Leicester City Council

Review of Over-Commitment in Lifelong Learning and Community Development

May 2005

PRIVATE AND CONFIDENTIAL

1 Executive Summary

This report (the "Report") was prepared by RSM Robson Rhodes LLP at the request of Leicester City Council (LCC) and the terms for the preparation and scope of the Report were agreed with them. The Report was prepared solely for the benefit of LCC and no responsibility or liability is accepted by RSM Robson Rhodes LLP towards any other person in respect of the use of the Report or reliance on information contained in the Report by any other person.

Background

1.1 During March 2005, Leicester City Council (LCC) identified an over-commitment on the revenue budget of the Lifelong Learning and Community Development Division (LL&CD) of the Education and Lifelong Learning Department. The full-year effect of this over-commitment was, at that time, estimated at £2.5 million, with an estimated £1 million over-commitment for the 2004/05 financial year.

1.2 LCC has subsequently conducted a thorough analysis of the budget and outturn position to determine the exact value of the over-commitment. This process is shortly to be concluded. A recovery plan for the management of the over-commitment is being developed for presentation to the Cabinet in June 2005.

Purpose and Scope of our Work

1.3 We have been engaged by LCC to carry out an independent review to:

- understand the background to the over-commitment and to ascertain the reasons why it happened; and
- identify the lessons to be learnt by LCC, and to make recommendations for mitigating such a situation arising in the future.

1.4 The Libraries Service was not in the scope of the review, and establishing the value of the over-commitment was also outside the scope of the review.

1.5 The review has not being undertaken in contemplation of criminal proceedings or disciplinary action.

Our Approach

1.5 Our review took place during April 2005. In fulfilling our terms of reference, the primary sources of evidence we have considered are:

- a factual briefing received from the Chief Finance Officer;
- briefing material and key documents provided by officers of LCC; and

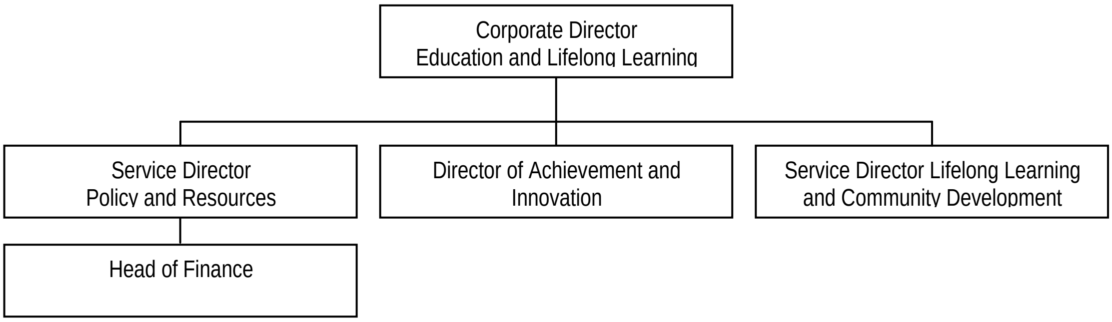
- formal interviews with key staff nominated by the Chief Finance Officer and others that arose during the course of the interview process. We are content that we have seen those individuals that have allowed us to make appropriate findings.

1.6 Appendix I schedules the individuals we have consulted as part of our review and Appendix II schedules the documentation we have reviewed in reaching our conclusions.

1.7 Our detailed findings are set out in the sections that follow.

Departmental Context

1.8 The Education and Lifelong Learning department is led by the Corporate Director, supported by three Service Directors as set out below. The Service Director for Policy and Resources manages the Head of Finance for the department, along with Heads of Policy and Resources, Information Services, and Human Resources.



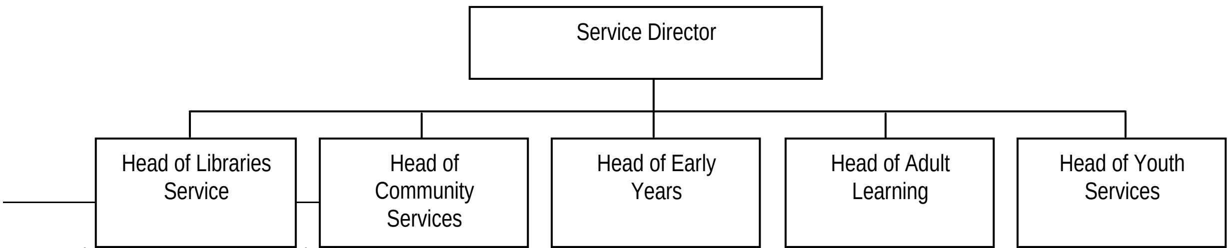
1.9 LCC became a unitary authority in April 1997. The first OFSTED inspection of July 1999 found the LEA to be in a parlous state, with few strengths and many weaknesses. Strategic management was largely ineffective, and few areas of the LEA escaped criticism. A follow up inspection, reported in May 2001, established considerable progress, and stated that the LEA had professional leadership and political will to improve, but significant improvements were still required[1].

1.10 The Departmental Management Team (DMT) has been responsible for managing the action plan resulting from the OFSTED inspections, and has also led on opportunities such as City Academies, Leadership Incentive Grants and Behaviour Improvement Programmes. In particular, the DMT has also led on Building Schools for the Future, one of the largest single investment projects LCC has managed since the Second World War[2].

1.11 It is in this context that the Corporate Director delegated decision making for strategic initiatives across the DMT.

Divisional Context

1.12 The Service Director for LL&CD is supported by a senior management team as set out below:



1 Inspection of Leicester City Local Education Authority, OFSTED, May 2001

1.13 The LL&CD division operates in a "volatile service delivery environment"[3], and the division's budget has overspent in previous years. Prior to 2004/05 these overspends have been accommodated by contingencies and reserves, providing a closedown position within +2% or –2% to the net revenue budget. A summary of the revenue outturn for the last 3 years is shown below:

All £'000	2002/03 Revised Budget	2002/03 Actual	2002/03 Variance	2003/04 Revised Budget	2003/04 Actual	2003/04 Variance	2004/05 Revised Budget	2004/05 Actual	2004/05 Variance
Total LL&CD*	9,971.1	9,931.3	(39.8)	15,959.3	16,122.4	163.1	15,827.3	17,016.7	1,189.4
Variance %			(0.39%)			1%			7.5%

* Including Libraries
Source: Head of Finance, Education Finance

1.14 LL&CD has experienced a series of reorganisations in recent years, the key phases of which are as follows:

- Phase 1 review, which ended in April 2001, created Senior Community Learning Manger (SCLM) and Principal Officer posts, reporting direct to the Service Director (LL&CD). This was prompted by the merger of Arts and Leisure services with the Lifelong Learning Division.
- Phase 2 review, which started in Spring 2003, focussed on the posts below the SCLM and Principal Officer posts. This review was terminated. The generic structure was no longer considered appropriate, and a structure based on service specific lines was considered to be more favourable by the Service Director (LL&CD).
- Phase 3, which became the Divisional Organisational Review (DOR), represented a re-review of the first two phases based on a service specific structure. This commenced in September 2003.

1.15 LCC's Corporate Budget Strategy for 2004/05 set savings targets for the 3-year period 2004/05 – 2006/07. To achieve these savings, the Corporate Strategy identified savings targets for individual Departments. The DMT for Education and Lifelong Learning decided that most of the savings allocated to the Department were to be realised from the LL&CD division, and this was in line with the Corporate Strategy. These savings formed part of the Departmental Revenue Strategy (DRS) for 2004/05 – 2006/07.

Summary of Key Findings

1.16 Set out below are the key factors that we believe led to the over-commitment.

Management of the DOR

1.17 We have identified significant failings in the management of DOR. They include:

- weak governance arrangements;

[2] Interview with Steven Andrews, Corporate Director, 25 April 2005
[3] Interview with Steven Andrews, Corporate Director, 25 April 2005

- inappropriate membership of the project team and project board, particularly the lack of the involvement of finance;
- lack of clear understanding of roles and responsibilities by members of the project team;
- ineffectual use of project management tools, such as a risk register, issues log and project plan;
- a lack of reporting and scrutiny;
- weak handover arrangements when key staff changes occurred;
- the removal of project management structures at the end of the project development stage;
- a lack of detailed costings for proposals and a lack of clear understanding of all financial implications;
- implementation of proposals prior to formal sign off; and
- implementation of proposals prior to costings being understood in detail, and prior to new coding and budget structures being available.

1.18 We believe that the failings outlined above had the most significant impact on the over-commitment problems that arose during 2004/05.

Budget Preparation

1.19 Given the size of the budget savings that were being proposed, it is our view that the DRS as a strategic document was not sufficiently robust as a management tool due to the following failings (in respect of LL&CD budgets):

- The strategy to achieve the savings did not provide enough information on expected savings realisation, and were not reconciled to the detailed LL&CD budgets, with exception of the premises review for which the savings were put forward in a single reduction proposal.
- The proposed savings were expected to arise from three strands, for which reviews were still to be completed and approved, and which therefore carried a certain amount of risk. Risks in relation to these streams were not made explicit in the document.
- The baseline budgets proposed for the new structure were not and could not be reconciled to the old structure as represented in the 2004/05 budget detail. Using two formats to present budgetary information without a clear linkage resulted in confusion, and this lack of transparency means that it remains unclear where the baseline budgets for the new structure came from.

1.20 Furthermore, the 2004/05 budget was set without a clear understanding of how savings being proposed related to detailed service budgets, with an apparent lack of consultation with senior officers. This was compounded by the changes to senior management roles and responsibilities at the key stage of budget preparation.

Budget Monitoring

1.21 Detailed budgets were being prepared during the financial year to which they related, rather than in advance of the budgets going live and took far longer than expected, which was inevitable given the management approach to the DOR. A part year close down from old to new budget structures was planned, but this never took place. Indeed, the budget build aligned to the new structure for 2004/05 was not effectively completed during the financial year in question.

1.22 There were only budgets and codes available that related to the old cluster management structure throughout 2004/05 due to the timing of, and problems experienced with, the budget disaggregation process and the creation of the new coding structure.

1.23 Cost centre manager posts relating to the old structure were in the process of being deleted whilst cost centre manager posts relating to the new structure were being created and appointed to during the first two quarters of the financial year as a consequence of the DOR. This resulted for this period there being no formally appointed cost centre managers in post.

1.24 The consequence of this position was that budget holders and senior management, in effect, had no budgets to monitor and actual spend could not be posted to the new budget codes. For this reason budget monitoring information was not available for most of 2004/05 for LL&CD.

1.25 In our view, budget monitoring reporting during quarters three and four provided a false summary of the budget position. The conclusion that there would be a break-even position, or no significant variances, could not and should not have been reached. Indeed, the conclusion should have been that insufficient information had been provided to allow an effective assessment of revenue spend against the budget.

Budgetary Control

1.26 The lack of effective budget monitoring information meant that the true budget position for LL&CD could not be identified until the final month of the financial year, and thus budgetary control measures could not be taken in time to effectively manage the over-commitment during 2004/05.

1.27 When concerns were first raised during late 2004 / early 2005 the department waited until the full extent of the over-commitment was identified and the implications of a freeze on spending and recruitment on service delivery were understood, before taking any budgetary control measures. This did not happen until 14 March 2005.

Conclusions and Recommendations

1.28 Financial regulations and protocols currently in place are fit for purpose. The development of the over-commitment arose due to the failure to follow these regulations, or utilise them appropriately, in particular in relation to the delivery of the DOR.

1.29 This was at least in part caused by confusion over which protocols should be followed in relation to project management, and a misunderstanding that the corporate protocols for organisation and staffing change should not be used in conjunction with other corporate guidance. This led the DOR to focus only on HR related issues. Important as those were, this was at the expense of resource planning, in particular the effective financial management of the review. However, we do not believe that confusion over protocols should have allowed the problems that arose with the DOR to happen.

1.30 We recommend that the protocols for organisation and staffing change be reviewed to ensure that they contain guidance on all essential considerations. Indeed, they must make reference to the financial management of such reviews, and to inter-dependencies with other key corporate protocols and methodologies relating to budgets and project management.

1.31 We recommend that project management methodologies ensure that processes are robust for organisational reviews of this type. This should include:

- more detailed reference to the governance arrangements expected; and
- explicit advice that the implementation stage of organisational reviews should not take place until such time as the proposals are fully costed, and wherever possible, when appropriate coding and budget structures are in place that reflect the new structure.

1.32 Whilst LCC does have project management methodologies in place, these were not effectively employed during the course of the DOR. This important shortfall was never identified. The DOR was not an organisation review of strategic significance under LCC's constitution and therefore was not subject to formal Member scrutiny.

1.33 We recommend that the roles and responsibilities of Member involvement in relation to future organisational reviews are reviewed to ensure effective scrutiny arrangements are in place.

1.34 The DRS process must ensure that the departmental and divisional growth and savings strategy reconciles to the detailed budgets contained within the DRS and an effective risk assessment should always be included setting out:

- the risks in relation to achieving the strategy,
- the impact of the risk,
- the probability of the risk occurring,
- mitigating actions to be taken, and
- accountabilities for managing the risk.

1.35 An effective skills audit and training needs analysis should be undertaken on members of project teams and project boards to ensure that these groups contain appropriate skills and experiences. We also recommend that a skills audit and training needs analysis be undertaken in relation to financial management roles and responsibilities for all senior management within LL&CD.

Freedom of Information Act 2000

1.36 Any product of our services released to LCC in any form is supplied by us on the basis that it is for LCC's sole benefit, information and use and is confidential. We acknowledge that LCC has certain obligations under the Freedom of Information Act 2000 (FOIA) and we shall assist and co-operate with LCC in the event that LCC receives any request for information under the FOIA relating to this engagement.

1.37 If LCC receives a request to disclose information pursuant to the FOIA, LCC has agreed to:

- consider whether the information is in fact exempt; and
- consider whether the public interest in maintaining the exemption outweighs the public interest in disclosing the information (unless the exemption benefits from an absolute exemption); and
- consult with us prior to disclosure of information.

1.38 LCC shall promptly notify us of any decision that is made in connection with a request to disclose information made pursuant to the FOIA or any judgments or decisions of the Information Commissioner or Information Tribunal which will result in any such information being disclosed.

1.39 These provisions shall survive the expiry or termination of the Services Contract without limit in point of time.

1.40 LCC shall insert the following disclaimer on any information or document containing information that is received by LCC from us and which is to be disclosed and/or supplied pursuant to a request made under the FOIA:

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Acknowledgements

1.41 We would like to take this opportunity to thank LCC's officers for their assistance provided during the course of our review.

RSM Robson Rhodes LLP

20 May 2005