

# Education Action Zones

Meeting the Challenge - the lessons  
identified from auditing the first 25 zones

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
HC 130 Session 2000-2001: 26 January 2001



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# executive summary


- 1 The first 25 of the 73 existing Education Action Zones were established by the Secretary of State for Education and Employment in 1998-99 under the School Standards and Framework Act 1998. This report sets out the main findings arising from the National Audit Office's examination of the financial statements produced by the first 25 Zones to cover their initial period of operation.
- 2 The Department have developed a strategy to assess what impact the Zones are having on local education standards, and are required to report progress and achievements to the Secretary of State in December of each year. This strategy includes a programme of inspection reviews by the Office for Standards in Education. We plan to review the effectiveness of the Zones in 12-18 months time.
- 3 An Education Action Zone is based on a cluster of schools, usually in a local area. Its aim is to develop, in conjunction with local partners, imaginative approaches to raising educational standards in seriously disadvantaged areas. Each Zone is run by an Education Action Forum which is a corporate body and exempt charity. The first 25 Zones each receive £750,000 of annual grant funding and are expected to raise £250,000 each year in business contributions.
- 4 From the outset, delivery of the innovative Education Action Zones programme presented the Department with risks of impropriety, poor value for money and inadequate accounting. They were preparing to pay sums of the tax-payer's money to very small, newly formed charitable bodies with little corporate experience of handling public money or the proper conduct of public business.



- 5 The Department took appropriate steps to mitigate the financial risks. They phased the introduction of the Zones with the result that valuable lessons could be learned by later Zones from the experiences of the first 25. To secure effective financial control and corporate governance arrangements the Department prepared an Education Action Zone handbook, with assistance from PricewaterhouseCoopers and in consultation with us. The handbook established ground rules for the Zones, including the conditions under which they would receive their Government grants.

- 6 A successful feature of the first two years of the programme has been the joint working between the Department, their consultants PricewaterhouseCoopers and the National Audit Office. This has been aimed at helping Zones to deal effectively with financial control and governance. All parties have shared information and views in order to resolve or prevent emerging problems both locally and nationally.
- 7 During our audits, we found many examples of good practice amongst the Zones:
- producing a robust set of financial procedures before committing large amounts of funds for their expenditure programmes;
  - appointing a consultant to handle financial matters;
  - setting up a service level agreement with the local authority to use existing purchasing agreements negotiated by the authority;
  - setting up a devolved process for purchasing and making payments, to secure sound financial control through separation of duties;
  - preparing a short written guide on Forum members' responsibilities as trustees of a charity; and
  - setting up sub-committees of the Forum to handle different aspects of their activities.
- 8 However, with only one or two full-time staff in post, many Zones experienced difficulty in meeting some of the Department's initial requirements and expectations. The result was that in the early days of their existence, some Zones were spending large sums of public money before they had sound financial controls in place, creating risks of poor accounting, impropriety or poor value for money. In addition some Zones experienced difficulty in raising the expected level of business contributions. Further, there were some instances where Forum members did not know or did not understand their role and responsibilities.
- 9 The Department responded positively to these issues by:
- granting the second wave of Zones established in December 1999 and January 2000 an initial three or four month period prior to the commencement of their first full year of operation, to focus on preparing action plans and putting financial controls in place;
  - expanding PricewaterhouseCoopers' role in producing guidance on financial control issues for all Zones, including visits to Zones to discuss the issues;
  - expanding PricewaterhouseCoopers' role in visiting Zones to include reporting on the financial control systems;
  - expanding their guidance for the second wave of Zones;
  - engaging the Technology Colleges Trust to give advice to Zones on fundraising;
  - preparing guidance on trustees' responsibilities to be issued to Forum members with formal letters of appointment; and
  - arranging for the Charity Commission to stage a pilot training session for the Chairman and members of a Forum.



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- 10** The Department and the Zones will need to remain vigilant to ensure that risks to financial control and corporate governance are well managed to avoid irregularities or improprieties that could detract from the Zones' educational achievements. We have identified the following issues to focus on:
- Forum members must have a basic understanding of accounting disciplines and procedures and, where appropriate, access to qualified professional advice. Without such understanding, members can too easily become isolated from the core financial aspects of their Zone with a resulting risk to financial propriety;
  - Each Zone should have procedures to ensure that their purchasing decisions are competitive and that business partners do not gain any commercial advantage through their position on the Action Forum;
  - Zones should attach conditions to the grants that they award, setting out the purposes for which the funds are to be used and specifying the evidence needed to establish that the funds were properly used and accounted for; and
  - The School Standards and Framework Act prohibits Zones from borrowing. Before a Zone enters into any leasing arrangement, in accordance with the Department's guidance, the proposed lease should be checked by an expert to determine whether it constitutes a finance lease, which is a form of borrowing.
- 11** So that we can focus our resources on those Zones with continuing problems and help new Zones to get established successfully, we have contracted out the audit of 23 of the first 25 Zones to HLB Kidsons from 1999-2000.
- 12** We consider that there are a number of wider lessons that can be learned from the establishment of the Zones that can be applied to other Government programmes involving the setting up of innovative new bodies:
- when developing the programme and financial structure, seek advice from the experts in the fields of financial control and governance, for example, accountants, external auditors and the Department's financial experts, as to the appropriate arrangements for the bodies to be formed;
  - consult the National Audit Office at the outset on issues such as accounting and audit requirements and Parliamentary accountability;
  - put in place arrangements to secure effective joint working between officials, consultants and the National Audit Office;
  - carry out a full risk assessment and develop a strategy for managing the risks identified;
  - wherever possible, phase the introduction of the programme or set up pilots, to learn lessons and establish good practice that can be applied to later stages;
  - before committing Government funds, ensure that the bodies have ground rules to cover their financial operations that are consistent with Parliament's expectations on the proper conduct of public business;
  - take steps to ensure that people with responsibility for newly created bodies, such as trustees, understand their roles and legal responsibilities; and
  - clarify the tax position of the bodies before they become operational.

# Part 1

## Introduction

- 1.1 This report sets out the main findings arising from the National Audit Office's examination of the financial statements produced by the first 25 Education Action Zones to cover their initial period of operation in 1998-99.
- 1.2 This part of the report provides background information about the Zones. Part two describes how the Department for Education and Employment, their advisors PricewaterhouseCoopers and the National Audit Office have worked together to establish proper accounting, financial control and corporate governance arrangements for the Zones. Part three examines the lessons learned from the experiences of the first Zones, including how the Zones responded positively with examples of good practice. The fourth and final part analyses future risks.
  - Securing the co-operation of all partners through consultation;
  - Undertaking or overseeing the administration of the Zone's business, including provision of support to the Action Forum;
  - Accounting to the Forum for the management of the Zone's finances and financial systems and for drawing up its annual budget; and
  - Dealing with requests from the Forum, the Department or other bodies for information on progress towards targets and deployment of resources.

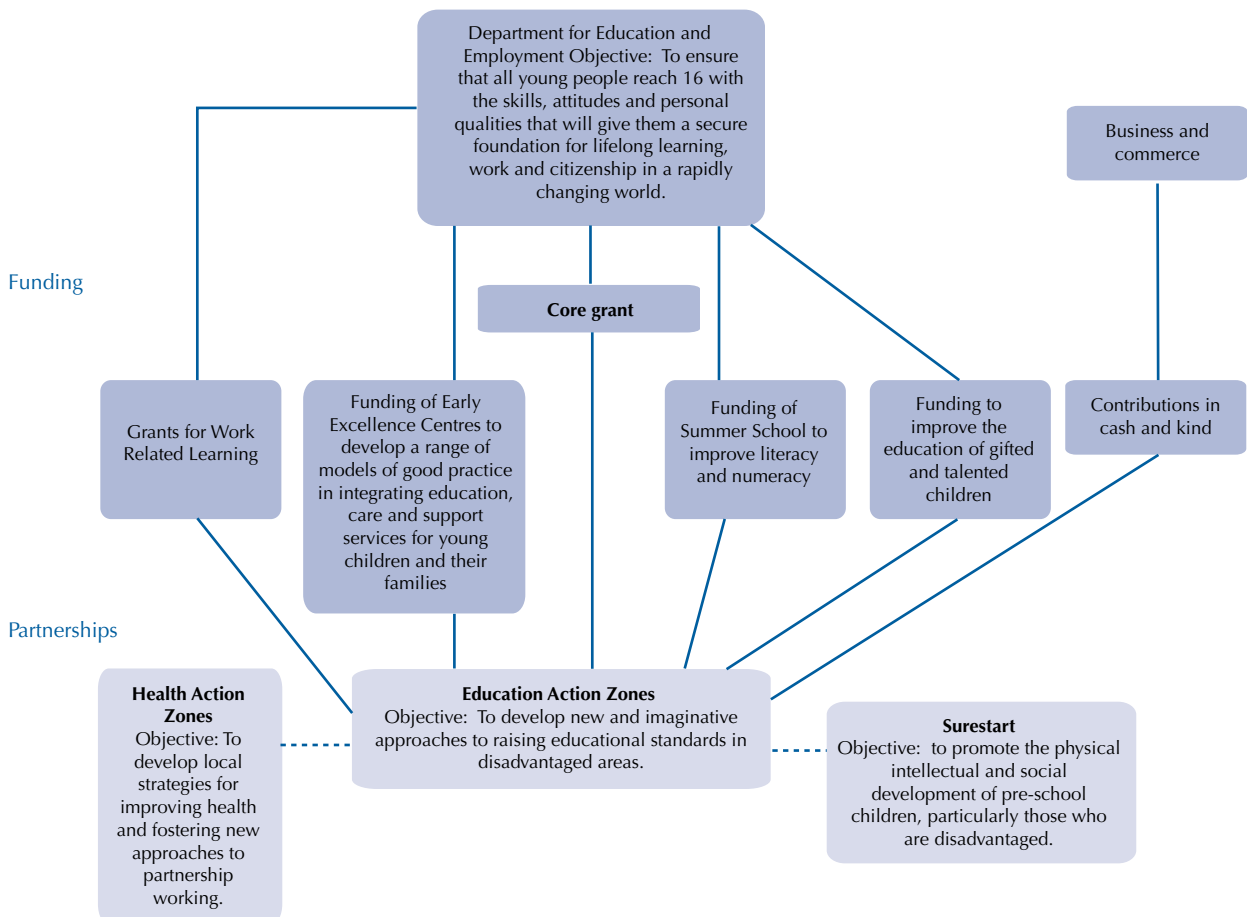
## Background

- 1.3 The Education Action Zones programme allows local partnerships to develop imaginative approaches to raising educational standards in seriously disadvantaged urban and rural areas. These partnerships involve schools, local education authorities, parents and other representatives from the local community and the private sector.
- 1.4 An Education Action Zone is based on a cluster of primary, secondary and special schools, usually in a local area. Each Zone is an exempt charity run by a Forum. Forum members include parents, teachers, school governors, councillors and business representatives. Each Action Forum employs a Project Director, who is the accountable officer for the Zone.
- 1.5 The responsibilities of a Project Director include :
  - Advising the Action Forum on effective strategies for meeting its objectives;
  - Drawing up the Forum's action plan with a budget profile;
  - Managing the implementation of the Forum's action plan;
- 1.6 The first 12 Zones were set up under the School Standards and Framework Act 1998 by the Secretary of State for Education and Employment in September 1998 for an initial period of three years, with a further 13 commencing operation in January 1999. Forty additional Zones were established in 1999-2000. Eight new Zones created in 2000-01 have taken the total to 73. A map showing the Zones and their locations is at Appendix A
- 1.7 The Government announced in June 2000 that 20 of the first 25 Action Zones would receive funds to extend their operation for a further two years, making five years in total. Ministers decided in December 2000 to extend the lives of the remaining five Zones.
- 1.8 The first 25 Zones each receive £750,000 of annual grant funding and are expected to raise £250,000 each year in business contributions. Later Zones receive £500,000 of core grant funding each year and matched funding, pound for pound, of up to £250,000 for the private sector contributions they receive. The first round Zones will move on to the same arrangement after their third year. Zones have priority access to grants under the Department's other programmes, such as specialist schools, early excellence centres, programmes for gifted children and summer schools to improve literacy and numeracy. They may also be aligned with other initiatives to tackle social deprivation such as Health Action Zones and Sure Start (see Figure 1).

- 1.9 In 1999-2000 the Department paid grants totalling £25.2 million to the Zones. This amount consisted of £24.1 million of core grant, £1.1 million of grants for work related learning and £83,000 of funding to improve the education of gifted and talented children. Of the £25.2 million, £21.8 million was paid to the first 25 Zones and £3.4 million to the 40 Zones created in 1999-2000. The Department estimate that over the 5 years of the programme they will pay core grants of £273.7 million to the Zones.
- 1.10 Under paragraph 7(1) of Schedule 1 of the School Standards and Framework Act 1998, each Zone is required to prepare annual financial statements by 31 August following the end of each financial period. Paragraph 7(3) of Schedule 1 of the Act requires the Comptroller and Auditor General to examine, certify and report to Parliament each year on these financial statements.
- 1.11 A summary of how Zones are expected to raise educational standards in their areas is at Appendix B.

- 1.12 The Department have contracted consultants to prepare reports on the initial situation at the first 25 Zones, to provide a starting point from which to judge progress in improving educational standards. Against this benchmark, the Department will review and analyse annually data on exam results, absences and exclusions to measure progress, for example, the rate of improvement in Zone results compared to national trends. Further, as well as continuously monitoring and evaluating their own activities, Zones are preparing case studies of good practice to identify the factors that have contributed to successful outcomes. Eight Zones are working with the Department to produce in-depth case studies. The Office for Standards in Education will inspect individual Zones and conduct thematic studies to consider areas of work across a number of Zones.
- 1.13 These strands of evaluation will contribute to an annual report to the Secretary of State on progress by the Zones, to be produced in December of each year.

**1 Examples of funding streams available to Education Action Zones**





# Part 2

## Getting started

- 2.1 From the outset, delivery of the Education Action Zones programme presented the Department with great opportunities and significant risks. On the one hand they were looking for the early implementation of innovative ideas from the Zones designed to transform the education of thousands of young people in areas of social deprivation. On the other, they were preparing to pay in 1998-99 millions of pounds of the taxpayer's money in the form of grants to very small, newly-formed charitable bodies. Typically these bodies comprised one or two full-time officials and about 30 trustees, with very little corporate experience of handling public money and the proper conduct of public business.
- 2.2 The Department phased the introduction of the Zones. This has enabled them to learn valuable lessons from the experiences of the first 25 Zones that will benefit Zones set up since January 1999.
- 2.3 The Department recognised that, to get the programme started effectively and to secure adequate financial control and corporate governance arrangements for the programme as a whole, they would have to provide good quality advice to the people involved in setting up the first 12 Zones which started in September 1998.
- 2.4 The Department engaged PricewaterhouseCoopers in 1998 to assist in the preparation of an Education Action Zone handbook. Their intention was to create, through the handbook, a common management framework that was consistent with Parliament's expectations on the proper conduct of public business, with charity law and the Charity Commission's guidance on how charities should be managed. The Department wished to establish some ground rules, amongst other things covering the payment of grants to the Zones, without constraining Zones in their thinking and planning. In preparing the handbook, the Department also consulted the National Audit Office for an independent assessment of the guidance they were developing on financial matters.





2.5 The Education Action Zone handbook contains advice on a range of matters and is periodically updated. The advice covers the purpose of grant-in-aid funding; accountability; action planning; financial management; preparation of annual accounts and guidance for sound financial systems.

2.6 Prior to commencing their examination of the Zones' annual accounts we visited all of the first 25 Zones to:

- gain an understanding of each Zone's programme and their management arrangements;
- advise the Zones on issues such as Parliamentary accountability, the preparation of charity accounts and any other financial concerns; and
- make an initial assessment of each Zone's progress with the development of internal financial controls.

2.7 After completing six of these visits, we were able in December 1998 to report some key findings to the Department, to enable them to provide additional advice and take action to effect improvements. These findings, together with the results of our examination of the 1998-99 accounts of the first 25 Zones are summarised in Part 3 of the report.

2.8 A successful feature of the first two years of the Education Action Zone programme has been the joint working between the Department, Pricewaterhouse Coopers and ourselves, aimed at helping the Zones to deal effectively with financial control and governance. All parties have openly shared information and views in order to resolve or prevent emerging problems both locally and nationally. This has included presentations by PricewaterhouseCoopers and the National Audit Office at conferences organised by the Department for Forum members and Zone staff.

# Part 3

## Lessons learned from the experience of the first 25 Zones

- 3.1 With only one or two full-time staff in post, many Zones experienced difficulty in meeting all the Department's initial requirements and expectations. That is, simultaneously, having to develop an action plan, secure essential support services, draw up financial procedures and controls, secure business contributions, set up accounting systems and spend the available funds in accordance with Parliament's intentions. Progress at some of the Zones was held up because of difficulties in appointing a full-time Project Director and establishing a Forum.
- 3.2 This meant that in the early days of their existence some Zones were spending sums of public money before they had all of their financial controls in place. This created the risk of impropriety, poor value for money and inadequate accounting.
- 3.3 The Department responded to our concerns about these risks by granting the second wave of Zones, established in December 1999 and January 2000, an initial three or four month period prior to the commencement of their first full financial year of operation, to focus on preparing action plans and putting appropriate financial and administrative arrangements in place.

### Good practice

Thetford Education Action Forum produced a robust set of financial procedures before committing large amounts of funds for their expenditure programmes. The Project Director had previously been responsible for managing one of the Government's Single Regeneration Budget schemes and recognised the importance of financial controls.

### Internal financial controls and preparation of accounts

- 3.4 The Zones entered into a variety of arrangements for the provision of financial, personnel and other services. Some relied on the local authority or another business partner. Others were content to appoint administrative staff to make and record their payments.

### Good practice

Several of the Zones appointed a consultant to handle financial matters. This allowed Project Directors to focus on preparing action plans to help improve educational standards, while placing the finances in the hands of an expert.

Barnsley Education Action Forum set up a service level agreement with the local authority that enabled them to use existing purchasing arrangements the authority had negotiated, thereby helping the Zone to achieve value for money from their limited funds.

Blackburn with Darwen Education Action Forum set up a devolved process for purchasing and making payments. They appointed their programme co-ordinators as budget holders. Schools order goods and services through the co-ordinators, who check that the intended purchases are affordable and in line with the Zone's action plan. The Zone's staff check invoices they receive against the information supplied by the budget holders. This process is more responsive than a centralised system and has separation of duties built into it, something that Zones find difficult to achieve with one or two staff.

- 3.5 At the time of our initial visits, some Zones had not decided how they would prepare annual accounts that would meet the Department's requirements. The requirements include compliance with the Statement of Recommended Practice "Accounting by Charities". Charity accounting requires certain specialist skills and careful planning. Our view is that a preparer of charity accounts should have an early input into how transactions are recorded and the supporting documentation that is needed to form an adequate audit trail. This did not happen at a number of Zones. Eventually this absence of forward planning caused a small number of them to have great difficulty in producing acceptable accounts for 1998-99 on a timely basis.
- 3.6 The Department responded positively to these issues. They recognised that they needed assurance that Zones were working towards sound internal financial controls and that the Zones themselves needed more assistance. Accordingly, in 1999 the Department expanded the role of their consultants, PricewaterhouseCoopers, to include visits to all Zones to review internal financial controls. By July 1999 PricewaterhouseCoopers had reported that most of the Zones had made progress but some of the expected controls were still not in place. During this part of their assignment they also gave

advice to the Zones and, in some cases, direct assistance on accounting and financial matters.

- 3.7 Learning from their experience of the first 25 Zones, the Department have updated their guidance for the second wave of Zones. It includes specimen documentation they might use, including a good practice example of financial procedures in use at one of the Zones and a specimen service level agreement that a Zone might use to govern its relationship with a business partner. They also issued guidance in June 2000 setting out parameters that Zones might use to value in their financial statements the time that people contribute to Zone activities. This was based on methods and valuations that we had reviewed and accepted in the first round of audits.

### Forum members' responsibilities

- 3.8 Around 2,000 people are Education Action Forum members. As Forum members they are the charity trustees, which imposes on them some duties including:
- Understanding the terms of the governing instrument and ensuring that all the assets of the charity are under the control of the members, and all sums due to them are recovered;



- Complying with the terms of the governing instrument and promoting the interests of the charity; and
  - Taking reasonable steps to safeguard the charity's assets.
- 3.9 In their Education Action Zone handbook, the Department have set out some helpful guidance on the role and responsibilities of charity trustees. This refers to the Charity Commission's guidance "Responsibilities of Charity Trustees".
- 3.10 During our audits of the Zones' 1998-99 accounts, we noted instances where Forum members did not know or did not understand their role and responsibilities. For example, one Forum approved a payment to their Chairman for his services. The Charity Commission's guidance on the responsibilities of charity trustees states that it is a legal rule that trustees are not entitled to benefit personally from the resources of their charity. In this case the Zone Chairman was asked to pay the monies he received to his employer, the school at which he was the Headteacher, in order that the payment could be redefined as compensation for the time he had spent on Zone business.
- 3.11 More generally, the Zones were slow to put in place the corporate governance arrangements that the Department envisaged to safeguard Forum members. Failure to set up a register of business interests and delays in appointing one of the Forum members to oversee financial matters were a recurring feature in PricewaterhouseCoopers' reports to the Department on the progress made by Zones in implementing systems of internal control.
- 3.12 The Department are currently preparing guidance to Zones that is targeted on what Forum members need to know and understand about their role and responsibilities. They will require Zones to issue this guidance to Forum members together with formal letters of appointment. The Department are also arranging for the Charity Commission to stage a pilot training session for the Chairman and members of an Education Action Forum. If the pilot is successful it could form the basis for further training at other Zones.



**Good practice**

North Somerset Education Action Forum engaged a consultant who produced a short written guide giving the Forum members clear advice on their responsibilities as trustees of a charity.

A number of Zones judged that the Action Forum, comprising typically 30 or more people might not be the most suitable vehicle for reaching decisions on matters that required urgent attention, quick decisions or consideration of issues in detail. Some Zones set up sub-committees to handle different aspects of their activities, allowing most Forum members to focus on the work and reports of those sub-committees.

**Value Added Tax**

3.13 One of the issues raised by the first Zones we visited concerned VAT. There had been a common misunderstanding that, as educational establishments, the Zones would be exempt from the requirement to pay VAT. The Zones had drawn up spending plans on that basis and at the time of our initial visits, the Zones had incurred expenditure without any recognition of VAT. We raised with the Department our doubt that the Zones would be exempt, and our concern that some Zones were avoiding VAT by making purchases through local authorities who could claim exemption. The Department's legal advisers stated in January 1999 that while it was not unlawful, VAT avoidance would place an Education Action Forum in breach of its grant conditions and potentially place Forum members in breach of their duties as trustees.

3.14 In April 1999, Customs and Excise issued a VAT bulletin confirming that Education Action Zones were not exempt from payment of VAT, except in very limited circumstances. This created unforeseen liabilities that resulted in some Zones incurring a deficit on their operations for 1998-99. In response the Department have made additional grants to the Zones to compensate them for the unforeseen impact of any VAT liabilities incurred in 1998-99 and 1999-2000.

**Business Contributions**

3.15 Zones are expected to raise contributions of £250,000 in a full year from the private sector. These contributions may be in cash or in kind. Contributions in kind may take the form of people's time, use of company facilities or donated assets. Although understanding that it takes time to build up relations with business partners, the Department set projections for 1998-99 of £145,800 for the 12 Zones that commenced business in September 1998 and £62,500 for those that started in January 1999.

3.16 The Zones had varied success in meeting these projections in 1998-99. **Figure 2** shows that the total value of business contributions received by the Zones amounted to £1,296,000, around 50 per cent of the Department's projection of £2,562,000. Individual Zones had varied success in meeting these projections. Some like Newham (£400,000 raised against a "target" of £145,800), Blackburn with Darwen (£149,000 against £145,800) and Southwark (£116,000 against £62,500) exceeded expectations. At the other end of the scale, Leicester raised only £3,000 in their first 7 months of existence. Halifax, Aston and Nechells and East Brighton did not receive any business contributions in the first three months of operation, but they did receive pledged contributions which would fall due in the following financial year. Halifax Education Action Zone, for example, had been assured of its full 3-year target by a contribution from the Halifax Bank Plc.

3.17 To help Zones that have found difficulty in securing contributions, the Department have engaged the Technology Colleges Trust and Business in the Community to give advice to Zones on fundraising. Subsequently, the Department have held conferences and the Technology Colleges Trust have visited a number of the Zones.

**2 Business contributions received by Education Action Zones in 1998-99**

*This figure shows that Education Action Zones in their very early stages of operation received less business contributions in 1998-99 than expected.*

	September 1998 Zones	January 1999 Zones
Number of Zones	12	13
Total expected contributions in 1998-99	£1,750,000	£812,500
Total business contributions in 1998-99	£1,036,500	£259,500
Each Zone's projection for 1998-99	£145,800	£62,500
Number of Zones meeting or exceeding projection	2	1
Average business contributions	£86,400	£20,000

Source: Annual accounts for 1998-99 of Education Action Zones

# Part 4

## Remaining risks

- 4.1 The Department took appropriate steps to mitigate the risks to financial control and corporate governance that arose from launching a new, innovative programme. The Department and the Zones will need to remain vigilant, however, to ensure that risks are well managed to avoid irregularities or improprieties that could detract from the Zones' educational achievements.
- 4.2 **Figure 3** sets out the most significant issues that we raised in management reports to Zones as a result of auditing their 1998-99 accounts.
- 4.3 On each point raised, we made recommendations on how the Zones might improve their controls and governance arrangements. The Zones responded positively, and have committed to implement our recommendations. The main risks that still exist and how the Department are dealing with them can be summarised as follows.
- 4.4 **Figure 3** sets out the most significant issues that we raised in management reports to Zones as a result of auditing their 1998-99 accounts.
- 4.5 On each point raised, we made recommendations on how the Zones might improve their controls and governance arrangements. The Zones responded positively, and have committed to implement our recommendations. The main risks that still exist and how the Department are dealing with them can be summarised as follows.
- 4.6 The Department monitor general progress and financial spending of Zones. Guidance on what business should be discussed at first Forum meetings was cleared with the NAO and issued by the Department to all second round Zones in December 1999. The Department offer further specific guidance to Zones on financial and sponsorship issues as they arise. The National Audit Office will continue to draw attention in its management reports to Zones of instances where Forums are not operating effectively or in accordance with charity law and make appropriate recommendations.

### Professional assistance on financial matters

- 4.7 Of the first 25 Zones, 10 had not submitted final accounts twelve months after the financial year ended 31 March 1999. Zones that do not focus on financial matters at an early stage may struggle to implement internal financial controls on a timely basis and produce accurate annual accounts in accordance with the statutory timetable. These issues are a key part of trustees' responsibilities and Forum members need to make early decisions on whether outside professional assistance is required, particularly to help in the production of annual accounts.

### Forum members' responsibilities

- 4.4 The Department are planning to issue Forum members with additional guidance about their roles and responsibilities and to offer training to the Chairman of each Action Forum (see paragraph 3.12). The Department are also providing training for Project Directors. However there is a continuing risk that Forum members and Project Directors will not always exercise adequate control over their Zone's financial matters.
- 4.5 Effective financial control by trustees requires a clear understanding that it is they who are responsible for ensuring that the charity's funds are properly applied for its purposes and that proper accounts are prepared each year. This demands a basic understanding of accounting disciplines and procedures and, where appropriate, access to qualified professional advice. Without such understanding, trustees can too easily become isolated from the core financial aspects of their charity with a resulting risk to financial propriety.

### Propriety of Action Forum decisions

- 4.8 The involvement of business people in the running of a programme aimed at the improvement of standards in education is potentially of great benefit. It can bring in management and technical expertise, new ideas and additional resources. But there are some potential conflicts of interest in these arrangements:
- As trustees, they contribute to the management of a Zone's affairs;
  - As partners, they are likely to give contributions to a Zone; and
  - As business people, they are committed to selling their products and services.

**3 Summary of points raised by the National Audit Office with Education Action Zones arising from their audit of 1998-99 accounts**



Source: National Audit Office Management Letter to the Department

4.9 The Department have recognised that conflicts of interest could be a risk to propriety. They have made clear that each Action Forum must have procedures to ensure that purchasing decisions are competitive and that business partners and their employers do not gain any commercial advantage through their position on the Action Forum.

4.10 We have not found any substantiated breaches of these procedures but a number of Zones have been very slow to put in place a register of the business interests of Forum members and employees. If Zones do not have knowledge of the business interests of the people who manage their affairs, they can not exclude those people from participating in decisions in which they have a

direct interest. In the light of this, the Department have issued new guidance to all second round Zones.

**Payment of grants to Action Zones**

4.11 Many of the Zones had difficulty in spending the grant monies that the Department paid to them in 1998-99 and 1999-2000. The situation was exacerbated in 1998-99 by the late award of Early Years and Work Related Learning grants from the Department. Some of these grants were paid to Zones in March 1999 with the expectation that they would be spent before the financial year-end of 31 March. In 1999-2000 the Department found funds to compensate Zones for the VAT liabilities they had incurred. The Department wrote



to Zones in December 1999 advising them about the availability of funds with Zones making claims in January, February and March 2000.

- 4.12 The payment of grants so late in the year creates a risk that Zones will use creative accounting to disguise the fact that they have not used them. For example, one school in a Zone persuaded a supplier to raise an invoice dated March 1999 to create the impression that they had used their funds before the year-end. Several Zones simply paid over to their schools the monies they received, wrongly believing that this discharged their responsibility for spending the grants even though no goods or services had been provided. The final 1998-99 accounts of some Zones show high values of prepayments to reflect what was, in effect, funding to schools for 1999-2000.
- 4.13 Late payment of grants encourages Zones to take the risk of paying suppliers before they have received goods and services or buying goods in larger quantities than they need for the short-term. One Zone bought several years' supply of book bags for pupils in order to use their funds. Another agreed to make an unnecessarily large payment for services provided by the local authority while waiting to receive a formal invoice.
- 4.14 We were concerned that payments made by Zones under the influence of tight time constraints are unlikely to result from well-considered purchases that address the priorities of the Zone and its schools. Nor are they likely to secure the best value from the limited resources that are available to raise standards in school education.
- 4.15 In future the Department do not intend to allocate any additional funding to Zones after 31 December each financial year.

### Payment of grants to schools

- 4.16 Many of the Zones paid grants to schools and other bodies in 1998-99 from the funds given to them by the Department. Several experienced difficulties gathering evidence of what those monies were spent on and whether they were used in the period for which they were allocated. It is essential that Project Directors attach conditions to the grants that they award, setting out the purposes for which the funds are to be used. These conditions should also specify the evidence needed to establish that the funds were properly used and accounted for. On our advice some Zones have decided to pay grants on a re-imburement basis. This increases the likelihood of grant recipients retaining adequate documentation to support their use of Action Zone funds.

- 4.17 One school, expecting to receive a grant from their Action Zone, contracted with a company that was well known to them as an existing supplier. They did this without any form of competitive process, breaching the Zone's financial procedures. Subsequent work by the Zone's staff and ourselves showed that the school could have secured a saving of nearly £8,000 through competitive tendering or market testing. In this case, the Zone's staff acted promptly and properly with the Department's backing, by re-imbursing the school only the amount that they would have spent if they had followed generally accepted tendering and contract letting procedures.
- 4.18 It is important that Zones have financial procedures in place before grants are awarded to schools or other bodies and that adherence to those financial procedures is part of the Zone's payment conditions.

### Borrowing

- 4.19 It is a condition of the School Standards and Framework Act 1998 that Zones may not enter into borrowing. We are aware that a number of Zones have entered or will be entering into leasing arrangements for computers and other equipment. In some cases, the leases could be interpreted as finance leases. A finance lease is one that transfers substantially all the risks and rewards of ownership of an asset to the lessee, and is a form of borrowing. The Department have been clear in their guidance from the outset that Zones should not enter into finance leases, but Zones have not all had the financial expertise to differentiate between different forms of leasing arrangements.
- 4.20 The Department have recently issued additional guidance to Zones explaining how to identify finance leases. The judgement on whether or not to enter into a proposed lease agreement, however, remains with the individual Zones. The Department have therefore recommended that an accountant should check any proposed lease before signing to avoid problems arising. We have recently examined cases referred by Zones and will continue to do so outside of the audit timetable when asked.

#### Good practice

East Basildon Education Action Forum responded to the statutory prohibition on Education Action Zone borrowing by entering into an agreement with their commercial bankers that the Zone's account could not go overdrawn. Subsequently the Department have advised all Zones to do this.

# Appendix A

## The Locations of Education Action Zones



## Start date

### September 1998

Barnsley Priory; Blackburn with Darwen; Herefordshire; Lambeth; Leicester; Middlesbrough; New Addington; Newcastle Upon Tyne; Newham; North East Lincolnshire; North Somerset; Salford and Trafford,

### January 1999

Aston and Nechells; Calderdale; East Basildon; East Brighton; Kingston Upon Hull; Kitts Green and Shard End; Leigh; Nottingham; Plymouth; Sheffield; South Tyneside; Southwark; Thetford

### September 1999

Greenwich; Oxford

### December 1999

Dudley; East Manchester; Kent/Somerset\*; North East Derbyshire Coalfields; Preston; Southend; Telford and Wrekin; Wednesbury; Wythenshawe

### January 2000

Ashington; Barrow in Furness; Bedford; Bolton; Bridgwater; Camborne, Pool and Redruth; Clacton and Harwich; Corby; Coventry; Dingle Granby and Toxteth; Downham and Bellingham; Easington and Seaham; East Cleveland; Epicentre and Ellesmere Port; Gloucester; Hackney; Hastings and St Leonards; Leigh Park; North Gillingham; North Islington; Peterlee; Slough; South Bradford; Speke and Garston; Stoke on Trent; Sunderland; Wakefield; Withersea and Southern Holderness; Wolverhampton

### 2000-01 financial year

Bristol; Derby North East; Greater Yarmouth; North Stockton; North West Shropshire; South East England\*; South East Sheffield; Westminster

\* These are 'virtual' Education Action Zones, comprising schools that are not clustered in one local area. They are not shown on the map.

# Appendix B

## Raising Education Standards

### Raising education standards

- 1 Each Education Action Zone established by the Secretary of State for Education and Employment draws up a three-year action plan to meet improvement targets for pupils and schools. These plans may include targets for:
  - increasing achievement, for example by improving pupils' results in literacy, numeracy and GCSE examinations;
  - improving pupil attendance;
  - reducing the numbers of pupils excluded from schools because of their behaviour; and
  - reducing youth crime
- 2 Each Action Forum can put forward any proposal, which they think will raise educational standards. Typically, the proposals fall into one or more of the following categories:

### Improving teaching and learning

- using new combinations of teaching and non-teaching staff, including the new Advanced Skills Teachers;
- improving teacher training to help existing staff realise their full potential;
- rewarding good teachers through incentives for success;
- strengthening leadership through incentives for heads who turn round failing schools;
- improving standards of literacy and numeracy, especially for pupils who are under-achieving;
- providing more opportunities to cater for gifted and talented children and to stretch all pupils through having higher expectations; and
- using computer-assisted learning and information technology to deliver education and to encourage participation by all pupils.

### Working with business and other organisations

- using the management and leadership expertise of business and other partners;
- using the support of business and other partners to provide school services; and
- providing opportunities for work-related learning.

### Making education and other services work better together to tackle social exclusion

- linking Education Action Zones with health or employment zones;
- providing access to health, social services or other services for children within a school;
- reducing truancy and the number of pupils excluded; and
- working to prevent youth crime.

### Support to families

- changing the school day or school year to provide before and after school clubs, including breakfast clubs, weekend and holiday classes, reading clubs and nursery facilities;
- promoting family literacy and numeracy initiatives;
- using parents and other relatives to support teaching and learning and in some cases enabling parents to go on to achieve formal qualifications; and
- improving child care arrangements.

### Support to pupils

- helping pupils prepare for the change from primary to secondary school, and from secondary school to further education or employment;
- giving pupils more work experience and the opportunity to study for vocational qualifications; and
- providing opportunities for personal mentoring and advice to students, including counselling, peer mentoring, careers guidance and youth groups (including, for some pupils, support on issues relating to gender or race).