

# Education Action Zones

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



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
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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.





**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.