

S.R. 2002/4

**PROGRESS REPORT ON
SCOTTISH BORDERS COUNCIL**

OCTOBER 2002

**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 – OCTOBER 2002

1 INTRODUCTION

- 1.1 Scottish Borders Council's accounts for 2000/01 showed expenditure on education services of £62.9 million. Against an initial budget of £59 million this represented a cumulative overspend in 2000/01 of £3.9 million, nearly 7% of budget. An overspend of this magnitude, against the background of a significant overspend in the previous year, raised concerns about the management of a significant element of the Council's finances. Consequently I decided to report to the Accounts Commission (S.R. 2001/4: Scottish Borders Council – Education Department overspend). In considering my report the Commission expressed concern about 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 report on the position as at 31 March 2002.
- 1.2 At its meeting on 10 July 2002, the Commission considered my report (S.R. 2002/3: Progress report on Scottish Borders Council) and the Council's response. In its findings the Commission noted the major changes in the management of the education service and that steps had been taken to control expenditure on education services and improve the Council's overall financial position. However, the Commission was concerned that financial management weaknesses identified in my initial report had continued during the financial year ending 31 March 2002. It expressed an intention to keep matters under review and, accordingly, required me to make a further report on the position as at 31 October 2002. The full text of the Commission's findings is reproduced as Appendix A.
- 1.3 This report is in response to the Commission's request. It is based on recent work undertaken by the Council's external auditors. The auditors' report, the factual accuracy of which has been agreed with Council officers, is reproduced as Appendix B. I have 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 review of the position as at 31 March 2002. Section 3 summarises the main issues arising from the auditors' recent review during which they considered the position at the Council as at 31 October 2002 in terms of the financial situation and the progress made in addressing financial management weaknesses highlighted in my previous reports. 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 REVIEW OF POSITION AS AT MARCH 2002

2.1 My previous report on financial management of education services at the Council referred to the position as at 31 March 2002. Against a background of major changes in the management of the education service and in the most senior management and governance of the Council at both officer and elected member level, I highlighted the following points:

- Preliminary figures for the financial year ended 31 March 2002 indicated that the Council had operated within its revised budget for education services and that the Council had started to restore its reserves which had been depleted by overspending on education services.
- Despite initiatives to improve understanding of budget responsibilities, some senior staff within the education service remained unclear about their specific responsibilities for monitoring and controlling the financial performance of their department. Furthermore, there was evidence that the weak management co-ordination identified in my initial report in October 2001 had continued in the period to 31 March 2002, with budget monitoring reports submitted to the Council with insufficient input from education service managers. Following my previous observations that the Council's Education Committee had not investigated the problems as they emerged in 2000/01, I considered it a matter of serious concern that in March 2002 elected members had noted without challenge the content of a report which pointed to a lack of co-ordination between the finance and education departments.
- The action plan agreed by the Council in November 2001 in response to my initial report had not secured the changes necessary to address the weaknesses identified. Taking account of action taken by the Chief Executive since his appointment in March 2002, I identified the need to consolidate the plans and initiatives to ensure that they

were consistent and that they delivered real and effective improvements in the financial management of the education service. I also underlined that the Council needed to monitor progress regularly to provide assurance that the improvements planned were achieved in practice.

3 POSITION AS AT OCTOBER 2002

3.1 The Council's external auditors have reviewed the Council's progress in addressing issues arising from my previous reports. This section summarises the auditors' findings on the financial position, the financial management of the education service and the Council's recovery plan.

Financial position

3.2 As part of their most recent review the auditors have referred to the financial position in the year to 31 March 2002 and figures available for the first six months of the current financial year, 2002/03.

3.3 The accounts for 2001/02 are now audited without qualification and show expenditure on education services of £65.2 million in that year. The revised budget for that year was £65.9 million and, consequently, the underspend in 2001/02 was £0.7 million. Overall, the 2001/02 accounts disclose a net surplus of £0.8 million which, taken with the balance brought forward from 2000/01 of £1.9 million produced a general fund balance of £2.7 million as at 31 March 2002. This equates to 1.8% of the Council's net cost of services in that year.

3.4 On the basis of draft, unaudited figures available for the first part of the current financial year, the auditors' report highlights that education services, and the Council as a whole, is operating within budget.

Financial management

Education management

3.5 The auditors have indicated that a new Director of Education and Lifelong Learning has been appointed and that the management and administrative structure of the department has been realigned with the appointment of four Heads of Service who are each responsible for specific aspects of the education service. In addition a Head of Business Management has been

appointed who is supported by a Finance Manager; their tasks are to develop and maintain all business processes including financial management.

- 3.6 The Director and Heads of Service have financial management and budgetary control duties included in their job descriptions and have received financial skills training. The auditors have reported that there is now close liaison on the management of the education service budget, both within the education service and with corporate finance staff. In acknowledging the significant progress achieved to ensure that senior managers are aware of and effectively discharge their financial monitoring and budgetary control responsibilities, the auditors reported the need to ensure that other budget holders in the education service receive appropriate training to assist them in discharging their financial management responsibilities. The auditors also highlighted the need for a review to ensure that budget holding responsibility has been allocated to the most appropriate member of staff.

Budgetary control

- 3.7 My previous report identified a number of budgetary control weaknesses, including instances where expenditure was committed without budgetary provision and cases where financial monitoring reports were not circulated to the appropriate budget holder. I also noted the absence of arrangements to identify cases where a budget holder fails to take corrective action to address significant budget variances. Of particular concern was a lack of control over the supply teaching budget in which there was a significant overspend in 2001/02.
- 3.8 The auditors have reported that the changes in the structure of education management have provided a framework which ensures that education managers participate in the budgetary control process, consider budget variances and implement appropriate corrective action. The auditors have noted evidence of education and finance staff working together to improve the quality of financial monitoring reports being distributed to budget holders.
- 3.9 The auditors have also noted that, in light of the problems in 2001/02, arrangements for monitoring expenditure on supply teachers have been improved with reports distributed to Heads of Service and the financial implications discussed at monthly monitoring meetings.
- 3.10 Three separate reviews of the internal control arrangements have been undertaken. Consultants reviewed the financial monitoring and control systems and Corporate Resources carried out a review to ensure that all expenditure commitments are appropriately authorised. In September

2002, the results of an inspection by HM Inspectors of Education were presented to the Council. The inspection, which had been undertaken during the period March to May 2002, included a review of financial management and confirmed the weaknesses which I have reported previously.

- 3.11 The auditors have concluded that there has been a marked improvement in internal control arrangements relating to the education service budget. However, they reported that primary school budget holders do not have on-line access to the Council's financial information system. They also noted instances where expenditure was committed without a clear understanding of the budget heading against which the expenditure would be set. The auditors also highlighted the need for the Council to build on the improvements in the monitoring of supply teaching costs, with the responsibility for monitoring allocated to an individual member of staff within education so that the overall impact on the budget is clearly understood.
- 3.12 The auditors' report notes progress in relation to monitoring and control over the devolved school management (DSM) arrangements. They have noted that the Council has refined the system and believe that it is now more reliable. Revised arrangements provide senior managers within education services with a greater appreciation of the impact of DSM on the overall financial position of the education service. However, the findings of a comprehensive review of the scheme have yet to be implemented.

Monitoring and reporting budgetary performance

- 3.13 My previous reports highlighted concerns that education and finance department staff were not working together effectively to ensure robust and reliable budget monitoring reports were presented to senior management and elected members.
- 3.14 The auditors' recent report indicates that revised financial regulations and a budgetary monitoring code of practice have been introduced. These clarify roles and responsibilities for budgetary performance and establish a reporting framework which promotes interaction between the education and finance departments. Overall, the auditors concluded that the Council has fully addressed the concerns which were reported as regards co-operation between education and finance.
- 3.15 In terms of the role of elected members, my previous reports referred to the failure of elected members to investigate potential financial problems or to challenge sufficiently financial

monitoring reports. On this point, the auditors' report identifies a number of steps taken by the Council to support elected members in discharging their scrutiny responsibilities, including training on the role of scrutiny and challenge in local authority decision taking. In addition, a process has been introduced whereby all reports to elected members with potential financial implications are reviewed by the Head of Corporate Finance to ensure that the financial impact of the report is stated clearly.

Budget setting

- 3.16 The auditors' report refers to the deficiencies in the budget for education services in previous years and to the conclusion formed in my previous report that the education department had not participated fully in the budget setting process.
- 3.17 Their recent report indicates that the Council has introduced a new budget setting process, with a working group established to co-ordinate the process and to ensure that service departments provide sufficient input. Areas for improvement identified during the course of the external consultants' review (see paragraph 3.10 of this report) are to be incorporated into the 2003/04 budget setting process. The auditors have also indicated that action has been taken to address the specific concerns about the budget setting process (which related to the impact of pay awards and cleaning costs) identified in their previous report.

Council plans and initiatives

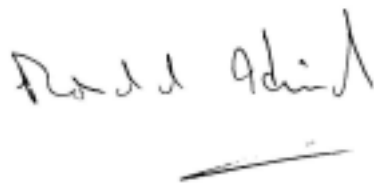
- 3.18 My previous report acknowledged that the Council had developed plans and initiatives but that there was a need to consolidate these to ensure that there was consistency of approach and that planned actions were converted into real and effective improvement in the financial management of the education service. I also identified the need for the Council to monitor progress and to provide assurance that improvements are achieved in practice.
- 3.19 The auditors' recent report indicates that the Council has consolidated its plans into a single recovery plan which outlines a series of commitments, how the improvements are to be delivered and a timescale for delivery. A progress report on this is a standing item on the agenda for each Council Executive meeting and for the weekly Council management team meeting.

4 CONCLUSIONS

- 4.1 My previous reports identified serious weaknesses in the financial management of the education service at Scottish Borders Council and delays in implementing remedial action to ensure that the resources deployed by it in providing this important service are properly managed.
- 4.2 The audited accounts confirm that the Council was within budget for education services in 2001/02 and that its overall financial position has improved. The general fund balance at 31 March 2002 of £2.7 million represents 1.8% of net cost of services for that year. The Council should monitor the level of its reserves to ensure that they are adequate in the context of its finances and consistent with its overall financial strategy.
- 4.3 The senior management and administrative structure of the education service has been realigned and staff with particular responsibilities for financial management have been appointed. There is now closer liaison on the budget and the financial position both within the service and with corporate finance. Steps have been taken to ensure that senior managers are aware of their financial monitoring and budgetary control responsibilities but this now needs to be extended to ensure that budget holders throughout the education service are in a similar position, supported by appropriate training. There is also a need to ensure that budget holding responsibilities are allocated to the most appropriate members of staff.
- 4.4 Progress has also been achieved in relation to my concerns about budgetary control and reporting budgetary performance. This includes developments in relation to the scrutiny role expected of elected members. However there are a number of areas where the Council needs to build on this progress to reduce further the risk of recurrence of the problems experienced in recent years. These are set out in the auditors' report and include the need for:
- further work to ensure that in all cases budget provision is identified before committing expenditure
 - an individual member of staff within education to be allocated overall responsibility for the supply teaching budget
 - implementation of findings arising from the review of the devolved school management scheme.
- 4.5 I am encouraged to note that the Council has consolidated its various action plans into a single recovery plan and that this is being monitored both by elected members and at the most senior

officer level in the Council. It is of vital importance that these arrangements are maintained and that planned improvements continue to be delivered.

- 4.6 Based on the assurance gained from the external auditors' recent review, I am pleased to report an overall improvement in the financial position and in the arrangements for the financial management of the Council's education service. The Council has made good progress in addressing the main areas of concern identified in my previous statutory reports. However, the improved arrangements need to be sustained and the benefits achieved in practice. The auditors will continue to monitor progress and to report as part of their ongoing responsibilities.

A handwritten signature in cursive script, appearing to read "R Hinds", with a horizontal line underneath it.

R HINDS

Controller of Audit

6 November 2002

SR 2002/3

PROGRESS REPORT ON SCOTTISH BORDERS COUNCIL

On 15 November 2001 the Accounts Commission issued findings in connection with the Controller of Audit's statutory report on the Education Department overspend in Scottish Borders Council (SR 2001/4). As part of those findings the Commission required the Controller of Audit to monitor implementation of the Council's action plan and to make a further report on the position at 31 March 2002. The Commission has now considered

- The Controller of Audit's progress report dated 5 June 2002 (SR 2002/3)
- Response by Scottish Borders Council in their Chief Executive's letter of 28 June 2002

The Commission notes

- 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
- The Council has taken steps to control expenditure on education services and to improve its overall financial position in the short term
- The Council has stated that its recovery plan is now being consolidated with other plans and initiatives currently being progressed by the Council

However, there remain concerns expressed by the Controller of Audit as follows

- Many of the financial management weaknesses continued during the remainder of the 2001/2 financial year and the Council needs to consider the stabilisation of its finances in the longer term
- Some staff within Lifelong Learning remain unclear about their specific responsibilities for monitoring and controlling financial performance
- Weak management co-ordination continued into the period under review
- Elected members simply noted budgeting monitoring reports without exploring issues of co-ordination between officials

The Commission welcomes the progress which has been made by the Council, and notes that the Council agreed to accept the Controller of Audit's progress report. In view of the issues outstanding, the Commission shares the concerns of the Controller of Audit about implementation of measures to improve the position. It wishes to keep these issues under review and accordingly requires the Controller of Audit to make a further report on the position in Scottish Borders Council as at 31 October 2002.

10 July 2002

APPENDIX B



SCOTTISH BORDERS COUNCIL

Follow Up 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 SR2001/4, relating to the Scottish Borders Council Education Department overspend. As external auditors of the Council we were subsequently requested to submit a report to the Controller of Audit as part of the response to the Commission's findings. Our review formed the basis of the Controller of Audit's statutory report SR2002/3 which was presented to the Accounts Commission on 10 July 2002.
- 1.2 The Accounts Commission requested that the Controller of Audit make a further report on the position in Scottish Borders Council as at 31 October 2002. This report contains our assessment of the progress made by the Council as at 31 October 2002 in addressing the issues raised in the previous two statutory reports.

2. Financial position of Council

Introduction

- 2.1 Statutory Report SR2001/4 stated that the Council had reported significant overspending on education services in 2000/2001 across a number of budget heads and that unless action was taken to control the education budget the Council may face an overall deficit on its general fund, with potential implications for council tax levels. The statutory report was prepared in October 2001 and preceded completion of the audit of the 2000/01 accounts. The subsequent audited 2000/2001 accounts identified a cumulative education overspend of £3.9 million.

Improvements delivered by the Council

- 2.2 The 2001/2002 audited financial statements demonstrate that the Council has achieved improvement in its financial performance. The education service achieved an underspend of £0.678 million whilst the Council delivered a net general fund surplus of £0.847 million which produced a general fund balance of £2.7 million.

2.3 A draft, unaudited position statement for 2002/03 has been drawn up as at 31 August 2002 based on budget monitoring information generated by Scottish Borders Council and demonstrates that the Education and Lifelong Learning department is currently operating with an underspend of £0.278 million whilst the Council generally has an underspend of £0.660 million. This position statement is summarised in Exhibit 1.

<u>Exhibit 1: Draft, unaudited position statement for 2002/03 as at 31 August 2002 - General Fund</u>				
	<u>Original</u>	Revised Budget	<u>Projected</u>	Variance
	<u>Budget</u>	£'000	<u>Actual</u>	£'000
	£'000		£'000	
Net Service Expenditure				
Education and Lifelong Learning	74,188	75,969	75,691	(278)
Lifelong Care	37,498	40,428	40,337	(91)
Community Planning and Corporate Resources (including Police and Fire Requisitions)	19,287	20,289	20,033	(256)
Economic Development and Environmental Planning	2,524	2,736	2,589	(147)
Transport and Environmental Standards	27,631	28,584	28,696	112
	161,128	168,006	167,346	(660)
Less: DSM balances available		(721)	(721)	-
	161,128	167,285	166,625	(660)
Income				
Revenue Support Grant, Non-Domestic Rates and Council Tax	(161,628)	(167,395)	(167,395)	-
Net overall surplus – contribution to Reserves	(500)	(110)	(770)	(660)
	=====	=====	=====	=====
Whereof				
Applicable to DSM Reserve	-	-	(200)	(200)
Applicable to General Fund	(500)	(110)	(570)	(460)
	(500)	(110)	(770)	(660)
	=====	=====	=====	=====

2.4 A more detailed analysis of education financial performance across each budget head was derived from budget monitoring reports as at 30 September 2002 this is shown below:

Exhibit 2: Objective analysis of net education expenditure 2002/2003 based on draft, unaudited position statement as at 30 September 2002

	Expenditure			Income			Net Expenditure		
	Revised	Projected	Variance	Revised	Projected	Variance	Revised	Projected	Variance
	Budget	Actual	£'000	Budget	Actual	£'000	Budget	Actual	£'000
Education Non Devolved	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Nursery Education	3,014	3,014	0	(112)	(112)	0	2,902	2,902	0
Primary Schools	4,386	4,382	(4)	(1,674)	(1,674)	0	2,712	2,708	(4)
Secondary Schools	2,664	2,664	0	(610)	(610)	0	2,054	2,054	0
National Grid for Learning	1,353	1,353	0	(537)	(537)	0	816	816	0
Curriculum development	3,235	3,240	5	(393)	(393)	0	2,842	2,847	5
Schools Library Service	191	191	0	0	0	0	191	191	0
Adult Education	337	337	0	(53)	(53)	0	284	284	0
Special Education	6,781	6,769	(12)	(605)	(605)	0	6,176	6,164	(12)
Outdoor Education	192	192	0	(14)	(14)	0	178	178	0
Community Education	1,444	1,444	0	(20)	(20)	0	1,424	1,424	0
Provision of transport	3,128	3,191	63	0	0	0	3,128	3,191	63
High School Bursaries, Clothing etc	140	140	0	0	0	0	140	140	0
Further Ed Bursaries/Allowances	5	5	0	0	0	0	5	5	0
School Meals Service	1,971	1,971	0	(1,205)	(1,205)	0	766	766	0
Careers Guidance	96	96	0	0	0	0	96	96	0
Production School	206	206	0	(3)	(3)	0	203	203	0
Administration	2,127	2,138	11	(32)	(32)	0	2,095	2,106	11
Staff Turnover Adjustment	(170)	(170)	0	0	0	0	(170)	(170)	0
Asset rentals	6,621	6,613	(8)	0	0	0	6,621	6,613	(8)
Central support recharges	1,812	1,812	0	0	0	0	1,812	1,812	0
	39,533	39,588	55	(5,258)	(5,258)	0	34,275	34,330	55
Education Devolved (includes balance b/fwd)									
Primary Schools	17,565	17,395	(170)	0	0	0	17,565	17,395	(170)
Secondary Schools	21,455	21,481	25	0	(55)	(55)	21,455	21,425	(30)
	39,022	38,877	(145)	0	(55)	(55)	39,022	38,822	(200)
Total Education	78,555	78,465	(90)	(5,258)	(5,313)	(55)	73,297	73,152	(145)

2.5 The above financial analysis demonstrates that the Authority are operating within their revised budget levels both on an authority wide basis and within Education and Lifelong Learning.

Areas with scope for improvement

2.6 The general fund reserve balance is not yet at a level which will provide an adequate contingency for significant variations. Given that monthly variances of budget to actual expenditure have fluctuated significantly in previous years, it is essential that the Authority continue to carefully monitor and control its financial performance.

3. Education Management

Introduction

- 3.1 In the previous statutory reports concerns were raised that the management structure of Education and Lifelong Learning did not provide an effective framework for budget monitoring and financial control. The structure of the department did not promote clear lines of reporting and financial responsibility which resulted in confusion amongst senior managers regarding the specific roles they should fulfil in monitoring and controlling the financial performance of their department. Furthermore, budgetary control responsibilities were not clearly delegated to the most appropriate individuals who were in a position to control expenditure across the department.
- 3.2 There were also concerns that the Director of Education did not ensure that the financial performance of the education service was properly monitored and that there was no formal mechanism for the department's management team to formally consider the financial performance of the education service on a regular basis.
- 3.3 In our previous report we acknowledged that the Chief Executive recognised that changes to education financial management were required and implemented a number of measures to address his immediate concerns. Amongst other actions the Chief Executive instructed that from 19 April 2002 all responsibilities for financial management and administration within the Department of Lifelong Learning were to be transferred to the Director of Corporate Resources until further notice. Whilst the Director of Corporate Resources is still responsible for the financial affairs of the department the following significant improvements to the management structure of Education and Lifelong Learning have been delivered.

Improvements delivered by the Council

- 3.4 A new Director of Education and Lifelong Learning has been appointed and the management and administration structure of the department has been realigned with the appointment of four Heads of Service who are each responsible for specific sectors within Education and Lifelong Learning. This is a departure from the much criticised previous structure where three Assistant Directors assumed 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 Head of Business Management has also been appointed within Education and Lifelong Learning who is supported by a Finance Manager to develop and maintain all business processes including strategic planning, financial management, administration and information systems.
- 3.5 The Director of Education and Lifelong Learning and all Heads of Service have financial management and budgetary control duties included in their job descriptions and have received financial skills training to allow them to discharge these responsibilities. Each Head of Service has been given overall responsibility for the financial monitoring and control of a series of cost centres. Monthly monitoring reports

generated from the Council's financial management information system are provided to each Head of Service detailing the financial performance of the cost centres under their control.

- 3.6 The Heads of Service and their administration support staff participate in monthly budget monitoring meetings with Corporate Finance staff where the results of financial monitoring reports are discussed, variances between budget and actual income/expenditure are identified and courses of action to address variances are agreed. This process allows significant financial problems to be predicted and the appropriate remedial action to be taken timeously. The meetings also ensure that the Heads of Service and their staff are fully engaged in the financial management and budgetary control process.
- 3.7 The Director of Education and Lifelong Learning and the Heads of Service meet formally on a weekly basis. Staff from Corporate Finance also participate in these management team meetings which include a review of the financial performance of the service. This review is informed by a financial monitoring report presented by Corporate Finance which highlights significant budget variances. In addition to the weekly management team meetings, the Director of Education and Lifelong Learning is also kept informed of the financial performance of his department through financial monitoring reports which are generated from the Council's financial management information system on a monthly basis.

Areas with scope for improvement

- 3.8 Whilst significant work has taken place to ensure senior management within Education and Lifelong Learning are aware of, and effectively discharge, their financial monitoring and budgetary control responsibilities, there is still a need to ensure that staff throughout the department are aware of their specific budgetary control responsibilities and are provided with the necessary training to ensure appropriate financial skills are in place. Whilst financial skills training has been provided to senior management and their administration support staff this training has yet to be delivered to budget holders in schools and other staff with financial management responsibilities outwith Education and Lifelong Learning HQ.
- 3.9 Responsibility for cost centre performance has been clearly allocated between Heads of Service and subsequently delegated to staff who are responsible for the day to day management of individual cost centres. Whilst a cost centre list has been prepared to demonstrate this process there is still a need to review the list and ensure that budget holder responsibility has been allocated to the most appropriate individuals.

4. System of Internal Control

Introduction

- 4.1 Statutory Report 2002/3 indicated that 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.
- 4.2 Concerns were raised that key areas of non devolved expenditure were not under budgetary control, particularly the supply teaching budget where a lack of monitoring contributed to a significant overspend in 2001/2002.

Improvements delivered by the Council

- 4.3 As described in section 3 above, the management restructuring of the Education and Lifelong Learning department, the introduction of monthly budget monitoring meetings and the weekly consideration of financial issues at management team meetings has provided a framework which ensures education managers and their administration support staff participate in the financial management and budgetary control process of the department, consider budget variances and implement appropriate corrective action.
- 4.4 Education staff participation in the monthly budget monitoring meetings ensures that managers and other key budget holders are reviewing financial monitoring reports and provides the opportunity to inform Corporate Finance staff where monitoring reports do not provide the most appropriate information or are not being circulated to the relevant budget holders. From reviewing minutes of budget monitoring meetings we identified examples of education and finance staff working together to improve the quality and relevance of financial monitoring reports being distributed to budget holders.
- 4.5 As identified in section 3 above, responsibility for monitoring and controlling each cost centre within Education and Lifelong Learning has been assigned to the Heads of Service who have delegated the day to day management of individual cost centre performance to individual budget holders across the education service. Heads of Service are responsible for the financial performance of devolved and non devolved expenditure within their particular sector. Particular attention has been paid to the Supply Teaching cost centre which has been a cause for concern in previous Statutory Reports. A member of the Corporate Finance team now monitors the overall performance of the supply teaching budget and generates reports from the financial information system analysing the position of supply teaching across the various education sectors. These reports are distributed on a monthly basis to the Heads of Service within Education and Lifelong Learning and the financial implications are discussed at monthly budget monitoring meetings. This increased monitoring activity has identified an imbalance

between the supply days accounted for by schools under the devolved school management (DSM) system and the actual cost of supply days recorded in the financial information system. Instructions have been issued to Headteachers to resolve this anomaly.

- 4.6 A number of reviews of the Education and Lifelong Learning system of internal control have been carried out as follows:
- The Council commissioned a review of financial monitoring and control systems within the Department of Education and Lifelong Learning by external consultants Deloitte & Touche. The consultants findings were submitted to the Chief Executive in September 2002 and provide a number of recommendations which will improve the system of internal control within the Education and Lifelong Learning Department.
 - A review was carried out by Corporate Resources staff to identify how expenditure of all types in Education and Lifelong Learning is incurred and to implement systems and procedures to ensure all expenditure commitments are appropriately authorised. The findings of this review were reported to the Education and Lifelong Learning management team in September 2002 and an action plan was agreed to deliver improvements over the next six months.
 - The results of the recent HMI inspection were also presented to the Council in September 2002 together with actions to address weaknesses in financial management within the education service. The Council have agreed an action plan to deliver improvements in this area over the next 8 months.

Areas with scope for improvement

- 4.7 Whilst monitoring and controlling of cost centres has been delegated to budget holders throughout the department, the ability to continuously review the financial performance of cost centres varies greatly across the education service. While budget holders in Education and Lifelong Learning HQ and secondary schools have direct access to the Council's financial information system (FIS) to allow financial performance to be monitored on an ongoing basis, primary school budget holders do not have on-line access to FIS and rely on monthly hard copy financial monitoring reports to assess the overall financial position of their schools.
- 4.8 Although the Education and Lifelong Learning Department has demonstrated a marked improvement in their system of internal control instances were still identified of expenditure being committed without a clear understanding of the budget heading from which funds would be drawn.
- 4.9 The financial performance of the supply teaching budget is now subject to an improved level of scrutiny and review however there is still a need for a member of staff within the Education and Lifelong Learning department to be allocated responsibility for the overall performance of supply teaching to ensure that its impact on the overall finances of the education service is clearly understood.

5. **Devolved School Management (DSM)**

Introduction

- 5.1 Statutory Report SR2001/4 identified a lack of monitoring and control of the DSM scheme and a failure to appreciate its impact on the Council's financial position. The Council acknowledged that weaknesses existed in the scheme and commissioned a review.
- 5.2 Statutory Report SR2002/3 identified that revisions to the scheme had been identified by this review but had not been implemented and that the Council was operating the same scheme which had previously been subject to criticism in SR2001/4. Concerns were also raised that the scheme was not subject to regular scrutiny by senior managers within Education and Lifelong Learning.

Improvements delivered by the Council

- 5.3 The Heads of Service within Education and Lifelong Learning responsible for primary and secondary education scrutinise the financial performance of devolved budgets on a monthly basis through the review of financial monitoring reports and attendance at budget monitoring meetings as described in section 3 of this report. The financial performance of the DSM scheme is also considered at Education and Lifelong Learning management team meetings. Schools have recently been instructed to provide the Heads of Service with monthly projections of the DSM balances they plan to carry forward into the following financial year. These arrangements provide Senior Management of the education service with a greater appreciation of the impact of the DSM scheme on the overall financial position of the department.

Areas with scope for improvement

- 5.4 The Council continues to review the DSM scheme and a working party has been set up to build on the work carried out in the original review. Whilst the Council has refined the system and believe that the DSM scheme is more reliable, the findings of a comprehensive review of the scheme have still to be implemented.

6. Monitoring and Reporting of Budgetary Performance

Introduction

- 6.1 Statutory reports SR2001/4 and SR2002/3 raised concerns that education and finance officials were not working together effectively to ensure robust and reliable budget monitoring reports were presented to senior management and elected members.

Improvements delivered by the Council

- 6.2 Revised financial regulations and a budgetary monitoring code of practice have been introduced which clarifies the roles and responsibilities of officers and members for budget monitoring and establishes a reporting framework which promotes interaction between Heads of Service and Corporate Finance staff to deliver robust financial monitoring reports to elected members.
- 6.3 Our review confirmed that Heads of Service within Education and Lifelong Learning are working more effectively with their colleagues in Corporate Finance to deliver budget monitoring information. This was evident from minutes of budget monitoring meetings which clearly demonstrated education and finance staff reviewing financial performance information, challenging the basis of assumptions used in revenue forecasting and investigating reasons for projected over/under spends. Information generated at monthly budget monitoring meetings is being used to prepare reliable budget monitoring statements which are presented to elected members on a regular basis.

Areas with scope for improvement

- 6.4 It is our view that the Council has fully addressed the issues raised in 6.1 above. It is important that Senior Management continue to monitor the situation to ensure the level of co-operation between finance and education staff is maintained and that elected members are provided with appropriate budget monitoring reports on a regular basis.

Role of Elected Members

Introduction

- 7.1 Statutory Reports SR2001/4 and 2002/3 highlighted the failure of elected members to investigate reported potential financial problems or sufficiently challenge financial monitoring reports that were submitted within the context of a lack of co-operation between education and finance.

Improvements delivered by the Council

- 7.2 Whilst co-operation between finance and education officials has improved as reported in section 6 of this report, Scottish Borders Council has embarked on a series of training initiatives to improve the level of scrutiny and challenge of information presented to elected members. These initiatives include the following:
- A seminar for members on their financial management responsibilities was carried out by the Council's Chief Internal Auditor in December 2001 and subsequently repeated in June 2002 for members of the Council Education Executive.
 - The Council commissioned the Improvement and Development Agency to undertake a training day for elected members in September 2002 on the role of scrutiny and challenge in Council decision making.
 - Publications offering guidance on the correct behaviour of elected members and officers have been distributed to all Councillors.
- 7.3 The Council has also introduced a consultation process whereby all reports to be presented to elected members are reviewed by the Head of Corporate Finance to ensure that the financial impact of the report is clearly stated.

Areas with scope for improvement

- 7.4 The Council has taken demonstrable action to address the weaknesses identified in the Statutory Reports. Senior Management should continue to monitor the impact of these actions and ensure that reports to elected members are effectively scrutinised and challenged.

Budget Setting

Introduction

- 8.1 Statutory Report SR2001/4 identified flaws in the Council's budget setting process, including errors in costing and poor management co-ordination. The report also stated that a number of deficiencies in budgetary estimates were basic in nature and that the budget setting process was not sufficiently rigorous.
- 8.2 Statutory Report 2002/3 indicated that the Education and Lifelong Learning department had not participated fully in the budget setting process and identified areas where the 2002/03 budget setting process was flawed.

Improvements delivered by the Council

- 8.3 The Council has introduced a new budget setting process which will result in the development of three year revenue budgets where funding will be allocated to service areas based on corporate priorities and service business plans. A Finance Officers Working Group has been established to co-ordinate the budget setting process and ensure that all service departments are providing sufficient input to the process. Three year budgeting will come into effect from financial year 2003/2004 and the Education and Lifelong Learning management team are currently working with Corporate Finance staff to formulate a business plan which will drive the budget setting process.
- 8.4 As reported in section 3 of this report the Council commissioned a review of financial monitoring and control systems within the Department of Education and Lifelong Learning by external consultants Deloitte & Touche. As part of this review the Council's budget setting process was assessed and recommendations to improve this process were identified. These improvements will be incorporated into the 2003/04 budget setting process.
- 8.5 The flaws in the 2002/03 budget setting process identified in Statutory Report 2002/3 related to the failure to take into account pay awards which will impact on staff costs from January 2003 and school cleaning costs within the education budget which did not reflect the level of income expected to be generated by the DSO from the school cleaning contract. These issues were addressed in the short term through virements from other Education and Lifelong Learning budget heads to ensure adequate funds were available to meet these commitments. To address the longer term implications, arrangements have been made to ensure payroll information used in the calculation of base budgeted staff costs takes account of all known pay awards whilst working parties and service level agreements have been set up to manage the relationship between education and DLO/DSO's and promote a co-ordinated approach to budget setting.

Areas with scope for improvement

- 8.6 While these arrangements appear to address concerns raised in 8.1 and 8.2 above we cannot conclude on the adequacy of the 2003/2004 budget setting process as it is still in the early stages of development.

Council Plans and Initiatives

Introduction

- 9.1 Statutory Report 2002/3 acknowledged that the Council had developed plans and taken action to address weaknesses identified in the previous statutory report but identified the need to consolidate the Council's plans and initiatives to ensure they are consistent and deliver real and effective improvements in the financial management of the education service. The statutory report also indicated that the Council needs to monitor progress regularly against the agreed plan in order to provide assurance that the improvements set out are being achieved in practice.

Improvements delivered by the Council

- 9.2 The Council has consolidated its plans and initiatives into a single recovery plan. The plan outlines a series of commitments to improvement which is supplemented with new initiatives/plans as they arise (e.g. HMI Action Plan, Deloitte & Touche report). Each commitment has an agreed means of implementation and an agreed timescale for delivery. A report on progress against the recovery plan is a standing item on each Council Executive and weekly Council Management Team agenda.
- 9.3 The Council are currently in the process of developing a Corporate Plan and the recovery plan is being used to inform this process and ensure the delivery of improvements in financial management feature as a corporate priority.

Areas with scope for improvement

- 9.4 The Council has addressed the statutory report findings by consolidating its plans and ensuring arrangements are in place to monitor progress against the agreed plan by senior management and elected members. The Council should ensure these arrangements are maintained and that improvement plans continue to be delivered in practice.

Conclusion

10.1 The two statutory reports published by the Controller of Audit identified a number of weaknesses in the financial management of education services within Scottish Borders Council resulting in significant overspends in the education budget in 1999/2000 and 2000/2001. The Council has responded positively to these reports and significant improvements have been made to the overall financial management of the education service. A number of these improvements have only recently been implemented and their effectiveness requires careful monitoring over the short and medium term. There are still a number of areas where further scope for improvement exists and the Council will need to address these areas as a matter of priority. (Appendix 1 provides an audit assessment of the progress made by the Council in addressing each of the weaknesses raised in the statutory reports)

10.2 We should like to extend our thanks to officers of the Council for their courtesy and co-operation in undertaking this review.

APPENDIX 1 – AUDIT ASSESSMENT OF PROGRESS MADE BY SCOTTISH BORDERS COUNCIL

Weakness identified in Statutory Report	Statutory Report Ref.	Audit Assessment
The Council has reported significant overspending on education services in 2000/01.	SR 2001/4 Para 2.7	✓✓
Unless action is taken to control the education budget the Council may face an overall deficit on its general fund, with potential implications for council tax levels.	SR 2001/4 Para 2.7	✓✓
Overspending in 2000/01 occurred across a number of budget heads.	SR2001/4 3.35	✓✓
The Council does not have a clear strategy to eliminate the overspending. Nor has it been determined whether the general fund will be compensated for the overspending incurred against the Education budget.	SR 2001/4 Para 5.11	✓✓
Senior managers within Lifelong Learning remain unclear as to the extent of their responsibilities for monitoring and controlling the financial performance of their department.	SR 2002/3 Para 3.12	✓✓
Responsibility for operational management of budgetary control was not sufficiently well aligned within the Education department. The current structure of the Lifelong Learning department does not promote clear lines of reporting and financial responsibility. 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.	SR 2001/4 Para 3.35 SR 2002/3 Para 3.12	✓
The Director of Education did not ensure that the financial performance of the education service was properly monitored. Although senior managers within 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.	SR 2001/4 Para 4.20 SR 2002/3 Para 3.13	✓✓
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.	SR2002/3 Para 3.13	✓
The Council has considered the DSM scheme 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 the previous Controller's report.	SR 2002/3 Para 3.14	✓
There is a lack of monitoring and control of the DSM system and a failure to appreciate fully its impact on the Council's financial position. The DSM scheme is not subject to regular scrutiny by senior managers within Lifelong Learning and identified internal control weaknesses have yet to be addressed.	SR 2001/4 Para 3.35 SR 2002/3 Para 3.14	✓
There has been a lack of proper budgetary control in relation to a number of service areas within the Education department. Key areas of non devolved expenditure are still not under effective budgetary control. Of particular concern was the supply teacher budget where a lack of monitoring contributed to a significant overspend in 2001/02.	SR 2001/4 Para 3.35 SR2002/3 Para 3.15	✓

Weakness identified in Statutory Report	Statutory Report Ref.	Audit Assessment
<p>Budget monitoring reports in the joint names of the Directors of Education and Finance were provided to the Education Committee without the full agreement of the Finance Department.</p> <p>There were occasions where education and finance staff did not work together effectively to analyse and validate financial monitoring information.</p>	<p>SR2001/4 Para 4.20</p> <p>SR2002/3 Para 3.17</p>	<p>✓✓</p>
<p>Monitoring reports presented to members significantly underestimated the eventual overspend and were based on financial information which was not sufficiently robust and reliable.</p>	<p>SR2001/4 Para 4.20</p>	<p>✓✓</p>
<p>When presented with reports highlighting potential financial problems, the Education Committee failed to investigate the position or to consider the appropriate courses of action to address these matters.</p> <p>Elected members had not sufficiently challenge financial monitoring reports that were submitted within the context of the lack of co-operation between education and finance.</p>	<p>SR 2001/4 Para 4.20</p> <p>SR2002/3 Para 3.18</p>	<p>✓✓</p>
<p>The budget setting process was flawed in a number of respects, including errors in costing and poor management co-ordination.</p> <p>A number of deficiencies in the budgetary estimates were basic in nature and suggest that the budget setting process was not sufficiently rigorous.</p> <p>The Lifelong Learning department had not participated fully in the budget setting process. Areas were identified where the 2002/03 budget setting process was flawed.</p>	<p>SR2001/4 Para 3.35</p> <p>SR2001/4 Para 4.20</p> <p>SR2002/3 Para 3.20</p>	<p>✓</p>
<p>There is a need to consolidate the Council's plans and initiatives to ensure they are consistent and deliver real and effective improvements in the financial management of the education service. The Council needs to monitor progress regularly against the agreed plan in order to provide assurance that the improvements set out are being achieved in practice.</p>	<p>SR2002/3 Para 4.5</p>	<p>✓</p>

Key

- ✓✓ Improvement action has been fully effective in addressing
- ✓ Elements of the weakness have been addressed but further action required in this area.
- ✗ The weakness has not been addressed.

