

EAST AYRSHIRE COUNCIL

CORPORATE SUB-COMMITTEE OF THE POLICY AND RESOURCES COMMITTEE - 9 APRIL 2002

ACCOUNTS COMMISSION REPORT ON THE EDUCATION DEPARTMENT OVERSPEND BY SCOTTISH BORDERS COUNCIL

Report by the Director of Finance

1. PURPOSE OF REPORT

- 1.1 To advise Members of the findings of a report by the Accounts Commission on an overspend by the Education Department of Scottish Borders Council in 2000/01.

2. BACKGROUND

- 2.1 Following preparation of the Annual Accounts of Scottish Borders Council for 2000/01 which showed that their Education Department out-turn was £3.9 million over budget the Controller of Audit decided to make a report to the Accounts Commission under section 102(2) of the Local Government (Scotland) Act 1973.
- 2.2 The report has now been considered by the Accounts Commission and its findings have been circulated to all Scottish Councils. This is attached as Appendix 1. The Commission has recommended that they are drawn to the attention of Members and Officers in an appropriate way.

3. FINDINGS

- 3.1 The findings detail the reasons for the overspend and highlight failures in systems, governance and the discharge of responsibility by the Education Committee, Education Department and Senior Officers.
- 3.2 General concerns drawn to the attention of all Councils are;
- 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; and
 - 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.

4. EAST AYRSHIRE COUNCIL

- 4.1** Members will recall the review of financial management which was undertaken in 1998 in the wake of the difficulties experienced here in relation to Trading Services. This was carried out by COSLA Consulting and included examination not only of the systems of monitoring the financial performance of Trading Services performance but also of the provision of financial support to all Departments and overall financial scrutiny by Elected Members.
- 4.2** The main changes which were recommended were: -
- The establishment of a Budget Monitoring Group which may invite Committee Chairs and/or Service Directors to attend to discuss and explain financial performance.
 - The creation of Outposted Accounting Teams which incorporated Service Department staff previously engaged in financial matters into teams responsible to the Director of Finance but situated in Departments and working for Service Directors. The only exception to this was in Education where it was felt that those staff responsible for the administration of the schools Delegated Management of Resources systems should continue to report to the Director of Education.
 - The procurement of a modern financial information system The Council accepted these recommendations.
- 4.3** In June 2001, the Policy and Resources Committee approved a report on the Review of Political Leadership Structures. This set up the Budget Scrutiny Group which replaced the Budget Monitoring Group. That report also recommended that the practice of automatic reporting to Service Committees of routine budget statements would be discontinued. However, given the continued high profile of financial management, the Chief Executive had arranged that such reports continued to be presented meantime. In the light of the report on Borders, it is clear that Service Committees have responsibility for the financial performance of Departments governed by them. The consideration of budget performance by Service Committees is an important element in the discharge of that responsibility .It is proposed therefore that this practice should continue and that the Council be asked to approve the change to arrangements.
- 4.4** The Outposted Accounting Teams have been widely welcomed by Service Directors and have ensured consistency of approach and the delivery of professional advice. They produce detailed budget variance reports for directors every four weeks and these are the basis of reports made to both the Budget Scrutiny Group and service committees.
- 4.5** The new SAP financial information system is scheduled to go live from the 2002/03 financial year and will allow easier access to information and monitoring of commitments as orders are placed. Full implementation will require major changes in procedures to be adopted by across the organisation but these will be phased-in in consultation with Departments. It is the case that the ability to record commitment values will allow Education to move away from the financial package within SEEMIS and to utilise the corporate financial ledger for all areas with the exception of Schools. In the longer term the aim would be also to introduce the new system into Schools so that all of the Council's finances are managed on a single state of the art system to eliminate reconciliation of amounts held in different systems which if delayed can lead to difficulties.

5. CONCLUSION

- 5.1** The report on the Borders position has been considered against arrangements in place within the Council. It is apparent that many of the weaknesses highlighted have previously been addressed by this Council in the changes made over the last few years. It is important not to become complacent however and further changes to procedures have been and will continue to be made in recognition that the potential for such occurrences exists in every Council. Whilst robust monitoring procedures for devolved school management are in place the fact that this is done outwith the corporate financial management system should be recognised and efforts made to change this whilst improving the functionality available.

6. RECOMMENDATION

It is recommended that Members: -

- 6.1** note the findings of the Controller of Audit's report on the Education Overspend in Borders Council;
- 6.2** recommend to the Council that the requirement not to report routinely on budget performance to all Service Committees be formally deleted from the Councils arrangements;
- 6.3** note this Council's previous actions to improve financial governance; and **6.4** otherwise note the contents of this report

Alex McPhee
Director of Finance

AMcP/JB
22 March 2002
ENC (1)

LIST OF BACKGROUND PAPERS

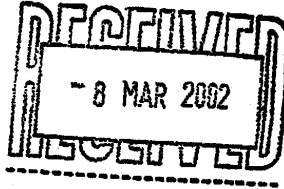
1. Report by the Controller of Audit to the Accounts Commission on Scottish Borders Council Education Department Overspend -S.R. 2001/4- October 2001.
2. Report by COSLA Consultancy on Development of Operating Arrangements for East Ayrshire Council's Budget Monitoring Group -8 October 1998.

Members wishing further information should contact:-
Alex McPhee, Director of Finance, Tel: (01563) 576300.

ACCOUNTS COMMISSION

110 GEORGE STREET EDINBURGH EH2 4LH
T 0131 477 1234 F 0131 477 4967
www.audit-scotland.gov.uk

Mr David Montgomery
Chief Executive
East Ayrshire Council
Council Headquarters
London Road
KILMARNOCK
KA3 7BU



07 March 2002

Dear colleague

When the Accounts Commission considered the report by the Controller of Audit on the Scottish Borders Council education department overspend, it made the enclosed findings. You will see that paragraph 7 contains a number of general concerns arising from the Commission's consideration of these matters.

I am writing to draw your attention to those general concerns and to ask you to draw them to the attention of members and officers in the way most appropriate to your council.

Yours sincerely

A handwritten signature in cursive script, appearing to read "William F. Magee".

W F Magee
Secretary

ACCOUNTS COMMISSION

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.

APPENDIX

3.35

- Overspending in 2000/01 occurred across a number of budget heads.
- The budget setting process was flawed in a number of respects, including errors in costing and poor management co-ordination.
- There was a lack of monitoring and control of the Devolved School Management system and a failure to appreciate fully its impact on the Council's financial position.
- There has been a lack of proper budgetary control in relation to a number of service areas within the Education Department.
- Responsibility for operational management and budgetary control was not sufficiently well aligned within the Education Department. Complete responsibility for maintaining budgetary control was delegated by the Director of Education to the former Assistant Director of Education (finance and administration). As a result too much control rested with that one individual.

4.20

- A number of the deficiencies in the budgetary estimates were basic in nature and suggest that the budget setting process was not sufficiently rigorous.
- Budget monitoring within the Council is based upon a documented set of procedures involving officers from the Finance and service departments. In the case of monitoring and reporting on the Education budget, however, these procedures were not sufficiently followed in practice. In particular, excessive reliance was placed on assurances given by the Assistant Director of Education (finance and administration) despite projections from Finance officers that were inconsistent with these assurances.
- Budget monitoring reports in the joint names of the Director of Education and the Director of Financial Services were provided to the Education Committee in some cases without the full agreement of the Finance Department.
- 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 in terms of the Council's financial regulations.
- The joint monitoring reports presented to members by the Directors of Education and Financial Services significantly underestimated the eventual overspend and were based upon financial information which was not sufficiently robust and reliable to form the basis of sound administration of the Council's financial affairs.
- Reports presented to elected members were inadequate and inaccurate. Nevertheless, when presented with reports highlighting potential financial problems, the Education Committee failed to investigate the position or to consider appropriate courses of action to address these matters.
- Overall, there was a breakdown in the arrangements established by the Council to ensure the effective financial management of the Education Department's budget.