7 Once budgets have been entered into the Oracle system it tracks subsequent payments made through it or transferred into it from payroll data for example. This enables reports to be produced in many forms and detail. These can also be produced quickly after the end of the month. There should be no need for separately maintained spreadsheets to provide aggregate totals or variances etc. Managers throughout the SEELB got all the returns but these were effectively in cash terms. Provided the correct information had been entered it is possible with Reallocation Journals⁴⁶ in Oracle to trace items of earmarked funds even where they have been reallocated across a school type or service other than the line of budget to which they were originally allocated. As the regular monitoring reports indicated no major problem with likely end year accounts staff felt assured their financial management was adequate.

D.3.8 Many monitoring reports aggregated information into headings which did not assist consideration of the control by management. This applied to areas such as delegated and non-delegated expenditure and the recording of school expenditure under the mandatory or discretionary control of Board staff. The breakdown and reporting of management information should vary depending on the needs of the end user. One level should be able to check on how each budget holder is using the resources under their control and on a group of budget holders under a manager who has virement powers within his command. Board members need to be assured that this is operating and that they will get reports when some function is running into trouble to let them see

⁴⁵ Part 3 Section C9

⁴⁶ Part 3 Section C9

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that the services are being run efficiently etc. Provided they can get this assurance, and that senior management is aware of the position and taking action to correct deviations, they do not need to be given reports with a lot of this detail. Reports to the Board need to be related to the strategic level of their decision taking and one of these is assurance that expenditure will stay within limits. There is also a need to clarify in reports if they are in cash terms and what is the likely impact of accruals, deferred income and other essential adjustments.

D.3.9 Although there was no specific letter of delegation of responsibilities from the CE to the CFO the job description⁴⁷ was adequate to ensure the CFO was responsible for informing the CE on all material problems associated with estimates and monitoring or financial control. There is no suggestion that these delegated responsibilities were not adequate except that the financial control systems in operation did not give proper warning of the true position of the accounts.

D.3.10 The November 2004 delegation letter to the Acting CFO is more specific in many details and relates to an oversight role. It should however be re-visited, perhaps with SMT input, to ensure that it does not allocate to the CFO responsibilities which are not fully within his/her control to deliver. For example regarding keeping expenditure within control totals when others make purchasing decisions and ensuring the correctness of management systems to monitor achievement of objectives which will frequently have non financial elements for others to collect and control.

D.4 Final accounts

D.4.1 At a meeting of DENI and Board Finance officers⁴⁸ in June 2000 the Boards were told that the Department required an accruals outturn statement for in year monitoring. A possible need for a separate form for earmarked expenditure was mentioned. Earlier one Board representative had indicated that a reconciliation of cash to accrued expenditure was fundamental to financial management/control by Boards. It appears that the end result was that the F10 forms sent monthly to DENI included a column for encumbrances after spend to date. These are commitments on goods ordered but not yet paid for and come from details in the POP module of Oracle⁴⁹. As such they do not represent a monthly statement of accruals nor do the end March figures equate to the calculation of accruals at the year end. Significant manual intervention was required to prepare complete year end accruals.

D.4.2 A presentation on the treatment of accruals accounting in schools⁵⁰ was given in October 2004. Principals were told that manual accruals are reversed the next financial year to prevent double counting. When this reversal took place schools would see a credit.

⁴⁷ Part 3 Section C9

⁴⁸ Part 3 Section C5

⁴⁹ Part 3 Section C8

⁵⁰ Part 3 Section C9

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D.4.3 Senior officers were aware⁵¹ that since 2001/02 the Board was overspending on its DE allocations and eating into school delegated carry forwards. Since resource accounting was introduced the 4 year cumulative deficits⁵² in the Income and Expenditure Account transferred to Reserves total £12.56m. There was a considerable increase of £6m in the amount by which creditors, including amounts falling due in more than one year, exceeded debtors in 2003/04.

D.4.4 In 2001 CFOs agreed with the DE that a Contingency liability provision be made in the accounts in respect of job evaluations for which the amounts were known at the date the accounts were signed. An updated pro forma for End Year Flexibility to reflect final outcome figures following completion of Board annual accounts was agreed in 2003. The DE/CFO group was updated on the arrangements relating to May pay for teachers. The 2004 PwC report indicated that SMT should work closely with Finance to ensure full understanding of the impact of end year flexibility⁵³ on current budgets.

D.4.5 Possible sources of accruals were mentioned in the AAP papers. These included utilities and year end invoices but made no mention of items such as job evaluation or teacher' pay and threshold payments. However difficulties had been noted on posting payroll accruals due in 2000/01, but which were paid in May of 2001/02, and a similar problem had been noted when a March 2003 accrual relating to caretakers' job evaluation was reversed in July 2003. The importance of such commitments should therefore have been well known in the Finance Department in 2003/04. There is some doubt about the understanding of SMT, SLT and budget holders on accruals generally and the impact of reversal of accruals.

D.4.6 There appears to have been a failure to attempt⁵⁴ to make even crude estimates of the possible effect of pay related changes. Closer co-operation with the CMSU on the progress of their job evaluations could have allowed better forecasts of the end year position and assisted the determination of the following year's budgets.

D.4.7 There had been ongoing problems associated with the introduction of resource accounting since 2000. The 2001/02 and 2002/03 accounts had not been signed off by audit pending agreement between the Departments (DE, DCAL, DEL, and DFP) and Boards on a number of issues. By April 2004 Finance considered final figures showed a surplus but these would change because of accruals and pre-payments.

D.4.8 Rules for monitoring CASS earmarked initiatives were introduced in 2004. In 2004 all budget holders with earmarked funds were asked to notify Budgetary Control by 16 May if a carry over was likely giving details of the fund, codes, estimate of the value of carry over and explanation of why the need had arisen. It reminded them that commitments under leases, rental and hire purchase had to be reported.

⁵¹ Part 3 Section D3

⁵² Part 3 Section C2

⁵³ Part 3 Section H2

⁵⁴ Part 3 Section C9

D.5 Audit

D.5.1 The CE was deeply involved in internal audit planning⁵⁵ and reporting. He was aware of the changes in the audit function to comply with Treasury guidance and the allied work of the Audit Committee. He strongly supported the involvement of audit staff and the Committee in risk assessment. Review of the strategy for the audit of schools and subsequent training appeared to assist the Board to manage this aspect better.

D.5.2 Recommendations in external audit reports and management letters got close attention from managers. The NIAO report on the Accruals project PFI contract was supportive of the very considerable input by SEELB staff, especially as there had been major difficulties with the contractors and a variation was needed. The CE was aware of the NIAO programme of studies.

D.5.3 The Audit Committee was well supported by staff throughout. One weakness was there did not appear to be a reference to internal and external audit findings being discussed formally at SMT. This is needed to ensure lessons are learned across all departments from weaknesses found in one area.

D.5.4 The CFO was asked to aggregate responses to external audit reports. He did not see internal audit reports. The CFO felt corrective action was for operational managers,⁵⁶ with him being told, but there was no mechanism for this.

D.6 Conclusion

D.6.1 Although no specific letter of delegation had been issued to the CFO, the job description was reasonable. The delegation letter to the Acting CFO was more specific with the prime duties clearly defined. Certain of the other delegated authority was properly associated with financial control and monitoring but a few items, such as keeping expenditure within limits and ensuring effective management systems have been put in place, are not attainable by a Finance Officer. These are properly a responsibility for line managers to implement and their job descriptions make this reasonably clear. The CFO has an important role to assist with the delivery of financial information to help the operating divisions to manage with economy, efficiency and effectiveness and control the use of their resources in their command.

D.6.2 The Executive structure in the Corporate Plan indicates units under senior management which should link readily to the system of budgetary control. There is insufficient co-ordination⁵⁷ between the RAP Section 2 targets and the RAP Section 1 and 1A financial sections. The impact of teachers' pay and allowances, which is paid outside the Board's systems, has such an important effect on the Board's finances that it would seem reasonable to appoint a member of staff to be responsible for keeping an eye

⁵⁵ Part 3 Section E3

⁵⁶ Part 3 Section E2

⁵⁷ Part 3 Section C3

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on developments and assessing the potential impact on Board finances and end of year finances.

D.6.3 It is unfortunate the business planning and risk registers were not further advanced before the 2003/04 year. The combination of these, with more emphasis on the financial aspects of risk and controls, would have been useful. These would not necessarily have avoided the deficit problem but might have led to some managers raising queries which would have brought into the open that resource accounting requires more than looking at cash expenditure. More attention to the Risk Register of the Finance department should have led to setting up a system to track and control accruals, pre-payments etc.

D.6.4 If, as some staff believe, the SEELB is further down the road in implementing policies such as job evaluation there should be fewer end year problems from this source in future.

D.6.5 Frequent use by Education and Library Boards of a central unit for particular studies or projects seems reasonable, but it has dangers. Unless authors have direct responsibility for operating a service they will not always take sufficient time on the cost implications of proposals. With projects the main danger is that the individual is under such pressure to deliver that their normal duties get put aside.

D.6.6 The Accruals Accounting Project was a very large project for the CFO of one Board to lead, even with representatives from other Boards on the Main Project Board and on User boards. The problems during the procurement stage made it doubly difficult and it was due to the tenacity and hard work of the CFO and the team that the Oracle system successfully delivered an accruals accounting system. With the added pressure of this being a PFI project it appears that less attention was placed on the user requirement of an [accruals] financial management information system. The ease of producing cash expenditure reports with encumbrances, from invoicing done through the POP module, probably led many staff failing to challenge the Finance Department on whether the information they received was sufficient.

D.6.7 The power of the Oracle system required a massive change in culture throughout the organisation for its full potential to be received. This does not appear to have been widely accepted and finance took on much of the role at the interface. Attempting to tighten control of budget inputs by insisting on hard copy signatures that budgets had been entered and finance reports had been received etc did not encourage budget holders to take more kindly to the system. There should have been more input by senior and junior managers to get the system properly off the ground. Provision of monthly returns for April and May with zero budgets in some lines indicated lack of attention to data entry.

D.6.8 The system of building up the initial budget for a year from the bottom up has involved operational managers correctly. Senior staff have considered the requirements and put a pressure paper to SMT. Only after SMT have discussed the proposals and agreed changes to bring the total into line with the initial allocations from the Departments is the budget put to the

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Finance Committee. In year revisions are largely left to staff in the Finance Department.

D.6.9 The magnitude of allocations from the Departments during the year has left some to think that little care is needed at budget preparation and that pressures will often be met by the Departments. This has not been conducive to strong budget management or encouragement to estimate the cost of services which are partly demand led. Profiling of monthly budgets should be in the control of budget holders as they should be in the best position to know what is to be expected the next year etc.

D.6.10 A concerted attempt to improve the budget holder role and responsibilities started in 2003. There is certainly a need for greater clarification of where holders are fully in control of the expenditure debited to their service. There is also a need to be clear on which financial reports are essential to indicate that day to day management is being controlled adequately. These will frequently be by the analysis of variances and exception reporting. Other high level financial reports do not need this detail but equally, if re-allocation of expenditure has been made to school type etc, they should not be treated as if they are management controls.

D.6.11 The Board had no Contingency Reserve Fund. The many ongoing problems with resource accounting held up signing of the final accounts. There have been ongoing problems in getting all documentation, on invoices etc, from schools quickly and this affects both monitoring control and completion of annual accounts.

D.6.12 The CFO had failed to keep a check on the value of accruals and other end year requirements. Finance staff realised accruals and pre-payments would change the figures in the first draft of the final account but had no idea of the magnitude of this until some three months of manual work at year end identified the amount. Other staff in the Board were not in a position to realise the critical importance of this failure.

E Awareness of Financial pressures

E.1 General

E.1.1 Concerns over the re-grading and substantial arrears of job⁵⁸ evaluation costs were expressed at a number of the DENI/CFOs meetings. The Department noted that such pressures were of the Boards own making. DENI made it clear in 2002 that threshold and job evaluation allocations would be included within core funding for 2003/04. The potential impact of introducing a Common Funding Formula for delegation to schools has been under discussion with Boards for some years.

E.1.2 The CE and senior staff were aware⁵⁹ for at least three years that the Board was spending more than its annual allocation. Awareness of the

⁵⁸ Part 3 Section C5

⁵⁹ Part 3 Section D3

regular overspending on the Departmental allocations should have alerted the CE to pay more attention to the budget for 2003/04 and to have imposed stricter control on expenditure in that year.

E.1.3 SEELB has sought external advice⁶⁰ on the problems associated with special education.

E.2 Conclusion

E.2.1 It appears staff throughout the organisation were aware of the fairly constant pressure on various services over the years. This was not seen as a general problem because the Board finance staff seemed to be able to produce end of year monitoring accounts keeping within DE limits. Much of this was due to additional resources being provided by DE. Because of this there was no strong pressure on line managers to consider in-depth reductions to avoid overspending. The CFO warnings on financial pressures had the effect of getting some curtailment of in year expenditure by some services over the years.

F Action to avoid overspending

F.1 Pre-April 2004

F.1.1 SMT is used to discuss matters⁶¹ including finance. The top 11 managers are therefore closely involved in decisions taken and the reasons for them. Particular attention is paid to performance to end September, end December and the final months of the financial year. From September a column in the minutes identified the official responsible for taking action.

F.1.2 The Board had a system to monitor tightly schools which were running a deficit and ensuring that they had a plan in place to recover the situation. Tendering and contract procedures had also been changed before 2003.

F.1.3 Following a proposal from the CFO,⁶² maintenance and minor works were curtailed in August 2003.

F.1.4 Action was taken on trying to get an improved information system which could better control budgets. Discussion papers covered a July 2004 Plan for improved financial management and an undated Mechanics of Budgetary Control Proposal with a cycle for action for 2004/05. This no doubt followed the November 2003 accountability review discussion on Management Information Systems.

F.1.5 During preliminary discussion of the issues relating to the 2004/05 Recurrent Scheme, SMT⁶³ set up a small panel to consider efficiency

⁶⁰ Part 3 Section D2

⁶¹ Part 3 Section C9 and G2

⁶² Part 3 Section C8

measures. In May all SMT members were asked to draft savings proposals to be put to the next Board meeting.

F.2 Post-April 2004

F.2.1 As soon as the main extent of the 2003/04 deficit was found, staff took immediate action to contain expenditure in 2004/05. Plans were produced from early July with the agreement of the Chairpersons' Working Group. This consideration included reducing expenditure on maintenance, classroom assistants, special education and CASS.

F.2.2 The half year finance report⁶⁴ to the Finance Committee only gave total recurrent spend and budget by sponsoring Department. Comparing the spend to date with budget suggested that expenditure was still running too high and the savings were not yet being realised.

F.2.3 SMT were fully appraised of the latest assessment of the financial position on 4 August 2004. They were asked to liaise with the DCFO to identify the expenditure and savings to date, and estimate the projected spend to year end. SMT considered the results of the PwC 2004 study as it became available and the CE emphasised the importance of action. A draft Financial Management System was considered by SMT in September and there was to be further discussion on potential bids and savings. Managers were reminded of their accountability for their own budget. SMT agreed the Recovery plan before it went to the Board on 2 November 2004.

F.2.4 The SLT is taking the Recovery Plan forward. The Board Working Group meets about every 2 weeks to monitor progress.

F.3 Conclusion

F.3.1 The Finance Department kept a close eye on expenditure patterns and this led to a certain amount of action to limit expenditure in many years. There was never a need to take drastic action to stay within budget since the overspend in 1997 and the measures taken were adequate.

F.3.2 Board staff took immediate action to plan for a reduction in 2004/05 expenditure as soon as the possibility of a deficit in 2003/04 was apparent. In doing so there was close co-operation with the Board. It remains to be seen if the action taken will be sufficient to avoid a deficit in 2004/05.

⁶³ Part 3 Section G2

⁶⁴ Part 3 Section D3