

S.R. 2002/3

PROGRESS REPORT ON
SCOTTISH BORDERS COUNCIL

**A REPORT BY THE CONTROLLER OF AUDIT TO THE ACCOUNTS COMMISSION
UNDER SECTION 102(1) OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973**

PROGRESS REPORT ON SCOTTISH BORDERS COUNCIL

1. INTRODUCTION

- 1.1 At its meeting on 14 November 2001, the Accounts Commission considered my statutory report (S.R. 2001/4: Scottish Borders Council – Education Department Overspend) and the Council’s response, which included an action plan prepared by the Council to address matters arising from my report and its internal investigations.
- 1.2 In its findings, the Commission expressed concern about the financial management of the Education Department’s budget and required me to monitor implementation of the Council’s action plan and to make a further statutory report on the position as at 31 March 2002. The full text of the Commission’s findings is reproduced as Appendix A.
- 1.3 This report has been prepared in response to the Commission’s request. It is based on recent audit work undertaken by the Council’s external auditors (Scott-Moncrieff), including their assessment of the Council’s progress against its action plan. The auditors’ report, the factual accuracy of which has been agreed with Council officers, is reproduced as Appendix B. I have also undertaken further enquiries and discussed my findings with the Council’s Chief Executive.
- 1.4 The remainder of my report is in three sections. Section 2 provides a brief background to the problems experienced by the Council in relation to its Education Department budget. Section 3 summarises the main issues arising from the auditors’ review of the Council’s progress in addressing the financial position and management issues. In Section 4, I draw on the auditors’ findings to form my overall conclusions.
- 1.5 I wish to place on record my appreciation of the assistance I have received from the external auditors and the Council in the preparation of my report.

2. BACKGROUND

- 2.1 Scottish Borders Council's accounts for 2000/01 showed expenditure on education services of £62.9 million. The revised budget for that year was £60.2 million and, consequently, the overspend in 2000/01 was £2.7 million. Together with an overspend brought forward from 1999/2000 of £1.2 million, the cumulative overspend at the end of 2000/01 was £3.9 million.
- 2.2 As education services represent a major element of total expenditure, this overspend was significant in the context of the Council's overall finances. The balance on the Council's general fund would have been eliminated in 2000/01 but for the effect of surpluses on trading activities, lower than expected interest charges and appropriations from other reserves. The audited accounts for 2000/01 showed a net general fund overspend of £2 million. This produced a general fund balance of £1.9 million, which represents 1.3% of the net cost of council services in that year.
- 2.3 Having reviewed the position I concluded that there had been serious weaknesses in the financial management of education services within Scottish Borders Council. Against this background I highlighted poor budgetary control and weak management co-ordination at both officer and elected member level. The Accounts Commission accepted my report and based its findings on the facts as stated in my report.

3. EXTERNAL AUDITORS' FINDINGS

- 3.1 The Council's external auditors have reviewed the Council's progress in addressing issues arising from my previous report and internal reviews of the position. The remainder of this section summarises the auditors' findings, firstly on the financial position in 2001/02 and secondly in terms of the financial management of the education service.

Financial position

- 3.2 As part of their review, the external auditors considered the financial position of the Council in the year to 31 March 2002, with particular reference to the education services budget.
- 3.3 Their review was based on figures as at 10 May 2002, which was the best financial information available for 2001/02 at the time of their report. While they noted that Council officers do not envisage significant changes, the auditors emphasised that the final position will only be known

following completion of the 2001/02 accounts (required by 30 June 2002) and their subsequent audit.

Overall position of the Council

- 3.4 The draft, unaudited position at 10 May 2002 shows that, as a result of an overall favourable variance of about £1.4 million against budget, the Council produced a small surplus (about £0.1 million) on its general fund activities in 2001/02. Taken with a transfer of £0.8 million from housing revenue account balances and the balance brought forward from 2000/01 of £1.9 million, the Council's figures indicate a general fund balance of £2.8 million at 31 March 2002. This equates to 1.9% of the net cost of council services for 2001/02.
- 3.5 Under its three year recovery plan, the Council is committed to achieving a level of reserves of at least 2% of its revenue budget over time. In relation to the budget for 2002/03 (£161 million) the amount required to achieve this target would be £3.2 million.

Education services

- 3.6 The revised budget for education services in 2001/02 was £65.893 million. The draft, unaudited figures show that actual expenditure was £65.644 million, representing an underspend of £249,000.
- 3.7 The auditors' report contains an analysis of education expenditure in 2001/02 based on the figures available as at 10 May 2002¹. This highlights a significant overspend on the supply teaching budget (mainly long-term cover) offset by vacancy savings, savings in central support charges and underspending against devolved school management allocations.

Financial management

Changes in education management

- 3.8 The auditors' report highlights significant changes in the management of education services in recent months, with the termination on ill-health grounds of the employment contract of the Director of Lifelong Learning. The Council's Director of Lifelong Care has been acting in the

¹ Paragraphs 2.11 and 2.12, Scott-Moncrieff report.

capacity of Director of Lifelong Learning since December 2001. Following the dismissal of the Assistant Director with responsibility for finance and administration, financial support has been provided by the Corporate Resources department. Further changes by way of a management restructuring exercise are planned with two of the three Assistant Directors who have direct responsibility for education services leaving the Council's employment in the interests of the efficiency of the service. The Council is currently advertising for a permanent Director of Education and Lifelong Learning.

- 3.9 There have also been changes in corporate senior management over this period. The former Chief Executive's contract of employment was terminated on ill-health grounds in September 2001. The Director of Corporate Resources also acted in the capacity of Chief Executive until March 2002 at which point the current Chief Executive took up post. Also in March 2002, a new political administration assumed control of the Council. This resulted in a new Leader and Executive as well as new elected member portfolio holders for education.

Progress against the action plan

- 3.10 The auditors reviewed progress against the action plan established by the Council to address matters arising from my previous report and from its own internal investigation and assessed the extent to which underlying evidence supported the progress which has been reported to the Council.
- 3.11 The auditors concluded that there has been progress in delivering elements of the action plan but expressed doubt as to whether some of these actions have been fully effective in practice in addressing the weaknesses in financial management identified in my previous report². In key areas relating to budgetary control, budget setting and financial skills training the changes required to secure improvements in financial management have not been fully achieved.

Monitoring and reporting of budgetary performance

Responsibility for budgetary control

- 3.12 Following my previous report, the Council issued instructions to Heads of Service underlining their financial management responsibilities. Steps were also taken to define budgetary control

² Paragraph 5.7, Scott-Moncrieff report.

responsibilities for relevant staff and elected members. Despite these developments, the auditors formed the view that some senior managers within Lifelong Learning remain unclear as to the extent of their responsibilities for monitoring and controlling the financial performance of their department³. They also reported that, in their view, the current structure of the Lifelong Learning department does not promote clear lines of reporting and financial responsibility⁴. Some council staff have expressed concern that these responsibilities have not been clearly delegated to the identified budget holders who control expenditure on a day to day basis.

Monitoring of financial performance

- 3.13 The auditors reported that although senior managers in Lifelong Learning meet on a regular basis, it is only recently that these meetings have included formal consideration of the financial performance of their department. In terms of the detailed arrangements for monitoring financial performance, a number of internal control weaknesses were identified, including instances where expenditure was committed without budgetary provision and cases where financial monitoring reports were not circulated to the appropriate budget holder. Also noted was the absence of arrangements to identify cases where a budget holder fails to take corrective action to address significant budget variances.
- 3.14 My previous report highlighted a lack of monitoring and control over the devolved school management (DSM) arrangements. The auditors indicated that the Council has considered its DSM scheme (with the assistance of an external consultant) but has yet to complete the review. As a result, the Council is operating a modified version of the scheme which was subject to criticism in my previous report. The auditors expressed concerns that the DSM scheme is not subject to regular scrutiny by senior managers within Lifelong Learning and that identified internal control weaknesses have yet to be addressed⁵.
- 3.15 The auditors identified that senior management in Lifelong Learning and Corporate Services share a common concern that key areas of non-devolved expenditure are still not under effective budgetary control. Of particular concern to them was the supply teacher budget where the lack of monitoring contributed to a significant overspend (£893,000) in 2001/02.

³ Paragraph 6.11, Scott-Moncrieff report.

⁴ Paragraph 6.13, Scott-Moncrieff report.

⁵ Paragraph 6.6, Scott-Moncrieff report.

Budget monitoring reports

- 3.16 The forecast performance of the education account was formally reported to elected members during the course of 2001/02. A summary of the information reported, including variances from budget, is included in the auditors' report⁶.
- 3.17 To assess the steps taken by the Council to address my previous concerns about weak management co-ordination in the production of financial monitoring reports, the auditors examined monitoring reports and minutes from budget monitoring meetings. The minutes provided evidence of occasions where education and finance staff did not work together effectively to analyse and validate financial monitoring information. In addition, a budget monitoring statement submitted to the Council in March 2002 contained a warning that the reported underspend was to be treated with 'considerable caution' as it was based largely on projections made by Corporate Finance staff with insufficient input from education service managers. This budget monitoring statement was 'noted' by elected members.
- 3.18 The auditors expressed concern about the weak management co-ordination in the preparation of reports⁷ and that elected members had simply noted the content of the March 2002 statement without investigating the circumstances regarding the lack of involvement of education staff in its preparation⁸.

Budget setting

- 3.19 My previous report identified significant weaknesses in the education budget setting process. To assess progress in this area, the auditors reviewed the process followed by the Council in setting its education budget for 2002/03.
- 3.20 They found that Corporate Finance staff were involved fully in the preparation of the budget and that steps had been taken to ensure adequate budgetary provision. However, it was noted that senior management in the Lifelong Learning department had not participated fully in the budget setting process. While they concluded that the involvement of Corporate Finance staff had secured improvements, they identified areas where the 2002/03 budget setting process was

⁶ Paragraph 6.1, Scott-Moncrieff report.

⁷ Paragraph 6.19, Scott-Moncrieff report.

⁸ Paragraph 6.20, Scott-Moncrieff report.

flawed⁹. They also concluded that the full involvement of senior education staff would help ensure that educational developments are properly accounted for in setting the budget¹⁰.

Action taken by the Council

3.21 The auditors' report highlights that steps have been taken by the Council since the appointment of the Chief Executive in March 2002 to develop a more rigorous approach to financial management and control. In their opinion, if delivered, these should provide a strong basis for recovery¹¹. In support of this the auditors have highlighted the following initiatives introduced by the Chief Executive following his appointment:

- March 2002: instruction issued to the Director of Corporate Resources and finance staff to improve the quality of financial monitoring information provided to elected members. This was in direct response to the problems experienced with the March 2002 budget monitoring report. Instructions were also issued to all Directors on the form and content of Council reports generally.
- March 2002: instruction issued to internal audit to undertake a review of the capital element of the devolved school management scheme.
- April 2002: instruction issued to Director of Corporate Resources to assume direct and total responsibility for all matters relating to the financial management and administration of Lifelong Learning.
- April 2002: recovery plan introduced which sets out commitments to a future programme of improvement and contains details of steps planned to address weaknesses in business and financial management. The recovery plan was approved by the Council on 8 May 2002.
- April 2002: instructions to the Council's Head of Scrutiny to adopt a project management role in the delivery of the recovery plan, with regular reports to the management team and the Council's Executive on progress against the recovery plan's objectives.

⁹ Paragraph 6.3, Scott-Moncrieff report.

¹⁰ Paragraph 6.4, Scott-Moncrieff report.

¹¹ Paragraph 8.5, Scott-Moncrieff report.

- May 2002: proposals for revising the management structure within Lifelong Learning.

3.22 In addition, the Council is recruiting a Head of Business Management and a Finance Manager for the Lifelong Learning department. The Council has also appointed external consultants to undertake an independent review of financial monitoring and control arrangements and to address financial skills training within Lifelong Learning.

4. CONCLUSIONS

4.1 My previous report identified serious weaknesses in the financial management of education services within Scottish Borders Council which resulted in significant overspending in the budget for education services in 1999/2000 and 2000/01.

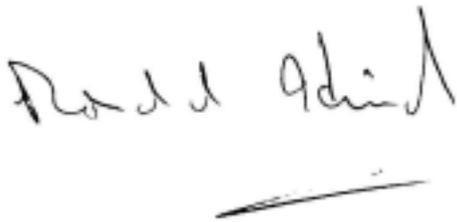
4.2 In the six months since that report there have been major changes in the management of the education service and in the most senior management of the Council at both officer and elected member level. It is also clear that investigations into the roles of individuals in the budgetary control problems experienced in previous years and ongoing developments to improve financial management of the education service have caused a significant degree of disruption to the conduct of the Council's business.

4.3 Preliminary figures show that the Council operated within its revised budget for education services in 2001/02. The Council has started to restore its general fund balances and has developed plans designed to achieve and maintain a level of reserves which it considers appropriate in the context of its finances. The final position for 2001/02 will only be known following completion of the year's accounts and subsequent audit but, on the basis of the information available at this time, I am encouraged by the steps taken by the Council to control expenditure on education services and to improve its overall financial position.

4.4 I am concerned however that many of the financial management weaknesses identified in my previous report continued during the remainder of the 2001/02 financial year. Moreover, despite initiatives to improve understanding of budget responsibility, some staff within Lifelong Learning remain unclear about their specific responsibilities for monitoring and controlling the financial performance of their department. Furthermore, the weak management co-ordination I identified in my previous report continued into the period under review, with budget monitoring reports submitted to the Council with insufficient input from education service managers. It is a matter of serious concern that elected members noted the content of that report without

exploring an overt statement which pointed to a lack of co-ordination between the finance and education departments.

- 4.5 I am also concerned to note from the auditors' report that the action plan agreed by the Council in November 2001 did not secure the changes necessary to address the weaknesses identified. The Council has now approved a recovery plan which contains a range of financial and business improvements at strategic and operational level. The Council has also implemented a number of initiatives since the Chief Executive's appointment in March 2002. There is a need to consolidate these plans and initiatives to ensure that they are consistent and that they deliver real and effective improvements in the financial management of the education service. The Council needs to monitor progress regularly against its agreed plan in order to provide assurance that the improvements set out are being achieved in practice. This is essential if the problems experienced in 1999/2000 and 2000/01 are to be avoided in future years and to support the restoration of public confidence in the Council's ability to manage properly the significant resources deployed by it in providing education services in the Scottish Borders area.

A handwritten signature in black ink, appearing to read "Ross Hind", with a horizontal line underneath it.

R HINDS

Controller of Audit

5 June 2002

SR 2001/4 SCOTTISH BORDERS COUNCIL EDUCATION DEPARTMENT OVERSPEND**FINDINGS**

Introduction

The Accounts Commission has considered

- The Controller of Audit's report on the Scottish Borders Council Education Department overspend dated 4 October 2001
- Report by Education Working Group of Scottish Borders Council dated 8 October 2001 which was submitted by the council as part of its response
- Action plan submitted by Scottish Borders Council in response to the Controller of Audit/Education Working Group reports.

The Commission notes that the Council agreed unanimously to accept the report of the Controller of Audit. The Commission approves the conclusions of the Controller of Audit and bases its findings on the facts stated in his report.

Findings

1. The overspends in the Education budget were due to reasons summarised in paragraph 3.35 of the Controller's report. The reasons for failures in the Council's financial management of the Education Department's budget are summarised in paragraph 4.20 of the report. Both sets of reasons are attached as an Appendix.
2. While the Council had in place formal systems for financial management, there was a failure to apply those systems properly. This demonstrates a failure in governance in the Council, primarily due to organisational culture and attitudes.
3. The Education Committee of the Council failed to discharge their responsibility to monitor and regulate financial performance to achieve targets imposed by the Council.
4. Senior officers in the Education Department did not fully discharge their financial management responsibilities nor did senior officers in Financial Services fully meet the requirements of their responsibilities for financial administration.
5. The Commission welcomes the Council's prompt recognition of the remedial action which requires to be taken in the Council's action plan but emphasises the importance of
 - (a) identifying targets and milestones,
 - (b) ensuring that these are achieved,
 - (c) reporting regularly the projected outturn for 2001/02 to the Council, and
 - (d) taking appropriate action on those reports
6. The Commission requires the Controller of Audit to (a) monitor implementation of the action plan and (b) to make a further report to the Commission on the position at 31 March 2002.
7. The Commission draws to the attention of Scottish Councils a number of general concerns arising from its consideration of these matters.

- Members of councils and senior management under the leadership of the Chief Executive have a responsibility to foster the culture and attitudes which are necessary for good governance
- Part of a regime of good governance is the creation and implementation of procedures for the effective discharge of the statutory responsibilities of the Chief Financial Officer in relation to the overall financial management of the council
- Officers who have delegated responsibility within services must also be accountable for budgetary matters and there should be appropriate machinery in place for monitoring and remedial action
- Option appraisal remains one of the key mechanisms for achieving Best Value in service delivery
- Careful consideration needs to be given to the operation of the devolved school management scheme to ensure that sound costing and monitoring procedures are in place.

15 November 2001



SCOTTISH BORDERS COUNCIL
Further Report on Education Department Overspend

SCOTT-MONCRIEFF
CHARTERED ACCOUNTANTS

SCOTTISH BORDERS COUNCIL

Further Report on Education Department Overspend

1. Introduction

- 1.1 On 14 November 2001 the Accounts Commission considered the Controller of Audit's statutory report, SR 2001/4, relating to the Scottish Borders Council Education Department overspend. At the same time the Commission also considered; (a) a report by the Education Working Group of Scottish Borders Council submitted by the Council as part of its response to the overspend, and (b) an action plan submitted by the Council in response to the Controller of Audit and Education Working Group reports.
- 1.2 As external auditors to Scottish Borders Council for the year ended 31 March 2002 we were subsequently requested to submit a report to the Controller of Audit as part of the response to the Commission's findings.
- 1.3 In common with all Scottish local authorities, Scottish Borders Council are required by The Local Authority Accounts (Scotland) Regulations 1985 to ensure that unaudited financial statements are prepared and submitted to the Controller of Audit by 30 June. The timing of this report has been such that financial results for 2001/2002 have required to be based on early, draft provisional figures. The figures within this report therefore reflect the best financial information at 10 May 2002. Whilst officers of the Council do not consider that the financial outturn figures for 2001/02 will change significantly from those stated, the final position will only be known following the completion of the draft, statutory accounts and their subsequent audit.
- 1.4 This report has been based upon discussions with Council officers and a review of financial information. The factual accuracy of the report has been agreed with Council officers.

2. Financial position of Council

- 2.1 The Controller of Audit's statutory report was prepared in October 2001 and preceded the completion of the audit of the 2000/01 accounts. The Report states that the 2000/01 unaudited accounts show that there was a planned reduction during 2000/01 of £1.1m in the opening general fund balance of £4m, but that overspends in service expenditure had led to a reduced unaudited general fund balance of £2.2m at 31 March 2001. In the event, audit adjustments required the general fund balance to be further reduced so that the final, audited general fund balance at 31 March 2001 stood at £1.872m. Of this balance £1.086m related to net unspent Devolved Schools Management (DSM) balances carried forward to 2001/02, leaving only £0.786m of balances not earmarked for Education purposes.

- 2.2 Total budgeted expenditure in 2001/02 was set originally at £143.404m although this was revised to £146.594m during the year. The original budgeted expenditure was to be met by an equivalent amount of income from local taxes and government grants. Budgeted income from Revenue Support Grant was subsequently increased during the year by £1.881m so that total budgeted income amounted to £145.285m resulting in final net budgeted expenditure of £1.309m to be funded from an equivalent sum included in the general fund reserve. The Education budget was originally set at £62.137m although this was subsequently revised to £65.893m as a result of the addition of (a) potential expenditure to match net DSM balances carried forward, (b) various items of government approved, specific expenditure matched by additional Revenue Support Grant, and (c) a transfer of Council-approved savings from other departments.
- 2.3 On 1 August 2001 the Council changed its political and operational structure. As part of this change the Education department absorbed Cultural activities and was renamed the department of Lifelong Learning. The financial analysis provided in this report is however based on the previous operational structure.
- 2.4 As stated in paragraph 1.3 the full unaudited financial statements are not yet available for 2001/02. A draft, unaudited position statement for 2001/02 has been drawn up as at 10 May 2002 by council officials on the basis of the best available information at what is an unusually early date for a definitive statement of the final result for the year. This position statement is summarised in Exhibit 1.

Exhibit 1: Draft, unaudited position statement for 2001/02 as at 10 May 2002 - General Fund				
	Original Budget	Revised Budget	Actual	Variance
	£'000	£'000	£'000	£'000
Net Service Expenditure				
Education	62,137	65,893	65,644	(249)
Social Work	26,374	26,470	26,294	(176)
Technical Services	18,340	17,768	16,687	(1,081)
Protective Services	6,462	6,550	6,453	(97)
Leisure and Recreation	9,687	9,572	9,778	206
Other Housing	1,930	1,929	1,875	(54)
Planning and Development	2,437	2,386	2,199	(187)
Policy and Resources (including requisitions, appropriations and DLO/DSO surpluses)	16,037	16,026	16,220	194
	143,404	146,594	145,150	(1,444)
Income	(143,404)	(145,285)	(145,285)	-
Net overall expenditure/(surplus)	-	1,309	(135)	(1,444)

- 2.5 The Council has agreed to the transfer of £0.8m from housing revenue account balances to the general fund (see paragraph 3.2 below). Once this is aggregated with the gross amount of general fund balances at 1 April 2001 (including DSM carried forward) and the draft, actual operational surplus of £0.135m, a revised forecast general fund balance at 31 March 2002 is projected of £2.807m.
- 2.6 It is important to note that part of the currently identified general fund balances is in fact earmarked as available for future education devolved school management purposes. The unaudited sum identified provisionally at 31 March 2002 as DSM balances carried forward is £586,000.
- 2.7 Pending decisions to be made by the Council the projected general fund balance at 31 March 2002 also includes the full draft surpluses achieved by the DSOs/DLOs during the year amounting to £957,000.
- 2.8 The principal reasons for the favourable overall variance against the final revised budgeted spend (including the DSM balance brought forward) are as follows:

Technical Services - net underspend of £1.081m

Savings in central support charges were made as a result of the change noted below together with savings on asset rentals. There was an underspend on the travel card scheme. The service underspend also resulted from decisions taken by the council during the year to reduce expenditure on classified and unclassified roads. This decision was taken to avoid potential winter difficulties caused by a reduced winter roads maintenance budget. The relatively mild winter alleviated this situation.

Policy and Resources - net overspend of £0.194m.

This overspend has arisen as a result of a change in the accounting for corporate and democratic core items. These were previously re-allocated across services and budgeted as such but have now been included in Policy and Resources expenditure. Increases in actual expenditure against budget in the fire requisition and in other appropriations have been off-set by additional DSO surpluses and savings in interest on revenue balances.

Devolved School Management – net underspend of £0.500m

While the schools were budgeted to use the full brought forward balance of £1.086m, in the event the full amount was not spent. The net amount of unused budget available for carry forward to 2002/03 is identified provisionally as £0.586m.

Spending on Education Services

- 2.9 The Council is the local education authority and provides pre-school and other education related services throughout the Scottish Borders area. Expenditure on education is the largest single element of the Council's overall expenditure.
- 2.10 The 1999/2000 education budget was overspent by £1.6 million. Under the flexibility allowed within the Devolved School Management (DSM) scheme operated by the Council, £1.2 million of this was deemed to be DSM related. The 2000/01 education budget (as finally revised) was £60.2 million for the year. The final outturn showed net expenditure of £62.9 million, producing an overspend of £2.7 million for 2000/01 and a cumulative overspend of £3.9 million.
- 2.11 We have identified from the Council's financial ledger system budgeted and actual information related to Education spending during 2001/02, as reported on 10 May 2002 and have identified the relevant variances. This is shown on an objective basis below (Exhibit 2).

Exhibit 2: Objective analysis of net education expenditure 2001/2002 based on draft, unaudited position statement as at 10 May 2002

	Expenditure			Income			Net Expenditure		
	Revised	Actual	Variance	Revised	Actual	Variance	Revised	Actual	Variance
	Budget			Budget			Budget		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Nursery Education	2,979	2,904	(75)	(2,927)	(2,916)	11	52	(12)	(64)
Primary - non devolved	4,239	4,595	356	(1,974)	(1,766)	208	2,265	2,829	564
Primary - devolved	17,154	16,447	(707)	(128)	(165)	(37)	17,026	16,282	(744)
Secondary - non devolved	2,442	2,624	182	(950)	(1,009)	(59)	1,492	1,615	123
Secondary - devolved	20,452	20,732	280	(109)	(232)	(123)	20,343	20,500	157
Special needs Education	6,084	6,028	(56)	(466)	(464)	2	5,618	5,564	(54)
Curriculum development	3,480	3,591	111	(731)	(636)	95	2,749	2,955	206
Transport	3,145	3,058	(87)	0	(1)	(1)	3,145	3,057	(88)
School meals	1,799	1,999	200	(1,045)	(1,141)	(96)	754	858	104
Continuing education	1,942	1,859	(83)	(221)	(237)	(16)	1,721	1,622	(99)
Administration	3,278	2,791	(487)	(51)	(52)	(1)	3,227	2,739	(488)
Asset rentals	6,782	6,720	(62)	(36)	0	36	6,746	6,720	(26)
Other *	1,748	1,870	122	(993)	(955)	38	755	915	160
Total	75,524	75,218	(306)	(9,631)	(9,574)	57	65,893	65,644	(249)
* Other includes NGfL, outdoor education and European projects									

2.12 Overall the draft, unaudited position statement shows Education net expenditure within the revised budget. This appears to have been achieved largely as a result of vacancy savings, savings in central support charges and an underspending in schools' DSM allocations as enhanced by the balances carried forward from 2000/01. A detailed analysis of the reasons for significant variances has still to be carried out by the Council however the following initial observations can be made on the draft, unaudited figures.

- Overspends against budget of approximately £893,000 have arisen in the supply teaching budget as already indicated by the Council's monitoring procedures. Supply teaching costs are incurred to cover sickness absences, maternity leave cover, time spent on courses and a number of other reasons. These overspends have occurred largely in primary schools but also cover secondary schools and curriculum development. Short-term supply cover falls to be financed by schools under the DSM scheme. Certain long-term supply cover is not devolved and overspends against budget largely explain the net overspends in primary and secondary non-devolved expenditure. This matter is referred to in paragraph 6.8.
- The underspend in primary schools, devolved net expenditure represents underspends against the DSM scheme. Any agreed underspends against budget represent future spending power for primary schools and will be carried forward into 2002/3 as part of the overall Council's general fund.
- The overspend against budget in secondary schools devolved net expenditure is largely due to capital expenditure being charged against DSM revenue allocations. This matter is referred to in paragraph 6.7.
- The underspend in Administration is largely due to the change in the council's accounting for corporate and democratic core items referred to in paragraph 2.8 and also as a result of savings arising from staff vacancies.
- Included within the overspend against budget on Other expenditure are total costs including penalties of £174,000 relating to the re-negotiation of IT leases taken out as a result of the National Grid for Learning initiative. We understand that these penalties will result in reduced leasing costs in future years.

Findings

2.13 The main findings from this section of the report are:

- The financial year 2001/2002 has seen an improvement in the financial position of the Council. Despite significant pressures on financial and management resources the draft, unaudited financial results of the Council indicate a surplus of £135,000 was achieved against a revised budgeted net expenditure of £1,309,000 and the breakeven position forecast in the original budget. This will allow the Council to begin to replenish their depleted reserves.

Budgeted position for 2002/03

- 3.1 The Council at a Special Meeting on 14 February 2002 approved its revenue budget for 2002/03. This budget envisaged expenditure of £173.723m (gross of specific grants) being met by income of £174.223m, leaving a budget surplus of £0.5m to be transferred to the general fund in order to start restoring the balance to an appropriate level.
- 3.2 The Council had previously projected its general fund balance at 31 March 2002 to be approximately £0.5m excluding any Education DSM balance. An absolute minimum acceptable level of general fund balance of £1.8m was agreed as recommended by officials, to be achieved by 31 March 2003. This was to be made up as follows:

	General Fund Balance £'000
Projected balance at 31 March 2002	500
Transfer from Housing Revenue Account balance at 31 March 2002	800
Revised projected balance at 31 March 2002	1,300
Contribution from 2002/03 Council budget	500
Projected balance at 31 March 2003	1,800
	=====

- 3.3 At the same meeting, it was also agreed that the Education budget was not required to repay the accumulated overspend from 1999/00 and 2000/01 which had been previously met from general fund reserves.
- 3.4 On 30 April 2002 the Chief Executive and his management team introduced Recovery Plan 1 which set out commitments to a future programme of improvement. These commitments include the following actions to address weaknesses in the management of the Council's business and finances:

Business Improvements

- Act on the recommendations and findings of the Scottish Parliamentary Inquiry and report accordingly.
- Complete the preparation of departmental Business Plans by June 2002.
- Submit all Business Plans to the Council Executive for approval by September 2002.
- Establish the European Quality Model as the standard approach to quality assurance across the Council as a whole.
- Review our business management arrangements to establish new protocols, codes and standards for the conduct and management of business throughout the Council.
- Achieve third party quality assurance certification for all appropriate business management processes.
- Design and implement a Council business monitoring system to record decisions made by the Council and track progress towards their fulfilment.
- Install mail tracking systems across the Council to uniform standards of functionality and reliability.

Financial Improvements

- Act on the recommendations and findings of the report on the Controller of Audit and report accordingly.
- Undertake a fundamental review of the financial regulations and control systems in place within the Council.
- Achieve third party quality assurance certification for all financial management processes.
- Publish a three year financial strategy.
- Introduce three year revenue budgeting.
- Establish a Budget Review Group for Members of the Council Administration and provide support to members of other political groups on the Council.
- Establish a review programme to achieve an annual target of 2% efficiency savings on relevant Revenue expenditure.
- Design and implement a budget consultation and communication strategy.
- Commission an external risk assessment and management study, focussing on critical areas of service delivery.
- Secure the maximum level of funding available from Scottish Executive sources, in particular from competitive allocations.

- 3.5 The Chief Executive has instructed the Head of Scrutiny to undertake a project management role in the delivery of the recovery plan and arrangements have been made for weekly reporting to the Management Team and regular reporting to the Council's Executive on progress against recovery plan objectives.
- 3.6 The recovery plan was approved by the Council on 8 May 2002 and included the following financial changes to the budget for 2002/3. A total of £500,000 additional expenditure was committed to school budgets, continuing education and leisure provision. Of this additional expenditure £250,000 is to be financed by a transfer of planned capital expenditure from revenue financing to capital financing, with the remaining £250,000 to be met from general fund balances.
- 3.7 The agreed reduction of £250,000 in general fund balances appears to conflict with the financial commitment made by the Council to support the recommendation by its financial officers in February 2002 that an absolute minimum acceptable level of general fund balance of £1.8 million should be achieved by 31 March 2003.
- 3.8 As stated in paragraph 2.4, the 2001/02 draft, unaudited position at 10 May 2002 shows that the actual operational surplus for 2001/02 is projected to be £0.135m. When this is taken together with the approved transfer of £800,000 from the Housing Revenue Account and the opening balance of £1.872m at 31 March 2001, the revised, forecast general fund balance at 31 March 2002 is £2.807m. This equates to 1.96% of the net cost of Council services for 2001/02. The position across all Scottish Councils at 31 March 2001 was 2.7%.
- 3.9 The Recovery Plan, as noted in paragraph 3.4 includes the commitment to "achieving a level of reserves of at least 2% of the Council's revenue budget over time." If this is related to the net cost of Council services as budgeted for 2002/3 (£161.628 million) the amount required would be £3.232 million.

Findings

- 3.10 The main finding from this section of the report is:
- The forecast general fund balance at 31 March 2002 is £2.807m. As part of the recovery plan approved in May 2002 the Council has made a commitment to introduce new approaches and business methods to correct the deficiencies identified in the Council's financial and management arrangements. The Council has also committed itself to achieving a level of reserves of at least 2% of the Council's revenue budget over time.

Education Management

- 4.1 The former Director of Lifelong Learning, Mr John Christie, was at work until 16 September 2001, and thereafter remained on extended sick leave (with a brief 3 week period of part-time working in November 2001) until his employment was terminated on ill-health grounds on 1 April 2002. Mr Christie was suspended from his post on 5 December 2001, and an Acting Director of Lifelong Learning, Mr Colin Johnson, was appointed on 10 December 2001. Mr Johnson is still in post at the time of writing this report. The Council is currently advertising for a permanent Director of Education and Lifelong Learning.
- 4.2 The Assistant Director of Education (Finance and Administration) Mr John Taylor, was suspended from his post on 1 June 2001 and dismissed from the Council's service on 18 June 2001. As a temporary replacement to cover Mr Taylor's responsibilities, the Council's Head of Financial Administration was seconded to the Department of Lifelong Learning on a virtually full-time basis in June 2001, although this has recently been reduced to a part-time basis.
- 4.3 The remaining three Assistant Directors of Lifelong Learning have remained in post throughout the period, carrying both strategic and area based specific responsibilities for education services. At the time of this report, two of the Assistant Directors have agreed to leave the Council's employment and a suitable date for their departure is currently being agreed. Following the departure of these two individuals and pending the recruitment of a new Director of Education and Lifelong Learning, an interim management structure will be put in place. We understand that this management structure will be service based and will no longer incorporate area based responsibilities. Officers have indicated that the structure will include the part time secondment of the Director of Education from the City of Edinburgh Council who will provide additional support to the Department of Lifelong Learning.
- 4.4 A new post of Head of Business Management has been created within the Department of Lifelong Learning, with responsibilities including strategic planning, financial management, administration and information systems. A further post of Finance Manager has also been created within the Department. Both posts have been re-advertised as it was not possible to make suitable appointments from the candidates responding to the original advertisement. In the meantime, from 29 April 2002 two members of the Corporate Finance team have been seconded to provide dedicated financial support to Lifelong Learning on an interim basis.
- 4.5 In addition to managerial changes in the Lifelong Learning Department there have also been significant changes to the Chief Executive post within the Council. The Council's previous Chief Executive, Alistair Croall, was at work until March 2001, and thereafter remained on extended sick leave until his employment was terminated on ill-health grounds in September 2001. From May 2001 until February 2002 John Campbell acted in the capacity of Chief Executive in addition to his role as Director of Corporate Resources. From 1 March 2002 David Hume was appointed Chief Executive of the Council. Following his appointment, the Chief Executive recognised that changes to education financial management were required and from 19 April 2002 all responsibilities for financial management and administration within the Department of Lifelong Learning were transferred to the Director of Corporate Resources until further notice.

- 4.6 Over the last six months five officers of the Council have been subject to investigation and disciplinary proceedings regarding the serious weaknesses in the financial management of the education service. Disciplinary action was subsequently taken in respect of one officer who has lodged an appeal.
- 4.7 In March 2002 a new political administration assumed responsibility within Scottish Borders Council. This resulted in changes in the individual members who carried responsibility for the Lifelong Learning portfolio.

Findings

- 4.8 The main finding from this section of the report is:
- The period since the publication in October 2001 of the Controller of Audit's statutory report has seen significant upheaval in the management of the education service at Scottish Borders Council and a change in the political administration of the Council. This disruption has placed considerable strain on key individuals within the Council and has mitigated against the Council achieving the desired level of improvement in financial management arrangements.

5. The Council's Agreed Education Action Plan

- 5.1 The Council's action plan in response to the statutory report was submitted to the Accounts Commission on 7 November 2001 and contained 33 recommendations to address reported weaknesses in budgetary control. Since that date, progress on the plan and estimated completion dates have been reported to Members of the Education Executive on 18 December 2001 and 19 February 2002. Further consideration of the plan is anticipated to be given by the Education Executive on 11 June 2002.
- 5.2 The Council's Scrutiny Committee have also carried out the first stage of their own monitoring of the Action Plan, at their meeting on 21 February 2002. The second examination of progress on the plan took place on 23 May 2002.
- 5.3 We attended the meeting of the Scrutiny Committee in February, as observers, and have since that date attempted to identify documentary evidence of the matters addressed orally by officers at the meeting.

- 5.4 We reported in March 2002 on an interim basis, on the progress which we felt had been evidenced at that stage. We identified fifteen of the stated actions as having been completed, leaving eighteen still, in our view, to be completed. We also identified fourteen areas in which slippage had occurred since the target dates were fixed in November 2001. In our opinion, this slippage appeared to be caused primarily by lack of staff resource, rather than lack of will.
- 5.5 No further official updated version of the Action Plan has been produced since February, and we are not therefore in a position to comment on the Council's own current formally stated views on its progress towards completion. Nevertheless, we have identified several areas in which we have specific observations, and these are included below:
- The action plan identified that a review of the education management structure would be carried out. This review has been carried out but improvements to the current structure have yet to be implemented.
 - The action plan committed the Council to implement control procedures to ensure that education income and expenditure is continuously reviewed. The Council has reported progress in this area by indicating that all Assistant Directors of Lifelong Learning and other budget holders within the department are fully aware of their budget monitoring responsibilities. Our findings indicate that Assistant Directors have not taken full responsibility for monitoring key areas of the budget. Furthermore, a number of budget holders (particularly in the larger Primary Schools) do not have direct access to the Council's financial management information system. This does not allow the continuous monitoring of the financial performance of their areas of budget responsibility.
 - The action plan aims to ensure that draft budgets for education include realistic and adequate provisions to meet known commitments. The Council has reported progress with regard to the 2002/03 education budget which is deemed to address all known pressure points. We understand that there are areas where sufficient provision has not been made for certain areas of expenditure in the 2002/03 education budget (these are detailed in paragraph 6.3 to this report).
 - The action plan identified the need to ensure that service expenditure budgets and DLO/DSO income budgets are fully reconciled to ensure that both are prepared on the same basis. The Council has reported that these reconciliations were completed to inform the 2002/2003 budget setting process. However, an imbalance exists between projected DSO income from school cleaning contracts and budgeted school cleaning expenditure in the 2002/03 budget (this is quantified in paragraph 6.3 to this report).

- The action plan identifies the need to address weaknesses in financial skills and management training by performing a training needs analysis of education staff with a view to identifying requirements for financial skills and management training and arranging for such training to be provided. Our review indicates that although a training needs analysis has been carried out with senior education staff the subsequent training has not yet been delivered. Furthermore, financial skills training to other budget holders within the Lifelong Learning Department has been limited.

5.6 The Council's Management Team have recognised the importance of addressing the weaknesses identified above and have prepared a detailed action plan to address the financial management and administration of Education and Lifelong Learning. This provides a more focussed list of actions to address the known weaknesses in education financial management and control.

Findings

5.7 The main finding from this section of the report is:

- Although the Council can demonstrate progress in delivering elements of the action plan there are doubts as to whether these actions have been fully effective in addressing the weaknesses in financial monitoring and control identified in the Controller's statutory report. This has been recognised by the Council and a more focussed action plan has now been drawn up to address these weaknesses.

6. Monitoring and Reporting of Budgetary Performance

Background

- 6.1 The statutory report identified that during 2000/01 elected members were not kept sufficiently well informed of the financial performance of the education service. During 2001/02 the forecast performance of the education Account has been formally referred to all, or at least some, Council members on several occasions during the course of the year. A summary of information as reported is shown in Exhibit 3 and demonstrates an increase in the frequency of financial information presented to members.

Exhibit 3: Formal consideration of education budget 2001/02	Budget £000	Forecast Outturn £000	Variance £000
Base Budget (fixed by Council 15/2/01)	62,137	62,137	-
Council Meeting 5/7/01		(consideration of budget adjustment proposals - postponed)	
Council Meeting 1/8/01		(agreement of budget adjustments)	
Executive 2/10/01		(noted that further education analysis was to be carried out)	
Executive 16/10/01		(agreement of further budget adjustments)	
Education Executive 6/11/01	65,443	65,743	300
Executive 4/12/01	65,443	65,743	300
Education Executive 18/12/01	65,604	65,933	329
Education Executive and Executive 29/1/02	65,738	65,382	(356)
Executive 5/3/02	65,702	65,568	(134)

Budget Setting Process

- 6.2 The Controller of Audit's statutory report identified significant weaknesses in the education budget setting process. A number of key assumptions used in setting the education budget were flawed whilst management co-ordination was poor. We examined the 2002/2003 education budget setting process to assess whether improvements had been implemented. We found that Corporate Finance staff were fully involved in the preparation of the 2002/2003 education budget and that attention was paid to areas of overspend and growth bids generated to ensure adequate budgetary provision for areas which had been under-funded in previous years.

6.3 During the course of our review it was identified that whilst Corporate Finance engaged education staff in the preparation of the 2002/2003 budget, Senior Management within Lifelong Learning did not participate fully in this process. Through increased involvement by Corporate Finance, improvements have been made to the education budget setting process. There are however a number of anomalies within the 2002/2003 budget as follows:

- The budget fails to account for phase 2 of the McCrone award which will impact on staff costs from January 2003. This accounts for approximately £350,000 of unbudgeted additional expenditure.
- There is an ongoing dispute between the Cleaning DSO and Lifelong Learning over cleaning charges associated with additional school buildings. School cleaning costs within the education budget do not currently reflect the level of income expected to be generated by the DSO from the school cleaning contract resulting in a potential budget underprovision of £95,000. It was also noted that service level agreements, intended to manage the relationship between Lifelong Learning and DSOs have been drafted but have not yet been formally agreed and implemented.

6.4 While the involvement of Corporate Finance staff brings an improved level of challenge and scrutiny to key estimates and underlying assumptions within the education Budget, the Council should insist that all members of the Lifelong Learning Directorate participate fully in the budget setting process. This will ensure educational developments are properly taken into account within budgeted income and expenditure levels of the Council.

Devolved School Management

6.5 The statutory report identified a lack of monitoring and control of the DSM system and a failure to appreciate fully its impact on the Council's financial position. During the financial year 2001/2002, the Council commissioned a review of DSM which was carried out by a multi-disciplinary team (teaching and non-teaching staff), facilitated by an external consultant. The report recommended a number of revisions to the method for allocating DSM budgets to schools and identified the need for a further, more detailed review to be carried out in a number of key areas within the scheme. The findings from the review were reported to the Chief Executive and the management team who identified deficiencies in the report. These deficiencies were addressed and a revised report will be presented to the Education Executive on 11 June 2002. To date the proposed revisions have not been implemented and the Council continue to operate the same scheme which had previously been subject to criticism in the Controller of Audit's report albeit the DSM staff conversion rates previously used have been modified.

- 6.6 We note that the Council has failed to allocate overall responsibility for financial monitoring and control of the DSM scheme. Although arrangements are in place for Head Teachers to manage their individual school's devolved budget, the overall financial performance of the DSM scheme is not subject to regular scrutiny by Lifelong Learning Senior Management. Failure to adequately monitor and control the overall activity of the DSM scheme has been acknowledged by Senior Management of both Lifelong Learning and Corporate Finance for some time. It is of particular concern that this internal control weakness has not been addressed as a matter of urgency. As noted in section 4 of this report there has been significant upheaval in the senior management of the Education service which has undoubtedly contributed to the failure to address this significant internal control weakness. Recent measures taken within the Council as identified in Section 7 are designed to address this weakness.
- 6.7 Following the attendance by the Chief Executive and Acting Head of Corporate Finance at one of the Education Management Team meetings, concerns were identified regarding the application of the DSM scheme. Schools had incurred capital expenditure in 2000/2001 and 2001/2002 on the understanding that the value of such expenditure would be reimbursed by a reduction in future years' DSM revenue allocations. The three current Assistant Directors of Lifelong Learning had approved this activity, after consultation with the former Assistant Director of Education (Finance and Administration), despite such action being in breach of Council Financial Regulations and DSM scheme rules. As a result of these concerns, the Chief Executive instructed the internal audit service to carry out an investigation of possible capital funding from the DSM scheme and requested the Acting Head of Corporate Finance to reclassify the expenditure for 2001/2 which had been incorrectly accounted for as revenue rather than capital expenditure. Preliminary internal audit findings indicate that during the financial years 2000/2001 and 2001/2002 some £400,000 of capital expenditure had been funded by schools' DSM allocations. This expenditure had not been properly approved by the Council's Capital Planning Group and had not been disclosed in the Council's 2000/01 Section 94 returns.

Supply Teaching

- 6.8 The Controller of Audit's statutory report identified that there had been a lack of proper budgetary control in relation to a number of service areas within the Lifelong Learning Department. Our enquiries identified that both Lifelong Learning and Corporate Finance Senior Management share a common concern that key areas of the non-devolved education budget are still not under effective budgetary control. A major focus for management's concern is financial monitoring of the supply teaching budget. Currently schools are responsible for funding short term supply cover from their devolved budgets whilst longer term supply cover is funded from a central budget administered by staff within the Lifelong Learning Department. Although supply teaching accounts for a significant part of education expenditure there is no ongoing management of the overall financial performance of supply teaching. This lack of ongoing management has contributed to the significant overspend in the supply teaching budget identified in paragraph 2.12 above. The Assistant Director of Education (Finance and Administration) who was dismissed from Scottish Borders Council in June 2001 had previously controlled this area but as a result of the pressures on management identified in section 4 of this report, this responsibility has not been reallocated since his departure.

Responsibility for Budgetary Control

- 6.9 The Controller of Audit's statutory report stated that responsibility for operational management and budgetary control was not sufficiently well aligned within the Education Department. The Education Directorate had placed total reliance on the Assistant Director of Education (Finance & Administration) for maintaining budgetary control. This resulted in the department failing to identify and take effective corrective action to address significant overspends against budget in the financial year 2000/2001.
- 6.10 The Authority have responded to this point by issuing instructions to all Heads of Service across the Council reminding them of their financial management responsibilities. These responsibilities have been incorporated into revised contracts of employment and a Revenue Budget Monitoring Code of Practice has been designed which defines the budgetary control responsibilities of the Head of Corporate Finance, Business Support staff, Accounting staff, Directors, Heads of Service, relevant staff within Council services and elected members.
- 6.11 Despite these developments our enquiries have identified that some members of the Lifelong Learning Directorate remain unclear as to the extent of their specific responsibilities for monitoring and controlling the financial performance of their Department. There are concerns amongst both Finance and Lifelong Learning staff that financial management responsibilities for cost centres outwith the DSM scheme have not been clearly delegated to identified budget holders who are at an appropriate level to control expenditure.
- 6.12 As a result of the Controller of Audit's report the Council recognised that the Lifelong Learning Management Team placed over-reliance on the Assistant Director of Education (Finance and Administration) and that financial skills and management training would require to be delivered to the remaining Assistant Directors to allow them to effectively discharge their financial management responsibilities. We can confirm that a financial training needs analysis has been undertaken with the Assistant Directors of Lifelong Learning however given the impending departure of two of the Assistant Directors this training will not take place. In addition to the Assistant Directors of Lifelong Learning there are approximately 100 budget holders within the department who require to perform financial monitoring and control functions. Although a number of key education staff have recently been provided with guidance and support on financial issues a formal programme of training has not been provided in recent years to ensure all budget holders have the necessary level of financial management skills to provide a consistent level of internal control throughout the department.

6.13 In Scottish Borders Council's action plan in response to the Controller of Audit's report a commitment was made to review the current management structure of the Lifelong Learning Department. The current structure provides for each Assistant Director assuming responsibility for the delivery of certain education services within their allocated geographical area while also assuming specific functional responsibilities for the delivery of elements of the education service. A review has been undertaken of the structure and although a conclusion was reached that the structure was no longer adequate changes have not yet been delivered. It is our view that the current structure does not promote clear lines of reporting and financial responsibility and we are concerned that amendments to the structure have not been implemented. As stated in paragraph 4.3 we understand that the Council propose to implement an interim restructuring of Lifelong Learning following the departure of two of the Assistant Directors of Education. Details will be reported to Members on 28 May 2002

Monitoring of Financial Performance

6.14 The statutory report indicated that the Director of Education did not ensure that the financial performance of the education service was properly monitored and therefore did not discharge fully his financial management responsibilities. Although the Lifelong Learning Directorate meet on a regular basis it is only recently that these meetings have included formal consideration of the financial performance of the department. Reliance is placed on each of the Assistant Directors reviewing monthly monitoring reports generated from the Council's financial management information system (FIS) to assess the financial performance of their individual areas of responsibility. The Assistant Directors rely on staff within their department to manage the detailed financial performance of each individual cost centre within their areas of responsibility. Each cost centre within FIS will have an allocated responsible officer who will act as the budget holder. A number of budget holders have direct access to FIS to allow financial performance to be monitored on an ongoing basis. Every budget holder will also receive a monthly monitoring report identifying the financial performance of the cost centres for which they are responsible. Our audit enquiries identified a number of internal control weaknesses with these arrangements as follows:

- Instances have been identified where expenditure has been committed without budget provision. This is in contravention of the Council's Financial Regulations and Budget Monitoring Code of Practice.
- Procedures are not in place to ensure that budget holders review financial monitoring reports. Reports concerning non-devolved cost centres are distributed to a central point within the Lifelong Learning Department. We understand that instances have been identified where these reports have failed to be circulated to the appropriate budget holder for review.
- Arrangements are not in place to identify any failure by a budget holder to take corrective action regarding significant budget variances.

- 6.15 The Council recognise the above weaknesses are symptomatic of the current management structure and as stated in 6.13 are in the process of reviewing the Education and Lifelong Learning management structure

Budget Monitoring Reports

- 6.16 The statutory report identified that budget monitoring reports presented to elected members were based on financial information which was not sufficiently robust and reliable to form the basis of sound administration of the Council's financial affairs. Furthermore when presented with reports highlighting potential financial problems, the Education Committee had failed to investigate the position or to consider appropriate courses of action to address these matters
- 6.17 The Budget Monitoring Code of Practice was introduced in December 2001 to clarify the roles and responsibilities of officers and members for budget monitoring and to launch a revised reporting framework which promotes interaction between Heads of Service and Accountancy staff to deliver robust financial monitoring reports to members. The Code of Practice states that draft budget monitoring statements showing projected variance against the latest budget will be generated by Corporate Finance for each service area and discussed at budgetary control meetings with relevant Heads of Service. At these meetings staff should ensure reports are complete, assumptions are reasonable and significant trends and variances are identified and explained prior to reports being presented to members.
- 6.18 To assess whether the introduction of the Code of Practice has had a positive impact on Education budget monitoring reports to members we examined a series of monitoring reports and supporting minutes of budget monitoring meetings attended by finance and education officers. The minutes indicated that education and finance staff were failing to work together effectively to analyse and validate financial monitoring information. We also noted that the budget monitoring statement submitted to the Scottish Borders Council Executive meeting on 5 March 2002 by the Council Management Team indicated that the reported Education underspend "must be treated with considerable caution as it is largely based on projections made by Corporate Finance staff with insufficient input from Education Service managers". On 5 March 2002 the Chief Executive instructed the Director of Corporate Resources and Acting Head of Corporate Finance that no further financial monitoring report should be presented to the Council Executive which required qualification in respect of reliability of the financial information or projections. Furthermore, the Chief Executive instructed the Director of Corporate Resources that all financial monitoring reports should be presented to the Council Executive in his name and not signed collectively in the name of the Council Management Team.
- 6.19 Our findings raise cause for concern at the apparent lack of co-operation of education staff in providing financial performance information to members. The proposed appointment of an accountant within the Department of Education and Lifelong Learning with direct responsibility to the Director of Corporate Resources should in future promote more effective working relations between education and finance staff.

6.20 We are also concerned at the members response to the 5 March report who "noted" its contents but failed to formally investigate the problem or consider appropriate courses of action to address the lack of involvement by education staff in the preparation of financial monitoring reports.

Findings

6.21 The main findings from this section of the report are

- The budget setting process remains flawed in the following key areas. Some of the senior education staff did not participate fully in the 2002/2003 budget setting process, nor were they fully engaged in the preparation of financial monitoring reports to members.
- There is a lack of overall monitoring and control of a number of significant elements of the education budget including DSM and supply teaching. The financial performance of the service as a whole is not considered by the Lifelong Learning Management Team on a regular, or formal, basis.
- Weaknesses exist in the current arrangements for monitoring and controlling the ongoing financial performance of the Lifelong Learning Department. Internal controls do not preclude staff from committing expenditure where budgets are not available, nor do they ensure that budget holders review monitoring information and take appropriate corrective action where necessary. Furthermore training on budgetary control has not been provided to allow all relevant education staff to effectively discharge their financial management responsibilities.
- It is generally accepted by senior staff within the Council that the current management structure of Lifelong Learning does not promote effective financial control however significant changes to this structure have yet to be implemented.

7. Action taken by the Council

- 7.1 In the last two months a series of developments to improve financial management procedures within the Department of Lifelong Learning have been introduced. These are as follows.
- 7.2 In March 2002 the Chief Executive provided instruction to the Director of Corporate Resources and Acting Head of Corporate Finance to improve financial monitoring information presented to members, this is detailed in paragraph 6.18 above. The Chief Executive also provided instructions to all Directors of the Council that reports to members should be signed and dated personally by the appropriate Head of Department and should indicate the financial implications of report recommendations.
- 7.3 Senior management recognise that further action is required to improve budgetary control within Lifelong Learning. On 19 April 2002 the Chief Executive presented a letter to the Director of Corporate Resources instructing him to assume direct and total responsibility for all financial administration and management in Lifelong Learning. This was as a result of the Chief Executive attending a meeting of the Lifelong Learning Management Team on 22 March 2002 where it became apparent that areas of the revenue budget were not being monitored and that a facility existed within the DSM scheme for schools to fund capital expenditure from future revenue allocations. The Chief Executive also instructed an internal audit investigation of the capital funding aspects of the DSM scheme as noted in paragraph 6.7.
- 7.4 In response to this instruction the Director of Corporate Resources appointed a finance team to manage the financial administration of Lifelong Learning and has prepared an additional action plan to improve the budgetary control of the department.
- 7.5 The Council has appointed external consultants to carry out an independent review of the financial monitoring and control arrangements currently in place within Lifelong Learning. The appointed consultants will be required to:
- Make clear recommendations for improvements and enhancements to the control and monitoring arrangements.
 - Identify the staffing resource requirements necessary to undertake financial monitoring, control and reporting.
 - Define the training and staff support requirements necessary to implement the recommendations of the review.
 - Define the financial monitoring, control and reporting systems which could be subject to scrutiny and assessment for third party quality assurance certification
- 7.6 As identified in paragraph 3.4 above, on 8 May 2002 the Council announced its Recovery Plan 1. The plan sets out the Council's commitment over the next six months to improve its approach to conducting its business and managing its affairs.
- 7.7 As stated in paragraph 4.3 the Council propose to implement an interim restructuring of Lifelong Learning details of which will be reported to Members on 28 May 2002.

Findings

7.8 The main finding from this section of the report is:

- The Council has recently taken a number of initiatives to improve its management of financial administration. It is, however, too early to assess how effective these arrangements will be in fully addressing the issues raised in the Controller of Audit's statutory report and our follow up report.

8. Conclusion

- 8.1 The statutory report identified a number of serious weaknesses in the financial management of education services within Scottish Borders Council resulting in significant overspends in the education budget in 1999/2000 and 2000/01.
- 8.2 Our review focussed on the progress made by the Council since November 2001 in addressing the weaknesses identified in the statutory report. During this period there have been a number of changes in the senior management of the Council and in particular the Lifelong Learning Department. This disruption, combined with deficiencies in the management of Lifelong Learning has resulted in the Council recognising that insufficient progress has been made in addressing the weaknesses identified in the Controller of Audit's statutory report.
- 8.3 The draft unaudited financial statements at 10 May 2002 shows the Council operating within its revised budget and this has gone some way to restoring its general fund balances. Improvements have been made to the Council's arrangements for financial monitoring and control particularly in developing the role of elected members in the review and scrutiny of the financial performance of the education service. Members are being furnished with more regular financial analysis and have been provided with training to allow them to provide an increased level of review.
- 8.4 There have also been recent changes to the financial responsibilities within the Department of Lifelong Learning. These changes have seen the Director of Corporate Resources assume direct and total responsibility for all financial administration and management of the service. A detailed action plan has been developed subsequently to address the financial management and administration of the Lifelong Learning Department.
- 8.5 Over the last two months a number of important steps have been taken by the Administration and the Chief Executive which should provide a strong basis for the Council recovering from its significant difficulties and developing a more rigorous approach to financial management and control.

