



Northern Ireland Department of Finance and Personnel Memorandum on the 10th and 11th Reports from the Public Accounts Committee Session 2005-2006

Presented to The House of Commons by the Secretary of State
for Northern Ireland by Command of Her Majesty

11 January 2006

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Glossary of Abbreviations

C&AG	Comptroller and Auditor General
CCMS	Catholic Council for Maintained Schools
DfES	Department for Education and Skills
ELBs	Education and Library Boards
ETI	Education and Training Inspectorate
GANI	Government Accounting Northern Ireland
GB	Great Britain
LMS	Local Management of Schools
LSDA	Learning and Skills Development Agency
PAC	Public Accounts Committee
PSA	Public Service Agreement
PSNI	Police Service of Northern Ireland
SSCs	Sector Skills Councils
UK	United Kingdom

DEPARTMENT OF FINANCE AND PERSONNEL MEMORANDUM DATED 11 JANUARY 2006 ON THE 10th and 11th REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS SESSION 2005-2006

Tenth Report

Department for Employment and Learning

Jobskills

Cessation of the Jobskills Programme

The Department for Employment and Learning is working towards the closure of the Jobskills Programme from the end of March 2007 and, following consultation with interested parties, replacing it with a new Programme starting from the beginning of April 2007. This new vocational training programme will form one strand of provision for 14-19 year olds, and will implement the Government's training guarantee for young people.

The Committee's Main Conclusions

Our overall impression is that Jobskills is one of the worst-run programmes that this Committee has examined in recent years. We noted a quite astonishing catalogue of failures and control weaknesses, all of which pointed to a disturbing level of complacency within the Department. While we readily acknowledge that it has to deal with some very difficult groups of young people, this does not explain the widespread shortcomings in supervision and control that existed.

The Department for Employment and Learning ('the Department') accepts entirely the seriousness of the criticisms set out in the Committee's Report and agrees fully that the quality of training, supervision and control of this and all its programmes must be such as to maintain their integrity and protect the public purse. It would like to assure the Committee that all departmental staff associated with Jobskills understand its importance to young people and to the Northern Ireland economy as a whole. The Department has implemented already the majority of the recommendations set out in the C&AG's report and the others are being taken forward as part of the fundamental review of training provision for young people which was detailed in the Department's Skills Strategy consultation document which issued in November 2004. This review has already commenced, with a view to rolling out a new vocational training programme in April 2007.

It is clear that Jobskills has not received the senior management attention that it deserves. One of the most damning aspects of the Department's handling is the extent to which a number of the most fundamental weaknesses - such as poor quality training and high levels of early leaving from the scheme - persisted over many years. We saw little evidence of the Department having tackled these problems with any great vigour, prior to the C&AG's review. This points towards a disturbing degree of incompetence, indifference or both.

The Department notes the Committee's comments and concerns. The specific issues raised by the Committee are addressed in response to Conclusions 2, 3, 4, 12 and 13.

At half a billion pounds, the funding provided to this programme, since 1995, has been enormous. Given the serious and ongoing concerns about the quality of training,

the poor performance of a number of training providers, the limited employment impact of the programme and the substantial ‘skills mismatch’ between Jobskills and the needs of the Northern Ireland economy, we can only conclude that, in far too many respects, Jobskills has provided poor value for money.

The Department notes the views of the Committee concerning poor value for money. Whilst the Department would agree that certain aspects of the Programme did provide poor value for money, the C&AG’s report did acknowledge that the Programme also has positive features, such as higher participation rates as compared to GB, and an increase in the uptake of training in priority occupational sectors. The Department takes its responsibility as a custodian of the public purse very seriously. In accepting and acting on the recommendations made by the C&AG and the Committee, along with replacing the existing Programme after March 2007 with a new vocational training programme, the Department will ensure its approach is fully in line with best practice. The existing Programme will be improved and the new Programme will ensure that the most relevant and high quality training is made available to young people. Enhanced financial and quality controls will ensure that value for money is secured.

One of the most unsatisfactory aspects of our review was the poor quality of the Department’s answers to a number of our questions. Too many responses either failed to properly address the question or sought to defend what was clearly indefensible. We wish to make it clear that this is not acceptable and we would ask the Department of Finance and Personnel to emphasise to all Northern Ireland Departments the importance which this Committee attaches to accurate and unambiguous responses to our enquiries.

The Department regrets and apologises for the unfortunate impression that was given in relation to the evidence given at the Committee’s evidence session. The Department welcomes this opportunity to reiterate its full support for the Public Accounts Committee process and will ensure that should the occasion arise in the future, departmental representatives appearing before the Committee will be adequately prepared and staff involved in providing material for future committee hearings will be made aware of the importance of providing full and accurate information to the Committee. The Department of Finance and Personnel will make the Committee’s views known to all Northern Ireland Departments.

The Committee welcomes the Accounting Officer’s assurance that he has accepted all of the recommendations in the C&AG’s Report. The Department should be in no doubt, however, that we want to see a much improved performance when the C&AG next examines this or any other scheme for which it is responsible.

The Department recognises fully the need to ensure that the lessons learned in this study are disseminated and implemented across its provision. The Department is committed to ensuring that, should the C&AG examine Jobskills again (or the programme which replaces it) or any other departmental scheme, he will see evidence of considerable improvement.

The Quality of Jobskills Training

PAC Conclusion 1

Based on the Education and Training Inspectorate (ETI) inspection results, it appears to us that the Department’s contracting process with Training Organisations has not been very effective. We also noted that the Department authorised a one-year ‘blanket’ renewal of all existing contracts, without any review of performance. This is poor practice. Failure to link contract renewal to performance achievement sends out the wrong signal to Training Organisations and provides no incentive to improve standards.

The Department acknowledges that the contracts process has not been as effective as it should and accepts fully that it was inappropriate to renew contracts without any review

of performance. In order to bring about radical improvement, a comprehensive review of the entire contract management process is underway including tendering, monitoring and claim processing. The Department will centralise the contracting function in a new Quality and Performance Branch, to both improve its consistency of approach regarding the performance of both individual Training Organisations and the Programme as a whole. The Department assures the Committee that contracts will not be renewed without a review of performance having first taken place and will obtain the advice of the Department of Finance and Personnel's Central Procurement Directorate as to the best way of linking existing performance achievements, with the award of a new contract.

PAC Conclusions 2, 3 & 4

We were astonished to find that ‘1 in 3’ trainees on Jobskills - some 4,000 young people - were in an organisation or occupational area where the quality of training was below-standard. While recent data showed that the proportion has changed to ‘1 in 4’, a below-standard training provision in 25% of training areas inspected is still much too high. The Department needs to get a grip on this and raise the standard of training in these organisations as a matter of urgency.

While the Department said that it would not allow Training Organisations to persistently deliver a below-standard quality of training, the evidence overwhelmingly suggests otherwise. Despite serious shortcomings, we saw no evidence of any financial penalties or sanctions having been applied and no contracts had been terminated.

One of the most damning aspects of the Department’s monitoring of training quality was the extent to which there were recurrent weaknesses. Time and time again, inspections showed that the Department was being ‘taken for a ride’ and yet it had done virtually nothing about it. The Department must respond quickly and effectively to cases of below-standard training and send out a clear message that this will no longer be tolerated.

The Department accepts fully the Committee’s criticism regarding the standard of training provided by a number of Training Organisations and regrets the fact that any young person has experienced below-standard training provision. In the light of the C&AG’s report and following the Committee’s hearing, a Quality Improvement Unit was established in October 2005 as part of a new Quality and Performance Branch to focus specifically on raising the quality of training being delivered and to ensure that suitably high performance standards are in place for Departmental training programmes. The Unit will liaise closely with the Learning and Skills Development Agency (LSDA), a UK-wide Government funded organisation with a remit to improve the quality of post-16 education and training, which the Department has contracted to provide targeted support to Training Organisations, including the dissemination of best practice.

Although the Department has removed occupational areas in the past from Training Organisations’ contracts as a sanction for under performance, it now recognises that a more rigorous approach is necessary. A Quality Improvement Strategy is currently being developed which will put in place a systematic approach to address issues arising from inspection reports by the Education and Training Inspectorate. This will include a range of sanctions, including termination of contract where necessary. The Department is also, as a matter of urgency, rolling out a system of more frequent and focused monitoring visits so that issues of below-standard performance can be identified at an early stage and remedial action taken as a matter of priority. Training Organisations have been informed that new monitoring procedures are in place.

The Effectiveness of the Programme

PAC Conclusions 5 & 10

The Department's range of performance measures needs to be enhanced. It looks to us as though targets have been altered to avoid reporting poor performance. The Department must set uniform targets across each strand of the Programme and ensure that all key aspects of performance are assessed and reported.

We found it disturbing that, over the life of the Programme, only 40% of Access trainees - young people with a particular disadvantage - had progressed to Mainstream training. However, we note that the interim results of a pilot scheme to improve the position are encouraging. We expect to see a marked improvement across the Access strand as a whole and would like the Department to set itself a challenging target in this regard.

The Department would wish to reassure the Committee that targets were not altered to avoid reporting poor performance and accepts the Committee's recommendations in relation to target setting and the need for the performance measures for the Programme to be enhanced. The overall Programme consists of three main strands (Access, Traineeships and Modern Apprenticeships) each of which has its own specific target group of young people and a different range of output measures. Specific and uniform Public Service Agreement (PSA) targets have now been set for the Traineeship and Modern Apprenticeship strands and the targets for the Access strand are currently being developed. A further target has also been established in relation to progression into further education, training or employment. With the roll out of a new vocational training programme from April 2007, a comprehensive and uniform set of targets will be put in place and monitored carefully.

The Department appreciates the Committee's concerns regarding the percentage of young people progressing from Access to Mainstream training. A pre-vocational pilot scheme within the Access strand has been extended with a full evaluation due for completion at end of December 2005. When the outcomes of the pilot evaluation are received, together with the recommendations arising from the full evaluation of the Access strand, due in January 2006, the Department will be in a position to set a challenging target for the Access strand in 2006-2007. The pilot will also inform revised provision to be introduced from April 2007. The Department is confident that with these improvements in place there will be a marked improvement in performance.

PAC Conclusion 6

We found it astonishing that the Department had not carried out regular benchmarking with similar schemes in Great Britain. We have seen this weakness before with Northern Ireland Departments and it is not acceptable. The citizens of Northern Ireland are entitled to know how the standard and cost of their public services compare with elsewhere in the United Kingdom and it is the job of the Department to facilitate this. Subtle differences between schemes is not a justification for failing to benchmark. We expect the Department to initiate a process of formal benchmarking with other regions in Great Britain, both to assess relative performance and to keep abreast of best practice, and to publish the results.

The Department accepts fully the Committee's recommendations in relation to benchmarking. It recognises that whilst in the past, limited comparisons with other regions have been carried out, a more systematic and robust process is required. Formal benchmarking processes will be implemented as soon as possible, following publication of the current Programme's evaluation recommendations at the end of January 2006 and also will be implemented as part of the new Programme. A system of regular and formal meetings with other jurisdictions of the UK also allows the Department to keep abreast of best practice

and new developments elsewhere and will be included in the new vocational programme on a regular basis. In addition, through close co-operation with LSDA, a UK-wide organisation, best practice from other parts of the UK will be brought to bear in supporting training organisations to improve their performance.

PAC Conclusion 7

The performance outcomes of a substantial proportion of Training Organisations fall significantly below the average. The Department needs to be a lot more proactive and agree action plans for improvements with individual training providers. Where targets are not met, the Department must be prepared to terminate contracts.

The Department agrees fully that any Training Organisation whose performance outcome falls below the average needs to be targeted and those that are significantly below average, targeted as a matter of priority, with a view to ensuring improvement. The Department's new Quality Improvement Unit is already working closely in conjunction with the LSDA and Training Organisations to draw up Quality Improvement Implementation Plans, including timescales and targets, to address such shortcomings in individual organisations. The Department would like to reassure the Committee that monitoring procedures have been tightened and it will not hesitate to implement sanctions, including termination of contract, where necessary.

PAC Conclusion 8

NVQ attainment within Jobskills has been falling, following the introduction, in 1999, of six 'Key Skills'. Because the Department had not been monitoring individual Key Skills, it had not identified the main difficulties and how these might be overcome. This was a lack of basic, common sense administration. We look forward to a considerable improvement in Key Skills attainment levels in the future.

The Department acknowledges that the monitoring of Key Skills has been inadequate and has put in place arrangements for the collation of data on the achievement of Key Skills, associated with each appropriate occupational framework. In addition, during 2002, the Department launched the Essential Skills for Living strategy which set out specific measures to improve the Essential Skills of literacy and numeracy in Northern Ireland. These skills, which will eventually replace Key Skills, are defined as "the ability to communicate by talking and listening; reading and writing; to use numeracy; and the ability to handle information". The Department already has systems in place to monitor the uptake and achievement of individual essential skills, and which will be included in the new vocational training programme from April 2007. The Department has put in place a system to support tutors in developing essential skills and will monitor closely the progress and outcomes. Any difficulties that may arise should be identified at an early stage, which will allow timely remedial action to be taken.

PAC Conclusion 9

One of our main areas of concern was the cost per job created by Jobskills. The evidence would suggest that the actual cost per job may be of the order of £22,000. In our view, this is excessive and represents poor value for money. We would like the Department to look closely at this issue, with a view to establishing, and subsequently reducing, the unit cost per job created.

The Department recognises the Committee's concern about the value for money aspect of the Programme and is examining the issue with a view to firmly establishing and then reducing the unit cost per job created.

PAC Conclusion 11

One of the most disappointing outcomes of Jobskills is the extremely low net employment impact of the Programme, which may be as little as 14%. The Department has to secure a much better return for the taxpayer. Procedures should be put in place to periodically estimate the net employment effect of Jobskills and set targets for reductions in the levels of deadweight, substitution and displacement.

The Department notes the Committee's comments and has built into the current evaluation exercise a requirement to identify the characteristics associated with high levels of deadweight, displacement and substitution and to recommend ways to minimise such effects. Following the review of the current Programme at the end of January 2006, appropriate and challenging targets will be put in place as soon as possible. Firm targets will also be put in place for the new Programme.

PAC Conclusions 12 & 13

Almost half of all trainees who start Jobskills leave early. This is particularly undesirable in that resources are wasted and the employability of leavers is not enhanced without a qualification. We note that a preliminary review, by the Audit Office, considered that the actual cost of early leaving may be around £6 million per year. It is important that the Department establishes a reliable estimate and we have asked the C&AG to review the outcome.

The high level of early leaving has seriously undermined the overall effectiveness of Jobskills and a high amount of taxpayers' money has effectively 'gone down the drain'. What we find particularly worrying is that the level has remained relatively constant over the life of the Programme. The Department must adopt a specific programme objective to tackle premature leaving and set targets for a radical reduction. We want to see a marked improvement in this area and expect the Department to attach a high priority to doing so.

The Department accepts that early leaving has a detrimental impact upon leavers' destinations. Since the C&AG's report was published, the Department has developed a method to measure the premature leaving rate which will enable a reliable estimate to be established and reviewed by the C&AG. The terms of reference for the evaluation of the current Programme include a review of early leavers. This should enable the Department to set specific programme targets to tackle premature leaving and a radical reduction of early leavers in the new Programme. The Department is treating this as a high priority. However, it must be recognised that many young people leave the Programme early to move into a 'positive outcome', e.g. employment or further education as a result of equipping themselves with improved skills whilst on the Programme.

The Targeting of Skills Needs

PAC Conclusions 14, 15, 17 & 19

We were surprised to find that, when Jobskills was set up, job attainment was not a formally-stated objective, nor was there an objective to match training provision with the skills needs of the Northern Ireland economy. Setting appropriate objectives, with measurable targets, at the outset is essential to ensuring that a programme is focused on the key outcomes.

Although, in 2000, the Department had established new objectives to align Jobskills more closely with the skills needs of the economy, it had not developed specific, measurable and time-bounded targets against which to monitor and report progress. In our view, this is the sort of fundamental good practice that any responsible body would be applying as a matter of course.

A large proportion of the skills attained by trainees have not been used in the workplace. Overall, the Audit Office estimated a potential ‘skills mismatch’ of 36%. In addition, some 45% of trainees were not subsequently employed, studying or training in the occupational area in which they trained in Jobskills. This represents poor value for taxpayers’ money.

We expect the Department, as a matter of urgency, to set specific, measurable and time-bounded targets for a reduction in the level of skills mismatch. Similarly, targets should be set for increasing the extent to which trainees are subsequently employed in the occupational area in which they trained in Jobskills.

The Department acknowledges that objectives in respect of job attainment and matching the skills needs of the Northern Ireland economy were not formally stated when Jobskills was set up. An integral part of the Department’s overarching Skills Strategy will be the monitoring and forecasting of skills needs by a Skills Expert Group, which is being established to advise the Department on priority skills based on accurate and up-to-date Labour Market Information. This will build on progress since 2000. This, in turn, will enable the Department to set specific, measurable and time bounded objectives and targets to reduce the level of skills mismatch and to increase employment uptake, across its education and training provision. Objectives, together with specific, measurable and timebound targets, will be established at the outset of the new vocational training programme. The following target in relation to employment outcome of Jobskills has already been set for 2005-06 - ‘by March 2006, at least 35 per cent of trainees who commenced a Jobskills Traineeship in 2003-04 to progress in to employment with a further 25 per cent progressing into further education or training’.

PAC Conclusion 16

We found it incredible that, during the 1990s, the Department had no comprehensive data on the skills needs of the Northern Ireland economy and no clear system for forecasting and analysing those needs. This was despite the fact that it was spending over £65 million each year on Jobskills. The failure to set up an effective system to forecast and analyse skills needs was a serious omission and one that has proved detrimental to many Jobskills trainees and Northern Ireland employers.

The Department regrets that a more effective system to forecast and analyse skills needs was not in place until the Skills Task Force was established in 1999 and recognises that this prevented the Programme from being as effective as it should have been. The Department assures the Committee that, in addition to establishing a Skills Expert Group to refresh skill areas in Northern Ireland, it is fully committed to UK-wide policy in respect of the Skills for Business Network which encompasses 25 Sector Skills Councils (SSCs), including the priority skills sectors. SSCs have been tasked with identifying the skill needs of their respective sectors and as this information becomes available, it will be used to inform the training provided under the new Programme.

PAC Conclusion 18

The vast majority of trainees in designated priority skills areas lie within the construction and engineering sectors. The Department must make special efforts to increase numbers in the three remaining priority areas of Tourism and Hospitality, Electronics and Information Technology.

The Department notes the Committee’s comments. In conjunction with the implementation of the Skills Strategy and the role of the SSCs, the Department will focus resources to increase participation in all areas of priority skills. Whilst the Skills Expert Group will advise the Department on priority skill areas, it is anticipated that the three remaining priority areas will be included.

PAC Conclusion 20

We were concerned that around one-quarter of employers seemed to be using Jobskills on a ‘rolling’ basis, as a source of low cost labour for unskilled positions. We expect the Department to take firm action with employers and training providers to deal with the problem.

The Department appreciates fully the Committee’s concern regarding the use of Jobskills on a ‘rolling’ basis, as a source of low cost labour for unskilled positions. The Department recognises this to be a particular concern within the Traineeship strand and whilst it will focus on this specifically, it will ensure that Jobskills is delivered to the highest standards and consistent with its key aims and objectives and that the new vocational programme is designed to address this issue.

Financial Monitoring and Control

PAC Conclusions 21 & 22

We are disturbed by the growing evidence from this and other reports that some Northern Ireland Departments are unacceptably lax in identifying and tackling fraud. We found it astonishing that, in such a massive programme which has been running for 10 years, no fraud has been detected. We were particularly concerned that the Department has deemed recoveries of £566,000 in respect of so-called ‘incorrect, ineligible and unsubstantiated’ claims to be due to error - none were considered to have been attempted fraud. Based on our experience of other, similar schemes, we are not at all convinced.

Our concerns are heightened by a case where payments had been claimed for periods when trainees were not actually engaged in training. Despite suspecting fraud, the Department appeared to turn a ‘blind eye’. We are in no doubt that this organisation should not have been allowed to continue operating within the Programme. This would have sent a clear signal to other organisations that improper claims will not be tolerated.

The Department understands fully the concerns of the Committee and regrets the impression created that it has in the past been soft on fraud. It would assure the Committee that this is not the case and can confirm that the Department takes the identification and tackling of fraud very seriously. In recognising the seriousness of the issue, the Department has a formal Fraud Policy and Fraud Response Plan; is represented on the recently formed Northern Ireland Civil Service Fraud Forum, and complies with the fraud requirements of Government Accounting Northern Ireland (GANI). It can assure the Committee that every case of suspected fraud is properly investigated and that all decisions are fully documented. In all cases where the Department uncovers *prima facie* evidence of suspected fraud the case in question is referred to the PSNI Fraud Squad for assessment. However, experience to date has been that the PSNI have not found sufficient evidence to prosecute within the Jobskills Programme and, specifically, in the case to which the Committee refers.

The Department will continue to monitor and scrutinise all claims which are submitted by Training Organisations to identify ineligible expenditure. Where such expenditure is identified, remedial action will be taken and where appropriate, sanctions imposed up to and including termination of contract.

The Department would also assure the Committee that all ineligible claimed expenditure is recovered.

The Department will continue to work closely with the Audit Office to ensure that the necessary financial monitoring processes are as effective as possible, to enable all the relevant assurances to be provided to the Accounting Officer.

PAC Conclusion 23

Overall, it is our view that the Department's checking procedures are not detecting irregularities in the Programme. It must reconsider whether its checks are sufficiently rigorous and how they could reasonably be strengthened.

The Department notes the Committee's comments. In response to the C & AG's report the Department undertook a comprehensive review of the existing monitoring, control and checking arrangements of the Programme and has subsequently strengthened its procedures to maximise their effectiveness in the identification of irregularities.

Eleventh Report

Department of Education

Local Management of Schools

The Committee's Main Conclusions

The role of Boards of Governors needs to be clarified and supported

LMS has dramatically changed the role and status of school Boards of Governors. They play a key role in financial and staffing decision-making, curriculum planning and school-level development. While there is much to praise about the contribution they make to the life of schools in Northern Ireland, there is also a need for more focused training, additional support and greater clarification of their role in relation to principals so that they may contribute more to the effective implementation of LMS.

The Department notes the Committee's findings. The issues raised by the Committee are addressed in response to PAC Conclusion 2.

Falling school numbers and surplus places may undermine LMS

Currently there are 45,000 surplus school places in Northern Ireland and it is expected that this could rise to around 75,000 by 2010. Having more school places than necessary ties up delegated resources that could be better used to improve the overall quality of education. Rationalisation of school places is needed to free resources for redistribution across the school sector.

The Department notes the Committee's comments. The issues raised by the Committee are addressed in response to PAC Conclusion 3.

Financial management in schools needs to be enhanced

The Department is aware of the need to enhance the financial management skills of principals and governors. In particular, there needs to be a greater focus on strategic resource management, linking budgets to school development plans and managing deficit and surplus balances.

The Department accepts the Committee's conclusion. The Department wishes to ensure that the contribution made by governors and school principals to the education of children in Northern Ireland is as effective as possible and in doing so recognises the importance of training. There is already a comprehensive training programme in place for school principals and the training for governors is in the process of being revised. In addition to taking on board the Committee's recommendations, the Department will act upon the findings from the Education and Training Inspectorate's (ETI) first inspection on school governance which has just been published. Also, an annual training event for governors will run from Spring 2006 and will include a dedicated session on Local Management of Schools (LMS) and financial management.

The Department also wishes to build on the significant progress made in increasing the financial skills of school principals and vice principals. The Professional Qualification in

Headship now includes a full module on effective financial management and increasing numbers of current and potential principals and vice principals are benefiting from this programme. A total of 423 local teachers have now graduated from the programme and it is anticipated that a further 200 will graduate annually over the next three years.

In addition to training and support, the production of School Development Plans outlined in the response to PAC Conclusion 4 will further enhance financial management and contribute to the improved management of school deficits and surpluses.

Action is needed to control budget deficits and surplus balances in schools

Funding locked up in school balances has been significant while at the same time deficits are also increasing. This represents an inefficient use of scarce resources which needs to be addressed as quickly as possible.

The Department accepts the Committee's conclusion. The Department is committed to working with all educational authorities to ensure that the surplus/deficit situation is brought under control as quickly as possible and has taken a number of important steps to address the situation. These steps followed receipt of the Northern Ireland Audit Office report on LMS and an analysis of the 2002-2003 outturn reports from schools. They included requiring all Education and Library Boards (ELBs) to agree with schools viable recovery plans designed to reduce deficits to within five per cent of their annual delegated budget by 2007-2008 or, in the case of schools in surplus, to agree planned spending for the benefit of pupils currently at the school over a similar period. The Department also wrote to all ELBs in June 2005 requesting them to review the 2004-2005 end-year position in all schools; to adjust agreed spending/recovery plans as necessary; and to ensure that any additional schools with significant surpluses/deficits at the end of 2004-2005 agree realistic and viable plans. The Department is reviewing the plans submitted and discussing with the funding authorities and Catholic Council Maintained Schools (CCMS) the way forward where a viable plan has not yet been agreed with the school.

Progress against these plans is being closely monitored by the Department and is also a standing item on the formal six-monthly accountability reviews that take place between each Chair and Chief Executive and the Departmental Accounting Officer.

Delay in technological improvements has impeded budget monitoring

The delay in implementing an interface between the financial management systems of schools and the Education and Library Boards remains unacceptable. Better automated information needs to be a priority and will facilitate early intervention in schools with deficit and surplus funding problems.

The Department notes the Committee's comments. The issue raised by the Committee is addressed in the response to PAC Conclusion 6.

Boards need to engage more with schools on financial management issues

We recognise that, in monitoring and challenging schools' resource management decisions, the Education and Library Boards are guided by the principle that their involvement should be inversely related to the success of schools in managing their resources. Given the accumulating deficit and surplus balances within schools, we consider that the Boards have not struck the right balance and, in our view, this has also contributed to the serious budgetary control problems experienced at Board level.

The Department notes the Committee's conclusion. The Department has made clear in regular meetings with the ELBs the need for them to challenge Boards of Governors to

ensure that all necessary steps are being taken to contain expenditure within budget. All schools are required to submit annual spending plans, agreed by the Board of Governors, for ELB approval.

Additionally, the Department recognises the importance of ensuring that total delegated school spending is carefully monitored and requires ELBs to report separately to the Department on the position with delegated LMS budgets as well as with central budgets. The information contained in these reports is used to identify significant variances between planned and actual expenditure. Potential problems identified are addressed with the Board's Chief Finance Officer. School budgets are also a standing item in the formal six-monthly accountability reviews between the ELB Chair and Chief Executive and the Department.

The cost-effectiveness of LMS decision-making needs to be reviewed

It is rarely possible to show a direct and precise relationship between pupil performance and a particular decision on the use of resources. However, decisions on the deployment of resources are central to the management of educational processes and their effectiveness needs to be evaluated.

The Department notes the Committee's comments. It accepts the difficulty in showing a direct and precise relationship between pupil performance and decisions on the use of resources but nevertheless is keen to measure cost effectiveness to assist decision-making. The Department will monitor the findings of research being carried out by the Department for Education and Skills (DfES) and will consider the potential read across for Northern Ireland. All recommendations emanating from the DfES research will be evaluated with a view to their implementation, if appropriate, in a Northern Ireland context.

The delegation of financial responsibility to schools

PAC Conclusion 1

It is encouraging that schools appear to be coping well with many of the demands placed on them by LMS. However, we are disappointed that, after 15 years operating this policy, so much remains to be done in terms of maximising the benefits that should arise from the financial flexibility and community participation afforded by well managed LMS practices.

The Department notes the Committee's comments and, whilst recognising the significant benefits that LMS has brought to Northern Ireland, accepts the need for further improvement. It has been taking action in a range of areas to try to ensure that delegation of financial allocations to schools provides financial flexibility to support learning. The recent introduction of a legislative requirement on all schools to publish School Development Plans will ensure that school governors become more aware of the link between resources and teaching and learning and become more actively involved in decisions on how best to deploy resources in support of the curriculum. At the same time, we have asked the ELBs to continue to provide support and assistance to all schools and to share examples of good practice.

Each Board of Governors is required to include parent-nominated governors and they play a key role in ensuring that the views and concerns of parents are reflected in discussions on school policies and budgets.

PAC Conclusion 2

We see as a priority the need to ensure that Boards of Governors, while performing a valuable public service, have the capacity to carry out their duties as effectively as possible. Towards this end the Department, the Education and Library Boards and

schools need to ensure that sufficient numbers of Governors are in place in schools; that they have a range of relevant skills and, most importantly, that they perform a challenge role in schools and do not succumb to merely “rubber-stamping” the decisions of school principals.

The Department accepts the Committee’s conclusion and recognises that there is an urgent need to provide better support for governors. The Department is committed to ensuring that the appropriate number of properly skilled and trained governors are in place in all schools as soon as possible. An extensive exercise to reconstitute Boards of Governors across Northern Ireland’s 1,252 schools is now nearing completion. The Department and the ELBs have advertised widely for new governors, targeting in particular the business community and people with skills in education, financial management and human resource. They have also highlighted to the Trustees and Transferors (the representatives of the Catholic and main Protestant churches who retain the right to nominate governors to 88 per cent of school Boards) the need to ensure that they nominate people with appropriate skills who are able to give the necessary time commitment to what is an increasingly important role.

In February 2005 the Department instructed the Boards to develop a database to record, on an on-going basis, information regarding the skills of individual governors and the overall composition and membership of Boards of Governors. Once the current reconstitution exercise is completed in January 2006, the ELBs will have accurate and up-to-date information on which to help assess the competence of Boards of Governors and identify their training needs.

The ETI has just published its first inspection report specifically focused on school governance. The findings and recommendations in this report will help ELBs improve the nature and content of training provided to new and experienced governors. The Department will work with ELBs and others to develop a new, updated handbook for governors that will include guidance on financial management and the effective deployment of resources. Additionally, the Department will run an annual event for school governors from Spring 2006 to set out the role that an effective Board of Governors should play and emphasise the importance of the challenge function that governors need to adopt to ensure the most effective use of resources in their schools.

PAC Conclusion 3

The Department needs to do more to ensure that delegated resources are used as effectively as possible. At present there are 45,000 surplus places in Northern Ireland schools and with falling pupil rolls it is anticipated that this could rise to 75,000 by 2010 if action is not taken to tackle the problem. Removing surplus places provides the opportunity to make better use of the money that is delegated to schools. While acknowledging that this can be a difficult task, the Department needs to keep a close eye on surplus capacity in schools and take all the steps necessary to ensure that the delegated funds are not spent on maintaining vacant places when they could be more usefully directed to supporting the education service.

The Department accepts the Committee’s comments and in doing so recognises the need to ensure that valuable resources are not tied up in unnecessary surplus school places.

In order to reduce surplus places the Department will improve strategic planning of the schools’ estate by working with other education authorities to identify anticipated needs for school provision and how they might be met on an area basis. The Department will ensure that strategic plans from school authorities are completed by December 2006 and include challenging targets to reduce the number of surplus school places. The Department will continue to monitor closely the number of surplus places in each school authority and ensure that action is being taken through strategic plans and rationalisations to address the issue.

The Department is committed to ensuring the best possible use of all available resources and will be working to develop programmes and timetabled action to reduce over capacity

in the shortest possible timeframe. This will be underpinned by a programme of reform consistent with the overall direction of the Review of Public Administration.

The Minister's recent announcement in relation to the Review of Public Administration will result in significant changes to education administration in Northern Ireland, including the creation of a single education authority that will have responsibility for employment and financial management across all grant-aided schools. This change will facilitate better co-ordination and management of surplus places.

Financial planning and management

PAC Conclusion 4

We note the Department's acknowledgement that more needs to be done to ensure that school principals and governors are adequately prepared to engage in shared decision-making. LMS requires a more sophisticated approach to financial management and it is essential that schools receive the support necessary to enable them to link financial planning to improvement priorities and to monitor the use of resources against these priorities.

The Department accepts the Committee's conclusion. Training in resource management is offered annually to all Governors, particularly new Governors. In addition, the production of School Development Plans by Boards of Governors became a requirement from September 2005. The underpinning regulations require schools to include in their plan a statement of the school's current financial position and projected resources for the period covered by the plan, and a commentary on the extent to which the school has met its key targets, or progress towards them has been made, in the period of the previous plan. The regulations provide that the financial and other resources available to the school must be taken into account in the setting of their targets.

Guidance supporting the introduction of school development planning has been provided, and this includes guidance on how the plan should take into account the school's financial position (including details of any surplus or deficit), assumptions for the future and implications of any strategies needed to bring the school's expenditure into balance.

Schools' development plans are routinely reviewed by the ETI in the course of their inspection activity and district visits. The Inspectorate checks that plans are focused on appropriate, realistic and measurable priorities; timed and costed in terms of resources, financial and human; informed by a clear vision of the intended improvement and the means of achieving it; and agreed with the Board of Governors.

PAC Conclusion 5

We were surprised to learn that deficits among schools, in 2002-03 totalled £11 million, while at the same time others held surplus balances amounting to £31 million. Although the Department has assured us that school recovery plans are now in place to remedy this situation, we have the clear expectation that should schools fail to comply with these and fail to manage their budgets in a prudent manner then the Education and Library Boards will need to consider removing delegated powers from schools.

The Department notes the Committee's conclusion. The Department expects that Boards of Governors will fulfil their responsibilities however, ELBs as funding authorities have been reminded of the need to ensure that the option of removing delegated powers is considered in cases where schools do not comply with agreed recovery plans. In addition, the Department issued central guidance to the ELBs in April 2005 setting out the requirements for financial management of delegated school budgets. It is recognised that there is a risk, with suspending delegation, that such difficult decisions are simply passed to the ELBs when they are properly the responsibility of the Board of Governors.

PAC Conclusion 6

The financial system in schools and the system operating in the Education and Library Boards do not communicate properly. This problem was first identified by the C&AG over ten years ago but the promised interface has still not been put in place. The Department's failure to intervene in a more timely way has, in our view, added to the inability of Education and Library Boards and schools to manage the problem of deficit and surplus balances more efficiently. Consequently, the failure to properly manage the application of resources may have negatively affected pupil learning. Further delay is unacceptable and we want to see the development of an electronic interface between the schools and the Education and Library Boards as a priority. Moreover, in relation to the general issue of promoting self-management and improving value for money in school spending, the Department should establish a reporting framework, similar to that operating in England, which would allow schools to benchmark their performance so as to allow them to make better use of their resources and to have a positive impact on educational outcomes.

The Department notes the Committee's views and regrets that addressing the electronic interface between schools and the ELBs has taken so long. In 2003 an eBusiness Strategy was produced for the education sector which proposed the creation of a "data warehouse" using the Classroom 2000 (C2k) network. This warehouse is known as the 'eSchools Project' and will house the interface which would allow for electronic transfer of data between schools and a number of financial management systems within the education service, including the ELBs. The financial interface is a priority for the Department. An Outline Business Case has been developed and accepted by the Department, funds have been obtained through the budget process and this project is being taken forward as a matter of urgency. It is planned that the project will be completed by Autumn 2007.

With the move to a new common funding formula from April 2005, all schools in Northern Ireland are now funded in exactly the same manner, regardless of geographical location. The factors that make up the formula and the values of each factor are published on the Department's website, along with details of the budget allocations for every school and can be accessed directly by schools.

To help inform schools' target-setting, the Department issues annually a Comparative Performance Data (Benchmarking) Circular giving detailed information on schools' performance in a range of areas. Schools are therefore able to make a realistic evaluation of their current position against that of schools of similar size and with similar enrolment characteristics, and set their targets for improvement accordingly.

As our immediate priority, the Department is also working with the ELBs to agree a common format for annual outturn statements which will also provide greater transparency in relation to the level and nature of expenditure and, once developed, will provide a basis for benchmarking across schools. The Department will also take into account what lessons might be learned from the consistent financial reporting arrangements in place in England. The Department will continue to improve the level of information on school budgets that goes on to its website to ensure that schools can access this information for comparison purposes.

Evaluation and achievement of objectives

PAC Conclusion 7

One of the downsides we identified in our consideration of LMS was a general lack of accountability for performance. Accountability matters, and unless delegated school management is held accountable for results, the probability that it will substantially improve performance is low. The Education and Library Boards are best placed to

monitor and challenge resource management and financial decision-making in schools. However, by largely limiting their focus to schools that have amassed large surpluses or ran into excessive deficits, they appear to have relinquished effective stewardship over the resources held and delegated to schools. There is a clear need for the development of evidence-informed guidance on how schools can make best use of their available resources.

The Department notes the Committee's comments and agrees completely with it on the importance of accountability, especially in relation to delegated school management. The requirement on all schools to produce School Development Plans from September 2005 will improve the link between resource allocation and educational performance. Schools are required to set improvement targets in a range of areas from educational outcomes to teacher and pupil attendance. Those targets must be deliverable within the school budget. The plans will form the basis for the setting of annual performance objectives for the school principal by the Board of Governors in the context of the school's Performance Review and Staff Development scheme. As highlighted in the response to PAC Conclusion 4, schools' development plans are routinely reviewed by the ETI in the course of their inspection activity and district visits.

Whilst schools already receive guidance on self-evaluation across a range of areas and this is designed to help them reach decisions about effective performance, the Department accepts the Committee's concerns and recognises the need for governors in particular to receive better, more consistent information on their financial management responsibilities. The Department will therefore work with ELBs and others to develop a new, updated handbook for governors that will include guidance on financial management and the effective deployment of resources. This development will be informed by the findings of the current review by the ETI on governance of schools which includes a consideration of governors' use of the findings of school inspections to improve policy and practice.

PAC Conclusion 8

It is also important not to lose sight of the need to draw parents more fully into the school decision-making process. The Department should, therefore, explore ways of giving them an effective say in the education of their children.

The Department accepts the Committee's recommendation. The recent guidance on school development planning strongly encourages school Boards of Governors to consult with parents and with pupils in developing their plans. During the period January-March 2006, the Department will undertake research into the barriers to valuing education by engaging with children, young people and their parents on this issue. As part of the research, information will be gathered on current involvement of parents in education policy consultation. The findings will be used to identify and develop opportunities for parents to influence policy and the design of services.

The Department also recognises the important contribution that parents make as school governors. Each Board of Governors is required to include parent-nominated governors and they play a key role in ensuring that the views and concerns of parents are reflected in discussions on school policies and budgets. The enhanced training and support we are introducing for all governors will also help ensure that parent governors can maximise the contribution they make.

The changes announced as part of the Review of Public Administration include the establishment of a new statutory Education Advisory Forum. The review of advice services will determine the constitution, roles and responsibilities of the Advisory Forum. It will give specific consideration to the most effective ways of providing a voice for parents and young people in influencing decision-making in education.



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