

AGENDA ITEM: 11

Page nos. 53 - 57

Meeting	Audit Committee
Date	21 September 2010
Subject	Grant - Higher Education Funding Council for England
Report of	Deputy Chief Executive & Chief Finance Officer
Summary	Report requested by Audit Committee members regarding: How the risk arose around the grant; Steps taken to mitigate risk and Safeguards in place for the future

Officer Contributors	Maria G. Christofi, Assistant Director Financial Services, Finance Directorate Karen Balam, Interim Assistant Director of Finance Sadhna Patel, Finance Manager
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	None
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Maria G. Christofi, Assistant Director Financial Services (020 8359 7122).

1. RECOMMENDATIONS

- 1.1 That the report regarding the Higher Education Funding Grant be noted.
- 1.2 That the Audit Committee provide comment on other improvements the Committee may require.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Cabinet Resources Committee Report 17 June 2010.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Corporate Plan includes an objective to 'provide excellent, highly efficient and cost effective regulatory services' within 'Better services with less money'.

4. RISK MANAGEMENT ISSUES

- 4.1 Potential risk associated with timely and accurate grant claims and reducing the risk of income loss to the Council.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 Steps have been taken to mitigate a risk of this nature, and actions put in place to safeguard the risks for the future, which will deliver better financial management in future assisting the Council in meeting its public equality duties.

6. USE OF RESOURCES IMPLICATIONS (FINANCE, PROCUREMENT, PERFORMANCE & VALUE FOR MONEY, STAFFING, ICT, PROPERTY, SUSTAINABILITY)

- 6.1 Finance implications of the Higher Education Funding Council Grant, which includes prior grant not claimable and the potential loss of grant income into the future.

7. LEGAL ISSUES

- 7.1 None, other than in the report.

8. CONSTITUTIONAL POWERS

- 8.1 The Audit Committee's terms of reference are noted in Part 3, Section 4 of the Council's Constitution and includes to monitor the effective development and operation of risk management and corporate governance in the Council.

9. BACKGROUND INFORMATION

- 9.1 In the Final Outturn Position Report 2009/10, presented to Cabinet Resources Committee on 17 June 2010, accrued grant of £2.008m relating to the years 2006-07, 2007-08 and 2008-09 claimable from the Higher Education Funding Council of England (HEFCE) was approved for write off. This report sets out

how the write-off arose, steps taken to mitigate the grant loss and safeguards put in place for the future.

- 9.2 The HEFCE grant reimburses staff-related inherited liabilities under section 133 of the Education Reform Act 1988 and section 67 of the Further and Higher Education Act 1992. This empowers but does not require HEFCE to pay certain bodies in respect of relevant expenditure incurred or to be incurred by the body of any prescribed class of expenditure relating to:

Premature retirement compensation payments	Payments made to individuals that used to be employed in connection with an advanced FE course as teachers and lost their job between 1 April 1981 and 1 April 1989.
Safeguarding compensation payments	Payments made to individuals that used to be employed in an institution or a department of a further education establishment which immediately prior to 1 August 1975 was conducted as a teacher training establishment. These payments are for long-term compensation that would convert to retirement compensation upon the individual retiring. Also included in this annex are safeguarding payments made to individuals who ceased to be employed in a college or department of teacher training on or before 31 March 1989.
Pensions increases under Local Government Superannuation Scheme for former non teaching staff of former PCFC-funded institutions	Payments made to individuals that used to be employed in connection with an advanced FE course but not as teachers who lost their jobs prior to 1 April 1989.

The grant is claimable until all the inherited liabilities cease, which is upon death of the original pensioner or their spouse, whichever is the latter.

9.3 Timescales

- 9.3.1 On the 18th August 2009, Finance staff were made aware, by HEFCE, that the grant for Barnet Council had ceased. Staff working on the HEFCE claim became aware of this situation when a member of staff telephoned HEFCE regarding a returned cheque relating to a grant overpayment relating to prior years.

- 9.3.2 HEFCE provided copies of previous correspondence they had had with the London Borough of Barnet which:

- set out the outstanding queries HEFCE had with the Barnet grant claim;
- the communication trail that had previously taken place; and

- the final cessation of grant letter of the 28th October 2008.

9.3.3 The cessation of grant letter from HEFCE dated 28th October 2008, addressed to the then Director for Resources & Chief Finance Officer, set out an 18 month trail of communication (written, telephone and meetings) between HEFCE and the Council to resolve outstanding issues relating to the 2005-06 and 2006-07 grant claims. Throughout the period to 29th September 2008, when the penultimate letter from HEFCE was received, the authority had the opportunity to resolve the outstanding issues regarding the 2005-06 and 2006-07 claims and maintain a positive relationship with HEFCE. The lack of response to the communications by HEFCE directly lead to the cessation of the grant.

9.3.4 Grant income of £1,015,156 was accrued for during the closure of accounts in 2008-09, after receipt of the cessation letter dated 28th October 2008. This indicates that the seriousness of the 28th October 2008 letter was not recognised, which led to a further accrual being posted in the accounts and the risk of the accruals not being recognised were not adequately reported.

9.3.5 The cessation of the grant was reported to the Interim S151 Officer on the 20th August 2009 and the Leader on the 30th October 2009, at which stage the financial risk to the authority was recognised. Significant work has taken place since to re-establish a positive working relationship with HEFCE resulting in their agreement to re-instate the grant going forward. The Council's approach to recovery was guided by independent legal advice. Additional actions have included the commissioning of an external review which led to an internal disciplinary process, which has now been completed.

9.4 **How the risk arose**

9.4.1 Some of the factors that contributed to the grant cessation included: the implementation of the SAP accounting system; poor working papers; and knowledge gaps arising due to staff changes during the prior Finance restructure. There was also a lack of systematic procedures for the collation of the evidence to back-up the claims. This was all compounded by what appeared to be limited or non effective handover of the claim procedure to anybody else remaining with the Council post a restructure of Finance that took place in 2005. Finally, the grant claims do not appear to have been given the correct level of priority for staffing resources given the potential income risk.

9.5 **Steps taken to mitigate risk**

9.5.1 There have been various steps taken to improve the end to end process, to validate the claim and mitigate the risk. Officers successfully negotiated with the Higher Education Funding Council to build trust and confidence in the Council that the claims going forward would be accurate and timely.

9.5.2 Staff members were directed to deal with this grant claim through to completion. All relevant elements of the claim were assessed and it was confirmed that they were eligible by reviewing the pensions records. It was

also essential to ensure that there was a thorough understanding of the grant body rules of the claim to ensure that the eligible pensioners could be claimed for and to understand why they were eligible. These required to be documented and referenced the claim to the grant regulations. Further, it was imperative that all grant claims were reviewed for timeliness for all grants and that the grant database was reviewed to ensure that all grants were included.

- 9.5.3 Moving forward, following the period post the current finance restructure, staff will ensure there is a proper handover of the claim and evidence gathering process to the relevant team.
- 9.5.4 A lot of time and effort has been spent by Finance and Pension teams to amalgamate the database as requested by HEFCE. This database was sent to HEFCE as work in progress late 2009 and HEFCE made a payment to Barnet in February for part of the claim.
- 9.5.5 The deadline for the claim for 2009/10 was 31 July 2010 this was processed by loading the information of the individuals and amounts via the website. There was no reconciliation statement to be completed. This information was uploaded on 30 June 2010. The 2009/10 claim has been agreed and the year end statement has been signed and sent to HEFCE. A letter confirming this position was received by Barnet on 26th August 2010.

9.6 Safeguards in place for the future

- 9.6.1 The key safeguard is the process of monitoring the grant register for timely grant claims and, where applicable, reviewing audit opinions for accuracy of grant claims.
- 9.6.2 Other safeguards are to ensure that there is appropriate knowledge transfer between outgoing and remaining and new staff, and developing (or reviewing) team work schedules to ensure they are comprehensive and consistent with control processes (such as the grant register and grant claim monitoring system).
- 9.6.3 The database has been thoroughly checked and cleansed by pensions to ensure that the individuals that are recorded on it meet the criteria and have been accepted by HEFCE. HEFCE also has the list of deferred individuals who will be on the claim form in the future, therefore moving forward there should be no issues with regards to the payment from HEFCE.

10. LIST OF BACKGROUND PAPERS

- 10.1 None.

Legal: SAL

Finance: AT