

Education Authority Annual Report and Accounts 2016-17

Report of the Comptroller and Auditor General to the Northern Ireland Assembly

Introduction

1. The Education Authority (EA) which is responsible for the provision of education and youth services in Northern Ireland was established on 1 April 2015 under the Education Act (Northern Ireland) 2014, replacing the five Education and Library Boards and their Staff Commission. It is a non-departmental public body sponsored by the Department of Education (DE)¹ and the Department for the Economy (DfE)².
2. The Financial Memorandum agreed with DE, sets out the broad framework within which the EA is required to operate. The Memorandum states that once the EA's Budget (which may be subject to restrictions imposed by DE) has been approved it cannot be exceeded without DE's formal approval.
3. Annual budgetary limits are set by DE in respect of DE and Youth services for both Resource and Capital expenditure. DfE also sets a limit in respect of Resource expenditure. Outturn against these limits is reported in Note 27 and Note 28 of the EA's financial statements.

Overspend of £19.1 million

4. DE advised me that following the Executive's agreement of the budget for Northern Ireland Departments in December 2015, there was ongoing engagement between them and the EA until the then Minister of Education announced the education budget allocation on 9 March 2016. DE presented the EA Board with its budget allocation on 10 March 2016. However, the formal allocation letter from DE was not issued to EA until 23 March 2016, that is six working days before the start of the financial year, DE notified the EA that its DE Resource Budget allocation for 2016-17 was £1,429.2 million. This allocation was £101.4 million less than the Final Budget Plan Allocation of £1,530.6 million for 2015-16 (excluding Premature Retirement Costs of £14.2 million).
5. On 11 August 2016, almost five months after receiving its Budget allocation, the EA Board agreed the EA's budget and the strategy underpinning it, including the savings to be achieved in each area of activity in order to balance the 2016-17 budget allocated by DE. The EA had told me that a number of discussions on budget submissions and scenarios took place with DE during the period from March to August 2016.
6. In August 2016 the EA advised DE that whilst savings proposals were being taken forward, over 70 per cent of the £40 million savings which it intended to make were rated Red or Amber and therefore in risk of not being delivered.
7. Although DE had advised the EA that there should be no expectation that any in-year pressure would be met by a further allocation from the Department during 2016-17, the EA sought and was allocated additional funding during the year.
8. By March 2017 DE had agreed a final DE Resource allocation of £1,481.6 million, with a further £14.1 million allocated in respect of Premature Retirement Costs. However, the EA's expenditure against this total DE Resource Budget allocation of £1,495.7 million was £1,515.5 million, an overspend of £19.9 million (**Figure 1**). The EA advised me that it had

¹ Department of Education funding is provided for education and youth services

² Department for Economy funding is provided for student and further education support services

sought a bid of £29 million in the last monitoring round of 2016-17 and that had this been successful, no overspend would have occurred.

Figure 1: EA 2016-17 Resource Expenditure compared with Budget

	DE	Youth	DfE	Total
	£'000	£'000	£'000	£'000
Net expenditure per the Statement of Comprehensive Net Expenditure	1,619,828	37,717	13,837	1,671,382
Non-cash and other adjustments	(104,321)	(4,174)	(384)	(108,877)
Net Expenditure	1,515,509	33,543	13,453	1,562,505
Budget	1,495,650	34,226	13,553	1,543,429
(Overspend)/Underspend	(19,859)	683	100	(19,076)

9. In the Governance Statement included in DE's 2016-17 Annual Report and Accounts the Department advised that the main causes of the overspend were higher than budgeted spend on schools' delegated budgets (£7.8 million), Special Education Needs (£6.8 million), and school maintenance (£3.9 million).
10. The EA has indicated that it considers the reasons for the overspend are a combined impact of:
 - Significant and ongoing reductions in the spending power of DE budgets (which have declined by around £200 million since 2010-11);
 - The structure of the education system including a number of systemic matters that need to be addressed;
 - The delegation of significant elements of the budget to schools, where EA has limited powers to intervene and intervention can take time;
 - Over 90% of services provided from the EA Block Grant are driven by statutory or policy requirements with over 80% of costs staff based. Demand for services has to be met and delivering significant changes would require consultation, contractual and legislative change; and
 - The failure to secure sufficient additional funding in year.
11. Apart from DE Resource expenditure, all other expenditure in 2016-17 was within the limits set by the sponsoring departments. As a result, the overall overspend compared with the 2016-17 Resource budgets allocated by DE and DfE was £19.1 million (**Figure 1**).
12. As a result of the overspend DE's Internal Audit has undertaken a review of the EA's systems and capacity to monitor schools' spend, to identify the underlying causes of the growth of school deficits. In addition, in October 2015 the EA had set up a working group to examine schools' surpluses and deficits and, where appropriate, it is now in the process of implementing its recommendations.

Conclusion

13. I am disappointed that the EA overspent on its 2016-17 Resource Budget by £19.1 million. I note the reasons given by the EA for this overspend but I would add that I am concerned that:

- the EA was presented with its budget allocation for 2016-17 on 10 March 2016 and only formally advised six working days prior to the start of the financial year;
- it took the EA almost five months to agree a strategy which would balance its 2016-17 budget; and
- had additional funds not been allocated in-year by DE, the overspend would have been significantly higher.

14. I will keep this area under review, looking to see what lessons have been learnt and how the EA has strengthened its financial management and report again as necessary. I also intend to publish a report on the financial health of schools later in 2018, in accordance with Article 8 of the Audit (Northern Ireland) Order 1987.



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