

**Department of Education
Departmental Response to
recommendations in the Northern
Ireland Audit Office's Report
The Financial Health of Schools**

**Presented to the Northern Ireland Assembly
by the Department of Education**

10 December 2018



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Glossary of Abbreviations

| | |
|------------|-----------------------------|
| DE | Department of Education |
| EA | Education Authority |
| LMS | Local Management of Schools |
| CFS | Common Funding Scheme |

DEPARTMENT OF EDUCATION DEPARTMENTAL RESPONSE TO NORTHERN IRELAND AUDIT OFFICE (NIAO) RECOMMENDATIONS IN THE NIAO'S REPORT OF 16 OCTOBER 2018 ON "THE FINANCIAL HEALTH OF SCHOOLS"

Department of Education

The Financial Health of Schools

Introduction

The following Departmental Response represents the views of officials in the absence of a Minister. By implication, this limits what can be taken forward where specific recommendations relate to policy issues.

As the report recognises, there are systemic issues across the education sector that need to be addressed through a longer term programme of transformation, and therefore changes to financial management processes, while critically important, can only go so far in addressing the problems. The sector has also been under significant financial strain in recent years. Without significant transformation, and indeed additional funding, the pressures on school budgets are likely to continue into the future, with the inevitable impact on children and young people. The Department of Education (DE) is committed to working with the Education Authority (EA), the Council for Catholic Maintained Schools, Executive Departments, school leaders, teachers and other stakeholders to identify solutions to the current challenges within the system.

NIAO Recommendation 1

The Department of Education, in conjunction with the Education Authority, should undertake a fundamental review of the Local Management of Schools arrangements. This should include:

- **a review of the Common Funding Scheme and its funding factors to ensure that it has no unintended consequences for the funding of schools;**

DE accepts this recommendation.

DE is undertaking a review of various elements of the Local Management of Schools (LMS) arrangements including the Common Funding Scheme (CFS), which applies to all grant-aided schools under LMS arrangements. The purpose of this review is to produce a set of evidence-based recommendations for an incoming Minister, with a key aim to ensure that the manner in which schools are funded makes more effective use of the constrained Aggregated Schools Budget. The CFS and Common Funding Formula should underpin and reinforce wider education policy. For this reason, the review also needs to be informed by a number of policy reviews, some of which are underway and others that are soon to commence. The outcomes of all of these reviews (and any associated consultations) will impact on the timing of potential funding recommendations. Significant changes to the CFS will be a matter for decision by a Minister.

- **ensuring that appropriate and effective interventions are developed and applied for those schools which continuously exceed their approved budget, in order to reduce the risk of mismanagement of delegated budgets; and**

DE accepts this recommendation.

EA has already introduced a new approach to financial planning in 2018-19, enhancing the accountability of schools within the parameters and constraints which exist within the current system. The key actions include prioritisation and categorisation of schools according to financial risk, with targeted engagement with those schools considered to be most at financial risk, including the involvement of multi-disciplinary teams. EA has developed benchmarking with similar types of schools and developed options for consideration by boards of governors and principals. In addition, a schools database has been established to record LMS interaction with schools, financial plan information and scenarios, financial categorisation, approvals issued and agreed actions.

In addition, to help improve financial management, EA has developed standard budgeting templates with enhanced financial modelling tools for staff complements and costs, including prior year information by expenditure type,

sectoral averages and summary papers to aid schools' understanding of finances, the split of funding between different expenditure types such as staff and consumables, and discussion and consideration of sector averages with schools. EA has also further enhanced accountability through declarations from boards of governors and principals.

DE is committed to working with EA colleagues as they seek to further enhance the financial planning process to help address the issue of increasing deficits and surpluses over and above the recommended thresholds.

• consideration of whether the current mechanisms for ensuring schools remain in budget need to be strengthened to ensure better financial management. In doing so, the Education Authority should ensure that appropriate support mechanisms are in place, such as financial expertise at Board of Governors and operational level.

DE accepts this recommendation.

DE will review, update and strengthen the current guidance on financial and management arrangements for controlled and maintained schools - *'Management Arrangements for Controlled and Maintained Schools Funded Under the Common Funding Scheme'* which aims to facilitate an overall improvement in financial management.

EA has provided enhanced finance training for boards of governors, including online video based eLearning to supplement and support a range of face-to-face sessions. EA is also reviewing the support mechanisms in place, implementing initiatives such as the targeting of schools engagement based on categorisation, including initial allocation of LMS time to schools at most financial risk; and the involvement of multidisciplinary teams according to financial risk. DE will continue to support EA in reviewing and strengthening such mechanisms.

NIAO Recommendation 2

The Department of Education and the Education Authority should ensure that the action points arising from the Education Authority's Surpluses and Deficits Working Group and the recommendations contained in the Department of Education's 'Internal Audit Review of School Spend' are implemented as soon as possible.

DE accepts this recommendation.

While the majority of the action points and recommendations emanating from EA's Surpluses and Deficits Working Group and DE's 'Internal Audit Review of School Spend' respectively have been either substantively or partially addressed, DE will continue to work with EA to ensure that those that remain outstanding will, where possible, be addressed in a timely manner. It should however be noted that some of the recommendations will have to be considered as part of the wider education transformation programme.

NIAO Recommendation 3

The Department of Education and the Education Authority should reassess and expedite the implementation of outstanding recommendations included in the Northern Ireland Audit Office's 2015 Report 'Department of Education: Sustainability of Schools' and the Public Accounts Committee's 'Report on Department of Education: Sustainability of Schools' published in 2016. In addition to progressing the implementation of these recommendations, the Department of Education and the Education Authority should consider alternative arrangements to facilitate cost savings, such as shared governance structures.

DE accepts this recommendation.

A number of the recommendations included in the Northern Ireland Audit Office's 2015 Report 'Department of Education: Sustainability of Schools' and the Public Accounts Committee's 'Report on Department of Education: Sustainability of Schools' published in 2016 are complete or substantially complete. However DE and EA will reassess and expedite those recommendations which remain outstanding.

Since its establishment, EA has consistently identified and applied cost savings to annual budgets and DE will continue to work with EA to facilitate realistic and achievable cost savings moving forward. However, the considerable work undertaken by EA on 2018-19 financial planning indicates that many schools cannot take further action to reduce costs without this having a significant impact on educational outcomes. On the specific

example within the recommendation, EA will consider further the development of shared governance structures, taking account of the need to balance autonomy with accountability.

NIAO Recommendation 4

The Department of Education and the Education Authority should review the initiatives being developed by the Department for Education in England and consider whether these should be implemented to support schools in Northern Ireland. In doing, so the Education Authority should ensure that its central procurement framework provides best value for money for Controlled and Maintained schools.

DE accepts this recommendation.

DE has carried out a jurisdictional review of funding arrangements in other UK regions and will give further consideration to initiatives being developed by the Department for Education in England as to whether these should be implemented to support schools in Northern Ireland. EA is also currently considering initiatives which have already been developed in England and has held a workshop with experts to look at approaches that could be adopted in Northern Ireland. Moving ahead EA will continue to look to enhance and improve processes, including the consideration of relevant initiatives in other jurisdictions.

EA has already introduced a series of measures to ensure value for money considerations are a primary focus from contract initiation to contract end. There is also a clear focus on ensuring that goods and services are delivered to the required standards and within the contracted timescales. EA also monitors contract spend, and any applications for price increases are subject to rigorous scrutiny. Opportunities for potential savings is another important element of ensuring value for money and EA benchmarks with other relevant peers where possible.