

**Manchester City Council
Report for Resolution**

Report to: Schools Forum

Subject: Outcome of Financial Transparency Consultation

Report of: Directorate Finance Lead – Children’s and Schools

Summary

The purpose of this paper is to present the outcome and the impact from the government consultation on the financial transparency of local authority (LA) maintained schools and academies. The consultation outlined the current financial transparency arrangement for maintained schools, and proposed a number of changes to bring in line with academies, which the government consider to have stronger transparency. The changes impact on both schools and LA, and are detailed in this report.

Recommendations

All Schools Forum members are asked to note and comment on the outcome from the consultation response regarding the financial transparency of LA maintained schools and academies.

Contact Officers:

Name: Reena Vandhna Kohli
Position: Directorate Lead Children and Families Finance
Telephone: 0161 234 4235
E-mail: r.kohli@manchester.gov.uk

Name: Anne Summerfield
Position: Principal Finance Lead
Telephone: 0161 234 1463
E-mail: a.summerfield@manchester.gov.uk

Background documents (available for public inspection):

None

1. INTRODUCTION

- 1.1 The financial transparency of LA maintained schools and academies consultation was launched in July 2019, which outlined eight proposals for maintained schools to improve the transparency of their financial health in line with academy trusts. Appendix one details the financial comparison of maintained schools and academies. The driver for the change is that there is a higher percentage of maintained schools across England accumulating a deficit compared to academy trusts (evidence from financial data: 2016/17 and 2017/18). The DfE recognise the good work authorities do in overseeing schools finances, but the current arrangements for academies are viewed as generally stronger than those of maintained schools.
- 1.2 The LA responded to the consultation in September 2019, that the proposals on the whole seemed reasonable for improving and strengthening transparency between maintained schools and academy trusts. The LA's response identified additional financial burdens would be incurred in order to be effectively compliant and implement some of the proposals.
- 1.3 The outcome of the consultation has recognised that some of the new measures to be put into place may create additional burdens on local authorities. Department of Education (DfE) have confirmed an additional burdens grant will be paid in 2021/22 to local authorities. The overall grant amount and distribution has not been finalised, but it is expected to be in proportion to the number of maintained schools for each authority.

2. PROPOSALS AND IMPLEMENTATION

- 2.1 Following the consultation, the DfE are implementing seven out of the eight proposals. In light of issues raised by a number of responses to the consultation, the DfE will not be imposing proposal 5: minimum of a three-year audit cycle for maintained schools, but will be working with LAs to identify how audits can be regular and targeted effectively. Table one below gives a brief description, for more details on each proposal, refer to Appendix two.

Table One

Financial Transparency Proposals		Implemented	
Brief Description		Yes / No	When
1	Make public LA failing to comply with deadlines for completing assurance returns and financial collections.	Yes	2020/21
2	Strengthening DSG annual assurance returns, additional data required	Yes	2020/21
3	Maintained schools to provide three-year budget forecasts.	Yes	2021/22
4	Strengthening Related Party Transaction (RPT) arrangements in maintained schools.	Yes	2021/22

5	Maintained schools be subject to internal audit at least every 3 years (minimum three year cycle).	No	
6	Strengthening arrangements to help schools that are in financial difficulty (recovery plans, and formalising data collection form LA)	Yes	2020/21
7	Transparency: maintained schools required to publish annually on their websites the number of individuals earning over £100k in £10k bandings.	Yes	January 2021
8	Transparency: maintained schools to publish a link on their website to the schools financial benchmarking website.	Yes	January 2021

3. Impact on Local Authority (LA) and Maintained schools

- 3.1 Manchester already requires maintained schools to submit multi-year budgets. The biggest impact will be of proposal 6: Strengthening work with schools in deficit, the council requires a more detailed formal process for schools in deficit, or at risk of deficit. The updates will need to be reflected in the Scheme for Financing schools and the Financial Regulations, and will be presented to Schools Forum at a later date this year.
- 3.2 Most of the other changes detailed in proposal: 2, 4 and 6b require the Local Authority to provide additional information on the DSG annual assurance statement. Whereas proposals: 7 and 8 schools need to action, mainly regarding additional data on their school website. Also part of proposal 4 is for schools to complete additional data on their School Financial Value statement (SFVS).

4. RECOMMENDATIONS

- 4.1 All Schools Forum members are asked to note and comment on the outcome from the consultation response regarding the financial transparency of LA maintained schools and academies.

Appendix One: Financial Transparency Comparison Table

	Local Authority Maintained Schools	Academies
Accountable body	<p>LOCAL AUTHORITY = ACCOUNTABLE BODY</p> <p>Departmental frameworks, guidance and conditions of funding agreements apply at LA level. LAs are then responsible for setting local frameworks for their schools. Required to maintain <i>schemes for financing schools</i> (School Standards and Framework Act 1998).</p>	<p>ESFA = ACCOUNTABLE BODY</p> <p>Academies Financial Handbook (AFH) and conditions of individual funding agreements apply.</p> <p>The prime responsibility sits with the board of trustees, but the Secretary of State (SoS) acts as charitable regulator and this regulation is communicated through the ESFA's Academies Financial Handbook and conditions of individual funding agreements apply.</p> <p>The funding agreements set out the overall relationship with the SoS and provide for the AFH to detail financial management and governance the requirements. The AFH is effectively an appendix to the funding agreements.</p>
Annual Accounts	<p>LA submits annual accounts at LA level. These do not contain any details relating to individual schools.</p> <p>Maintained schools, or LAs on their behalf, make annual Consistent Financial Reporting returns to DfE giving details of their income, expenditure and balances.</p>	<p>All academy trusts must produce an annual report and accounts in a format prescribed by the ESFA in its annual Accounts Direction and based on accounting standards which reflect their status as companies and charitable trusts.</p> <p>Academy trusts are also required to submit an annual accounts return, which the ESFA will consolidate into an annual Sector Annual Report and Accounts (SARA).</p>

Annual assurance returns to Department

LA Chief Financial Officers submit signed annual assurance statement and notes to accounts. They gain assurance from schools via the schools financial value standard (SFVS) described below.

The accounting officer must complete and sign a statement on regularity, propriety and compliance each year and submit this to ESFA with the audited accounts. The accounting officer must also demonstrate how the trust has secured value for money via the governance statement in the audited accounts

Self-assessment	<p>The ESFA requires all LAs to return a signed CFO statement to confirm the number of schools that have complied with the SFVS.</p> <p>For the 2017/18 cycle LAs had until 31/5/2018 to return their SFVS assurance statements to the ESFA.</p> <p>From 2019 to 2020 the SFVS is being updated to match the academy school resource management self-assessment tool.</p> <p>The new version of the SFVS is split into two sections:</p> <ul style="list-style-type: none">• A checklist, which asks questions in six areas of resource management to provide assurance that the school is managing its resources effectively.• A dashboard, which shows how a school's data compares to thresholds on a range of statistics that have been identified as indicators for good resource management and outcomes.	<p>Academy trusts are required to submit Financial Management and Government Self-assessment (FMGS) in their first year followed by annual Accounting Officer value for money statements from there on.</p> <p>Tailored version of the revised self-assessment was developed this year for academies.</p> <p>The academy version of the school resource management self-assessment tool went live in September 2018 and is available here https://www.gov.uk/government/publications/school-resource-management-self-assessment-tool</p>
Budget Setting and Monitoring	<p>Our guidance states that the scheme of finance “should contain a provision requiring each school to submit a plan to the authority by a stipulated date showing its intentions for expenditure in the current financial year and the assumptions underpinning the budget plan. The provision may require the submission of revised plans throughout the year.”</p> <p>It also says the school’s formal annual budget plan must be approved by the governing body or a committee of the governing body.</p> <p>LAs may insert in their schemes a requirement that provisional budget plans be submitted by a certain date; but these should</p>	<p>Academies must set a balanced budget and must produce monthly management accounts which must be shared with the chair of trustees each month and other trustees at least six times a year</p>

	<p>be differentiated from the formal budget plan which should not be required before 1 May.</p>	
<p>Forecasts</p>	<p>LAs submit annual forecasts of their planned spend on children’s services including schools. These are published in a statistical release.</p> <p>Our guidance for local authority schemes for financing schools states the LA “may require schools to submit a financial forecast covering each year of a multi-year period.” We ask LAs to consider and explain how forecasts will be used and to ensure requirements are “proportionate to need.”</p> <p>We don’t specify the timelines for forecasts or collect information on what is requested.</p>	<p>It is a requirement for academy trusts to submit three-year financial forecasts. The ESFA, using financial data supplied by trusts, is also generating wider improvements and delivering value for money for the taxpayer by working with trusts to support effective school resource management, three-year financial forecasting and developing buying hubs and national deals for all schools.</p>
<p>Audit</p>	<p><u>Internal Audit</u></p> <p>The LA will determine an annual risk-based audit programme by reviewing the SFVS. Therefore, not all maintained schools will be subject to internal audit each year. The period within which all schools would be audited at least once will vary between LAs.</p> <p><u>External Audit</u></p> <p>Maintained schools are allowed but not required to procure independent external audits. Maintained schools are included in the remit of the LA statutory external audit but will not be individually audited.</p>	<p>All academy trusts must have an audit committee or equivalent.</p> <p>Academies are required to have an annual independent external audit of their annual report and accounts.</p>

Fraud prevention and reporting	Both academies and maintained schools have a duty to prevent and detect fraud	
	Both academies and maintained schools are required to have whistleblowing policies and procedures in place	
Fraud prevention and reporting	The LA are required to report instances of fraud (no minimum threshold) to the ESFA on an annual basis via the assurance statement. They provide value and description of fraud and action taken to address the issue: they do not report amounts recovered. Amounts reported in the last 5 years are:	The trust must notify ESFA, as soon as possible, of any instances of fraud, theft and/or irregularity exceeding £5,000 individually, or £5,000 cumulatively in any academy financial year. They are required to provide full details of the event(s) with dates, the financial value of the loss, measures taken by the trust to prevent recurrence, whether the matter was referred to the police (and if not why), whether insurance or the RPA have offset any loss. Amounts reported in the last 5 years are:

Year	Total (£ million)
2013-14	1.7
2014-15	2.8
2015-16	1.6
2016-17	1.4
2017-18	0.5

Year	Total (£ million)
2013-14	2.8
2014-15	1.0
2015-16	1.4
2016-17	1.1
2017-18	0.9

	<p><u>Fraud definition</u> – included in footnote in the CFO assurance statement.</p> <p>“We define fraud as an intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss. We include cases where management authorised action has been taken, including, but not limited to, disciplinary action, civil action or criminal prosecution. Further information about fraud can be found in Cabinet Office guidance”</p>	<p>ESFA may conduct or commission its own investigation into actual or potential fraud, theft or irregularity in any academy trust, and involve other authorities, including the police. ESFA will publish reports about its investigations and about financial management and governance reviews at academy trusts.</p> <p>ESFA also publishes guidance on reducing fraud in academy trusts. Trusts are required to refer to this and to the findings from ESFA’s investigation reports, as part of its risk management approach.</p> <p><u>Proven fraud</u> since 2012 totals £4.9m. This involved theft of money by a member of staff over a substantial period.</p> <p>Last year the value of reported fraud committed against academy trusts was £778,894 and the amount recovered by academy trusts was £429,681</p>
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Appendix Two: Financial Transparency Changes

Proposal		Implemented:	
Brief Description		Yes / No	Date
1	<p>Make public (via gov.uk) where local authorities (LA) fails to comply with three deadlines for completing assurance returns and financial collections, listed below:</p> <ul style="list-style-type: none"> • Dedicated Schools Grant CFO assurance statement • Consistent Financial Reporting • Section 251 Budget • Section 251 Outturn 	Yes	Start of 2020/21

2	Strengthening DSG annual assurance returns, additional data required:-	Yes	2020/21 returns
2a	Number of schools with suspended budgets and notices of financial concern		
2b	Amounts that LAs have recovered from investigating fraud		
3	Maintained schools to provide local authorities with three-year budget forecasts, (directed revision of the schemes for financing schools)	Yes	Starting 2021/22
4	Strengthening Related Party Transaction (RPT) arrangements in maintained schools:-		
4a	Schools to append a list of RPTs to the Schools Financial Value Standard (SFVS) about their arrangements for managing RPTs. Additional columns included in the LAs Assurance Statement, for the number of RPTs and value.	Yes	2021/22 (schools submit SFVS by March 2022)
4b	Schools to report all RPTs, or RPTs above a certain threshold, directly to the local authority	No	
4c	Schools to seek permission from the LA to enter into RPTs above a certain amount.	No	
*5	Maintained schools be subject to internal audit at least every 3 years. <i>Not implement due issues raised by a number of respondents to imposing minimum of a three-year audit cycle. Instead, DfE will continue to work with LAs to identify how audits can best be made both regular and targeted in the most effective way.</i>	No	
Proposal		Implemented:	
Brief Description		Yes / No	Date
6	Strengthening arrangements to help schools that are in financial difficulty:-		
6a	Maintained schools to submit a recovery plan to their LA when their revenue deficit rises above 5%. A directed revision to the scheme for financing schools.	Yes	2020/21 – measured as at 31 march 2020
6b	Collect information on the number of recovery plans in each LA through the DSG annual assurance return from the CFO.	Yes	2020/21 returns

6c	Formalise the approach to working with LAs and include a request for high level action plans from some LAs:	Yes	Now - LAs could be requested to submit high level action plans this year.
7	Maintained schools required to publish annually on their websites the number of individuals earning over £100K in £10K bandings.	Yes	1 January 2021
*8	Maintained schools required to publish annually on their website their latest Consistent Financial Reporting (CFR) statement of income, expenditure and balances.	Yes	1 January 2021
*	<i>Amend as result of feedback: Maintained schools to publish a link on their website to the schools financial benchmarking website, where CFR statement is already published.</i>		