

Schools Funding Forum 17th September 2020 ITEM 12

Subject Heading:

Financial transparency of local authority maintained schools and academy trusts

Report Author:

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Eligibility to vote:

All school and academy members

SUMMARY

At the meeting of the Schools Funding Forum held on 25th September 2019 an item was discussed on a DfE consultation to strengthen the financial transparency of local authority maintained schools by adapting existing academy measures. The item provides a summary of the decisions taken following the consultation.

RECOMMENDATIONS

That the Schools Funding Forum notes the decisions taken by the DfE on financial transparency and the next steps for schools and the local authority.

REPORT DETAIL

1. Background

Since the start of the academies programme there has been significant focus on the financial transparency of the academy sector and the Department has introduced a number of measures that have improved the financial transparency and accountability

of trusts. Transparency measures such as the requirement for them to publish independently audited accounts each year, with particular scrutiny on any related party transactions, provide public assurance of their financial health and probity.

The DfE thinks that there is a strong case, where appropriate, for the current academy transparency measures to be adapted and implemented across the maintained school sector, in order to strengthen the arrangements for maintained schools.

A consultation on financial transparency of local authority maintained schools and academy trusts ran from 17 July to 30 September 2019 and was discussed at the meeting of the Schools Funding Forum on 25th September 2019.

The consultation outlined the current financial transparency arrangements for maintained schools and academy trusts and put forward a number of proposed changes. As the current transparency measures used in academies are generally stronger than those in the maintained school sector, the consultation focused on using or adapting existing academy measures to help change and improve maintained schools' financial transparency and financial health.

Owing to Covid-19, the publication of this response and the implementation of some of the proposals was delayed so as not to conflict with other important work going on in the sector.

The full DfE response to the consultation can be found in the following link:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/902003/Financial_transparency_consultation_response_July_2020.pdf

2. Summary of the proposals, decisions and timing of implementation

Proposal 1

We propose to publish the names of LAs on GOV.UK who fail to comply in any financial year with 3 or more deadlines from the following collections:
School Financial Value Standard (SFVS) 2. Dedicated Schools Grant CFO assurance statement 3. Consistent Financial Reporting 4. Section 251 Budget 5. Section 251 Outturn

Decision

We will publish names of LAs on gov.uk if they fail to comply with deadlines for returns to the Department.

Timing of implementation

Missed deadlines will be counted from the start of 2020-21. Names will be published if 3 deadlines are missed during 2020-21 (taking account of any postponement or relaxation of deadlines due to Covid-19), and likewise in subsequent years.

Proposal 2a

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 LA CFO at the end of the financial year.

Decision

We will collect the number of schools with suspended budgets and notices of financial concern through the existing DSG assurance statement signed by the LA Chief Financial Officer (CFO) at the end of the financial year.

Timing of implementation

This will apply for the DSG assurance statement return for the financial year 2020-21, which is due in September 2021.

Proposal 2b

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

Decision

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

Timing of implementation

This will apply for the DSG assurance statement return for the financial year 2020-21, which is due in September 2021.

Proposal 3

We are proposing a directed revision of the schemes for financing schools to make it a requirement for maintained schools to provide LAs with three-year budget forecasts.

Decision

We will make a directed revision to LAs' schemes for financing schools to make it a requirement for maintained schools to provide LAs with three-year budget forecasts.

Timing of implementation

Consistent with the current deadline for schools to submit their budget plans to LAs, schools will be required to submit their forecasts between 1 May and 30 June of each year. The requirement will first apply in 2021-22.

Proposal 4a

We propose to make schools append a list of Related Party Transactions (RPTs) to their response to the new question in the Schools Financial Value Standard (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.

Decision

We will make schools append a list of Related Party Transactions (RPTs) to their response to the question in the Schools Financial Value Standard (SFVS) about their arrangements for managing RPTs. In addition, we will insert additional columns into the CFO Assurance Statement, so that the number of RPTs and value for each can be disclosed.

Timing of implementation

The list of RPTs will be first attached to the SFVS for 2021-22, which is due to be submitted to local authorities by the end of March 2022. LAs will first report on this to the Department in the CFO statement for 2021-22, due in September 2022.

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 LA.

Decision

We will not be taking forward this proposal since the responses indicate that, compared to proposal 4a, it would increase administrative burdens without any clear added value.

The key difference between options 4a and 4b is that in option 4b, schools would need to inform LAs as soon as an RPT has been agreed, whereas under proposal 4a, they would report all the RPTs together on an annual basis – as part of an existing annual return.

Proposal 4c

We propose to amend schemes to require schools to seek permission from the authority to enter RPTs above a threshold.

Decision

We will not implement proposal 4c since it did not garner as much support among the respondents as proposal 4a, and since it would impose additional administrative burdens. However, if, with time, concerns are raised around the operation of RPTs in the maintained sector, we could return to this proposal in the future as a possible addition to 4a.

Proposal 5

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.

Decision

We accept that this proposal would constitute a significant New Burden for LAs and would also imply additional costs for schools. Furthermore, the responses suggest that the proposal could, in its current form, offer low value for money. That is because enforcing regular audits for all schools could cause LAs to undertake fewer audits of high-risk schools. This would be counterproductive, as the best use of audit resource is to concentrate on the most vulnerable schools. We will therefore not implement this proposal.

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%.

Decision

We will implement this proposal, as having recovery plans in place for schools with large deficits is fundamental to proper financial management.

The 5% threshold should not be seen as in any way giving “permission” for schools to have deficits up to that level, and we fully support LAs who require all schools with any level of deficit to submit recovery plans. The 5% threshold will operate as an absolute minimum requirement for when a recovery plan is needed. In most cases we would expect LAs to request recovery plans from schools where deficits are much lower. As long as they meet the 5% minimum requirement, LAs will have the discretion to set their own levels at which a recovery plan is required.

We will work with LAs to ensure implementation of this proposal is done in an efficient and effective way. This will include the requirements set for the recovery plans, as well as clarity around what exactly the 5% refers to.

Timing of implementation

The 5% trigger will apply when deficits are measured as at 31 March 2021.

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

Decision

We will implement this proposal as it will help us increase visibility of best practice across the whole schools sector, highlight any inconsistencies in LAs' approach and target additional support from the Department. Furthermore, a significant majority of respondents are in favour, and the administrative burden is expected to be negligible.

LAs will not be penalised in any way for having requested recovery plans. We encourage LAs to have robust procedures in play for dealing with deficits, and for requesting recovery plans for deficit levels below 5%. We would be much more concerned about LAs that had schools in deficit but did not request recovery plans from schools.

We will work with LAs on the implementation of this proposal, to ensure that the way it is implemented does not discourage LAs from requesting recovery plans from schools.

Timing of implementation

This will apply for the DSG assurance statement return for the financial year 2021-22, which is due in September 2022.

Proposal 6C

We propose to formalise the approach to working with LAs and include a request for high level action plans from some LAs:

- Data-sharing and monitoring: share published data on the school balances in each LA - highlighting the number and proportion with a revenue deficit of over 5% - and the available support from the Department. Share published data with LAs on their schools' financial, educational performance and pupil/school characteristics.

Timing: after publication of the next Consistent Financial Reporting (CFR) data

- Targeted monitoring and support: use of the above data and evidence-based requests from LAs for school resource management advice and challenge from the Department. We will ensure support is focused where it is most needed.

Timing: at any time during the year

- Action plan and increased monitoring: Request high level action plans from LAs in which the number or proportion of school revenue deficits over 5% is above a certain level. We would review the thresholds each year, but an example might be LAs that had more than 10 schools or more than 10% of their schools with revenue deficits of over 5% in the previous year. We would consider contextual information - such as the school balances in the LA in previous years - when deciding the LA action plans required.

Timing: at any time during 2021 after the publication of the CFR data

Decision

We will adopt this proposal as it will be important for strengthening arrangements to help schools in financial difficulty.

We recognise that the proposal will impose an additional burden for the LAs that will be required to submit action plans to the Department. However, all LAs should have sound financial management practices in place, including robust plans for recovering from financial difficulties. As such, the additional cost of this proposal

stems from LAs having to submit a plan to the Department, not from formulating the plan in the first place. Furthermore, the Department would only envisage requiring action plans from a small minority of LAs which have several schools with significant financial deficits.

We will continue to consult with LAs to ensure that this proposal is implemented in a helpful and effective way. We will collaborate with colleagues in the sector by providing guidance on the information that we require. In cases where action plans do not already exist, we will provide templates and support to reduce the overall administrative burden of the request. We will seek to allow LAs to merge and consolidate returns where it is appropriate and feasible to do so.

Timing of implementation

The timing for each aspect of the proposal is set out above.

Proposal 7

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

Decision

We will adopt this proposal as it will improve financial transparency, as a significant majority of respondents were in favour of the proposal, and as the administrative costs are small. The proposal would only affect a minority of maintained schools with staff on salaries above £100,000, and for those it would increase transparency and scrutiny.

While schools do submit salary information to LAs, publishing salary information on websites would improve financial transparency further. We believe this would add value compared to the current system of reporting to LAs, and the majority of respondents agreed.

We considered the suggestion that schools should provide contextual information alongside the salary. On balance, we thought that making further additional information compulsory would complicate the proposal and add an additional burden without any clear value added. Of course, schools will be welcome to provide contextual information if they wish to do so, but we will not mandate it. Regarding the privacy concerns raised by those quoting the GDPR legislation, this proposal essentially requires maintained schools to provide a similar degree of transparency as has been required of academies for many years. While it is correct that academies publish salary information at MAT level, many academies are in single academy trusts (SATs) where salaries will be published at individual school-level.

Timing of implementation

Originally it was intended that this information requirement would come into force at the start of the school year in September 2020 as is customary for requirements on schools. However, due to delays caused by Covid-19 and in order to provide schools with a term's notice to comply with the incoming regulations, the requirement will be included in amending regulations to come into force on 1 January 2021.

Proposal 8

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.

Decision

Consistent with the majority of respondents, we believe that the publication of financial information on schools' own websites would improve financial transparency, as many parents and other stakeholders are not aware that the

benchmarking website exists. However, we also recognise the points raised around the difficulty some stakeholders would have in accessing and interpreting the CFR statements without any additional information to explain and contextualise the data. We will therefore implement an amended proposal 8, as suggested by a number of respondents, whereby schools will be required to publish a link from their own websites to the benchmarking website, where the CFR is already published. The benchmarking website already has explanatory information surrounding the accounts, and it also makes comparisons across schools easier. A link to the benchmarking website will therefore both minimise the burdens for schools, and also make the information more accessible and useful to parents and other stakeholders looking at it.

Equivalent data for academies is published on the same website. While academy accounts are at trust level, trusts have to make annual returns of the income and expenditure for each academy in a form very close to the CFR.

Adding a link to the benchmarking website will not raise any concerns around data protection. The information is already in the public domain. Furthermore, the reported figures in the CFR relate to financial years which span 2 academic years. This makes the figures less likely to reveal actual staff salaries.

Timing of implementation

Originally it was intended that this information requirement would come into force at the start of the school year in September 2020 as is customary for requirements on schools. However, due to delays caused by Covid-19 and in order to provide schools with a term's notice to comply with the incoming regulations, the requirement will be included in amending regulations to come into force on 1 January 2021.

3. Next steps

The LA will amend its scheme for financing schools as appropriate and advise schools of any changes they will need to make in the management of their finances and any new publication requirements.