**SCHOOLS’ FUNDING FORUM**

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| **SUBJECT:** | **Financial transparency of local authority maintained schools and academy trusts** |
| **AUTHOR:** | Simon Pleace, Ex Finance Business Partner |
| **DATE:** | 20 September 2019 |
| **FOR:** | Comment & Decision |

**1. Introduction & background**

* 1. On the 17 July 2019, the Department for Education (DfE) launched a consultation which contained a series of proposals designed to improve the financial transparency of local authority maintained schools and academy trusts.
  2. The closing date for responses is 30 September 2019.
  3. The DfE have published a supporting document which sets out in detail their rationale for each proposal. A copy can be accessed here:



* 1. A copy of the LA draft response to the consultation is attached at appendix 1.
  2. Please note that as part of this consultation, the DfE have asked for us to consider whether there are any additional costs for either the LA or the Schools as a result of their proposals. These are shown at the end of appendix 1.

**2. Recommendation**

2.1 Members of the Forum are asked to review and **comment** on the draft LA response. Specifically, we are interested in whether we have correctly captured the views of schools on those proposals that affect them.

2.2 Members of the Forum are also asked to **decide** whether they wish to respond to the consultation, through either supporting the LA submission or submitting their own submission. The LA will assist with either option.

**Appendix 1: Extract of Questions from the Consultation**

**Proposal 1: Making public aware where local authorities are failing to comply with deadlines for completing assurance returns and financial collections**

Please refer to **paragraphs 3.2 - 3.10** of the consultation document before responding to this proposal.

Local authorities, and maintained schools, are obliged to complete the following assurance returns and financial collections:

• Schools Financial Value Standard

• Dedicated Schools Grant

We have reviewed the approach to late returns that the ESFA has adopted this year for the academy sector, whereby they publish (on GOV.UK) the names of trusts who are late in submitting more than 2 out of 4 annual returns and believe similar measures could be used in the LA maintained schools sector.

**We propose to publish the names of local authorities on GOV.UK who fail to comply in any financial year with more than two deadlines from the following collections:**

**School Financial Value Standard (SFVS)**

**Dedicated Schools Grant CFO assurance statement**

**Consistent Financial Reporting**

**Section 251 Budget**

**Section 251 Outturn**

Please indicate whether you agree or disagree with the proposal below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Agree | Disagree | Neither agree nor disagree |

Comments

We neither agree nor disagree with this proposal. Our view is that local authorities do not deliberately submit returns late, and late submissions are merely a measure of the pressure local authority finance teams are under, having faced eight years of extreme financial challenge with an ever-reducing compliment of staffing.

One of the challenges with the completion the S251 returns is that the form itself has not kept pace with changes to Council services. This does bring into question the value of these forms, as LA Finance staff are having to arbitrarily split expenditure lines to fit into antiquated DfE description lines. A review of S251 and its relevance to current LA services is long overdue!

We are interested to understand what sanctions or support you will offer those local authorities whose names might appear on the list in successive years, as the consultation fails to mention this?

We also think it would be helpful for the DfE to issue a “receipt” when a return is made to evidence any potential dispute. The SFVS return was sent in April and yet the LA was chased in July as having failed to return.

**Proposal 2a: Strengthening DSG annual assurance returns: Collecting the number of schools with suspended budgets and notices of financial concern through existing DSG assurance statement**

Please refer to **paragraphs 3.11 - 3.14** of the consultation document before responding to this proposal.

**We propose to collect the number of schools with suspended budgets and notices of financial concern through the existing DSG assurance statement signed by the local authority CFO at the end of the financial year.**

Please indicate whether you agree or disagree with the proposal below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Agree | Disagree | Neither agree nor disagree |
| Comments  In reality we use these sanctions sparingly, but support this proposal as in our view it will improve transparency. | | | |

**Proposal 2b: Strengthening DSG annual assurance returns: Adding a new section to the DSG assurance statement that captures the amounts that LAs have recovered from investigating fraud.**

Please refer to **paragraphs 3.11 - 3.15** of the consultation document before responding to this proposal.

Currently, local authorities recover funds from fraud investigations but only inform DfE of the number and value of reported cases, not the value of money recovered

**We propose to add a new section to the DSG assurance statement that captures the amounts that LAs have recovered from investigating fraud**

Please indicate whether you agree or disagree with the proposal below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Agree | Disagree | Neither agree nor  disagree |
| Comments | | | |

We think this is a good idea and improves the financial transparency of the work the local authority is undertaking to investigate fraud and its success with recovery. It could be argued that such transparency may act as a deterrent.

**Proposal 3: Requiring maintained schools to provide local authorities with 3-year budget forecasts**

Please refer to **paragraphs 3.16 – 3.21** of the consultation document before responding to this proposal.

Local authorities are required to maintain schemes for financing schools, which set out the financial relationship they have with their maintained schools**.** We have recently introduced a requirement for academies to send the department a three-year budget plan and we believe that this could be extended to maintained schools in the form of sending a three-year budget plan to their maintained authority.

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| **We propose a directed revision of the schemes for financing schools to make it a requirement for maintained schools to provide local authorities with three-year budget forecasts** |

Please indicate whether you agree or disagree with the proposal below.

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| --- | --- | --- | --- |
|  | Agree | Disagree | Neither agree nor disagree |

Comments

In Kent we have required our maintained schools to provide three-year budget plans for many years. We believe medium term financial planning is important, allowing schools to anticipate budget opportunities and challenges in advance of the event.

The requirement to complete a three-year budget plan should be accompanied with a firm commitment by the Department to provide three-year school funding settlements. This will enable schools to predict, with greater certainty and accuracy, the level of funding they are set to receive. We would also recommend that the Department consider entering into multi year spending decisions, particularly around increases to teachers pay, which accounts for a significant proportion of a school’s annual expenditure.

**Proposals 4 (a,b,c): Strengthening Related Party Transaction arrangements in maintained schools:**

Please refer to **paragraphs 3.22 – 3.29** of the consultation document before responding to these proposals. The three proposals are alternatives to one another.

Academy trusts must report all Related Party Transactions (RPTs) to ESFA in advance of the transaction taking place, using ESFA’s on-line form. This requirement applies to transactions made on or after 1 April 2019. Since April 2019, all academy trusts have had to seek approval from the ESFA for RPT payments of more than £20,000 and all transactions below £20,000 must be declared. The arrangements for reporting RPTs in maintained schools are not as stringent as those in academy trusts.

**Proposal 4a: We propose to make schools append a list of RPTs to their response to the new question in the SFVS about their arrangements for managing RPTs.**

**In addition, we would insert additional columns into the CFO Assurance Statement, to request the number of RPTs and value for each to be disclosed.**

Please indicate whether you agree or disagree with the proposal below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Agree | Disagree | Neither agree nor disagree |

Comments

We believe that this is a better proposal than 4b as the SFVS is a required annual return for all schools and would therefore be easier to manage and collate.

**Proposal 4b: We propose to amend the scheme for financing schools to require schools to report all RPTs, or RPTs above a certain threshold, directly to the local authority.**

Please indicate whether you agree or disagree with the proposal below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Agree | Disagree | Neither agree nor disagree |
| Comments  See response to 4a  **Proposal 4c: We propose to amend schemes to require schools to seek permission from the authority to enter RPTs above a threshold.**  Please indicate whether you agree or disagree with the proposal below. | | | |
|  | Agree | Disagree | Neither agree nor disagree |
|  | | | |

Comments

Governor rules around Business Interests and standard Full Governing Body agenda items would take account of this. Any Local Authority involvement in this process would add cost and time to decision making. There is no base data to use to evaluate an additional cost.

**Proposal 5: Requiring maintained schools to be subject to internal audit at least every 3 years**

Please refer to **paragraphs 3.30 – 3.34** of the consultation document before responding to this proposal.

Schools are within the overall audit arrangements determined by the local authority’s statutory section 151 officer (CFO). Authorities operate internal audit teams whose work is then relied on by their external auditors. Most audit plans use a risk-based approach with some themed audits. We have learned in discussion with local authorities that the cycles for auditing-maintained schools vary a great deal and, in some cases, have fallen into disuse. Consequently, we think there is a case for

action.

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| **We propose to make a directed revision to the scheme guidance to require that every maintained school be subject to internal audit at least every 3 years.** |

Please indicate whether you agree or disagree with the proposal below.

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| --- | --- | --- | --- |
|  | Agree | Disagree | Neither agree nor disagree |

Comments

Currently Internal Audit undertake subject focused audits only e.g. purchase cards. We complement this work with Compliance Visits which provide some assurance to both the Local Authority and Governors that controls and processes are in place.

To introduce internal audit visits would require an additional staffing requirement which we estimate to be in the region of £220k per annum.

**Proposals 6: Strengthening arrangements to help schools that are in financial difficulty:**

Please refer to **paragraphs 3.35 – 3.37** of the consultation document before responding to these proposals. These proposals are additive, and we could implement all three together.

There is currently no requirement for local authorities to report to the department their plans for addressing financial difficulty in specific schools. Local authorities include both a deficit and surplus policy within their scheme for financing schools and monitor their schools’ compliance with these. We have not previously collected information from authorities on the number of schools they intervene in but consider that this evidence base would help us to understand any variances in the level of support provided and target additional support from the Department.

**Proposal 6a: We propose to make a directed revision to the scheme for financing schools requiring schools to submit a recovery plan to their maintaining authority when their deficit rises above 5%.**

Please indicate whether you agree or disagree with the proposal below.

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| --- | --- | --- | --- |
|  | Agree | Disagree | Neither agree nor disagree |

Comments

We already ask all schools in deficit to submit a recovery plan.

**Proposal 6b: We propose to collect information on the number of recovery plans in each LA through the DSG annual assurance return from the CFO.**

Please indicate whether you agree or disagree with the proposal below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Agree | Disagree | Neither agree nor disagree |
| Comments | | | |

We have this information to hand and can easily provide it as part of the annual assurance statement.

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| **Proposal 6c: We propose to formalise the approach to working with LAs and include a request for high level action plans from some LAs. This will be achieved by:**  **• Sharing published data on the school balances in each LA**  **• Use this data and evidence-based requests from LAs to ensure support is focused where it is needed**  **• Request high level action plans from LAs in which the number or proportion of school revenue deficits over 5% is above a certain level.** |

Please indicate whether you agree or disagree with the proposal below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Agree | Disagree | Neither agree nor disagree |

Comments

If the Department intend to implement this proposal then we recommend that the “certain level” is defined as a percentage of schools in deficit, rather than an absolute number, as the later would disproportionally impact on larger local authorities like Kent.

At the 31 March 2019 KCC had 11 schools in deficit out of 336 (which represents a 3.27%), and of these only 3 had a deficit greater than 5% (0.89%).

We also think that this proposal lacks detail on what support the department can offer local authorities to support these schools.

**Proposal 7: Increasing transparency in the reporting of high pay for school staff**

Please refer to **paragraphs 3.38 – 3.41** of the consultation document before responding to this proposal.

Currently there is a disparity between public access to information on high salaries within maintained schools and academies. Salary ranges within the national pay framework are published annually in the School Teachers Pay and Conditions Document – these apply to teachers and leaders in maintained schools.

Academy trusts must disclose in their published financial statements information about each individual earning over £100k - specifically (i) their total FTE salary in £10k bandings, e.g. £100k - £110k, (ii) their job role and description and (iii) whether they are predominantly focussed on curriculum and education leadership or school business management leadership. We believe that this measure should be introduced for LA maintained schools and would require them to publish annually on their websites the number of individuals earning over £100K in £10K bandings.

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| **We propose that all LA maintained schools should be required to publish annually on their websites the number of individuals (if any) earning over £100K in £10K bandings** |

Please indicate whether you agree or disagree with the proposal below.

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| --- | --- | --- | --- |
|  | Agree | Disagree | Neither agree nor disagree |

Comments

We appreciate this information is within the public interest and is something that local authorities (in relation to their employees) have been publishing for some years. We therefore think this proposal is helpful and brings into place consistency of reporting across the publicly funded landscape.

**Proposal 8: Increasing transparency in reporting maintained school income and expenditure**

Please refer to **pararaphs 3.42 – 3.45** of the consultation document before responding to this proposal.

Local authority school accounts are part of the local authority statements of accounts that are published at gross level for income and expenditure. While individual schools are not included on the LA balance sheet, individual maintained schools are required to produce annual income and expenditure statements, known as Consistent Financial Reporting (CFR), or else local authorities produce them on the schools’ behalf. The department publishes all the information from CFR in a spreadsheet but we believe it would add significantly to transparency if there were a requirement for individual schools to publish annually on their websites their latest CFR statements.

**We propose that all LA maintained schools should be required to publish annually on their websites their latest Consistent Financial Reporting statement of income, expenditure and balances.**

Please indicate whether you agree or disagree with the proposal below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Agree | Disagree | Neither agree nor disagree |

Comments

We support the principal of improving financial awareness of a school’s annual income and expenditure. Whether this should be on an individual school’s website or whether it should be for the LA to publish on behalf of its maintained schools is up for debate (in the later, the school could provide a link to the LA website where this information is available).

We recommend that if this proposal is taken forward, the Department for Education publish a set format for such reporting, including a useful weblink to help explain the types of income and expenditure that can be found within each CFR code. Schools can then add this link onto their website alongside their figures.

**New financial burdens on local authorities**

Local authorities are invited to fill in the table below to indicate and quantify any new burdens they believe would arise from the proposals in this document. Please specify in as much detail as possible what costs you believe would arise and provide figures.

|  |  |  |
| --- | --- | --- |
| Proposal | Yes/No | Details and quantification of cost |
| 2a | Yes | Minimal additional cost as frequency is currently very low |
| 2b | Yes | Minimal additional cost as already capture this information – will depend on detail of reporting requirement |
| 3 | No | Already do this |
| 4a | Yes | The collation of over 300 returns and the completion of the new CFO Assurance Statement would present an additional burden on us. We estimate this to be around £5k per annum. |
| 4b | Yes | Similar position to 4a above |
| 4c | Yes | This proposal represents the greatest cost to the LA and would require an additional resource to focus on approving RPT requests. We have no way of costing this without an idea of potential RPT within maintained schools, however our view is that this could be represent a higher cost than either 4a or 4b |
| 5 | Yes | This would be a significant additional cost to the LA which we estimate to be £220k per annum. |
| 6a | No | Already do this |
| 6b | No | We have this information to hand and can easily provide this without any additional costs |
| Other proposals (please specify) |  |  |

**Additional costs for schools**

Respondents are invited to fill in the table below to indicate and quantify any additional costs they believe would arise for schools from the proposals in this document. Please specify in as much detail as possible what costs you believe would arise and provide figures.

|  |  |  |
| --- | --- | --- |
| Proposal | Yes/No | Details and quantification of cost |
| 3 | No | Already do this |
| 4a | Yes | This would represent a new burden on LA maintained schools. We are unable to quantify the cost to them. |
| 4b | Yes | This would represent a new burden on LA maintained schools. We are unable to quantify the cost to them. |
| 4c | Yes | This would represent a new burden on LA maintained schools. We are unable to quantify the cost to them. |
| 5 | Yes | There would be an additional cost to LA maintained schools in preparing and supporting an internal audit. We are unable to quantify the cost to them. |
| 6a | No | Already a requirement on Kent maintained schools who go into deficit |
| 7 | Yes | This would be a new requirement to maintained schools. We are unable to quantify the cost to them. |
| 8 | Yes | If this proposal is taken forward (we have offered an alternative). We are unable to quantify the cost to them. |
| Other proposals (please specify) |  |  |