

Report for: Corporate Committee, 21 September 2017

Item number: 13

Title: Schools Finance and Audit.

Report

authorised by: Tracie Evans, Deputy Chief Executive

Lead Officer: Eveleen Riordan, Joint Assistant Director, Schools and Learning

Ward(s) affected: All

Report for Key/

Non Key Decision: N/A

1. Describe the issue under consideration

- 1.1 Corporate Committee has asked for a report setting out the actions that Schools and Learning (along with other associated Services) are taking to address the increasing number of primary, secondary and special schools with either nil or a limited assurance from the audits carried out in the academic year 2016/17.
- 1.2 This report summarises the actions already taken/in progress as well as those actions planned across 2017/18.
- 1.3 The report is for noting only and does not require any action of the Corporate Committee.

2. Cabinet Member Introduction

2.2 NA

3. Recommendations

- 3.1 That the Committee note the contents of this report.

4. Reasons for decision

- 4.1 That the committee note the contents of the report, and that they also note that further reports and updates will be brought back to Committee to update members on the financial health of our schools as and when appropriate.

5. Alternative options considered

- 5.1 NA

6. Background information

- 6.1 Haringey's Internal Audit undertakes a programme of school audit reviews to ensure that our schools are complying with the requirements of the Schools

Finance Manual, issued in 2007; and to confirm the risks associated with the key financial and non-financial processes are appropriately managed.

- 6.2 Internal audit is **not** required to audit the School Financial Value Standard (SFVS), but the audit programme does check that the SFVS has been completed and whether it aligns with the audit findings. The programme of routine audit work should also assist schools in providing assurance to Governing Bodies for the SFVS

- 6.3 The table below summarises the findings of the 2016/17 financial year's audits.

	Number of audits planned	Substantial Rating assurance	Limited ¹ Assurance rating	Nil ² Assurance rating
2016/17				
Primary Schools (incl. nursery/special)	21	6	12	3
Secondary Schools	3	2	1	0
Sub-total	24	8	13	3
Total	68	31	33	4

- 6.4 School audits showed significant weaknesses across all schools and 2016/17 saw a rise in the number of primary and secondary schools with limited or nil assurance ratings.
- 6.5 The fact that 67% of schools audited in 2016/17 returned limited or nil assurance ratings is of serious concern to the Council and the issue has been included in the statutory Annual Governance Statement, which was reported to the Corporate Committee on 25 July 2017 as part of the Council's annual accounts. At the July 2017 Committee members asked for an outline of the actions that the Council is taking to address the poor audit returns.
- 6.6 The paragraphs below summarise the actions already taken/in progress, and also refers to other financial support and challenge being given to our schools to help enable them to be financially robust and stable.

Historic Training for Schools and Governors

- 6.7 In addition to circulating the school audit test programme, workshop sessions have been provided for school staff (finance staff, bursars, and head teachers) over the last three financial years to further assist schools in identifying key risk areas and control processes.
- 6.8 A workshop session was again offered to all schools with audits planned during 2017/18; the session was held on 15 March 2017 and the majority of schools due to be audited in 2017/18 attended the session.

¹ Weakness in the system of controls are such as to put the system objectives at risk.

² Control is generally weak leaving the system open to significant error or abuse.

- 6.9 A training session on audit and risk management, covering governor roles and responsibilities in relation to audit and risk management, as well as providing advice and guidance on key risk/control areas, was provided on 23 March 2017 as part of the annual governor training package. The training session is offered every academic year.

Internal Audit schools audit and follow up programme 2017/18

- 6.10 Internal Audit has started the 2017/18 programme of school audit visits; and all schools have been contacted and agreed dates for their respective audit visits.
- 6.11 Internal Audit will also arrange to follow up the 2016/17 audit work and recommendations. All schools will be visited during 2017/18; where 'nil' assurance reports were issued, a full audit will be undertaken. Any schools where high priority recommendations (Priority 1) remain outstanding may be included in the 2018/19 school audit programme for further review.

The Council's Challenge to audit outcomes in Haringey Schools since June 2017

Officer challenge to Head teachers and Chairs of Governors

- 6.12 Following a series of poor audit outcomes across a number of schools, the Director of Children's Services, the Joint Assistant Director for Schools and Learning, the Head of Audit and Risk Management and the Finance Business Partner for Schools & Learning called in the Head Teacher, Business Manager and Chair of Governors of a number of our schools in July 2017 to discuss each of their school's financial position, challenge those areas of the school's finance where change was required to support a more robust financial position, and agree next steps in terms of any potential licensed deficit and for a further audit of the school to be carried out in the autumn 2017 term. From these meetings it was clear that there was a potential need to remove the delegated budget for at least one of the schools *if* our confidence in how the financial matters in the school is not considerably increased at the point of the next audit (due 25 September 2017).
- 6.13 In addition to the challenge provided to these schools as part of the above meetings, the measures outlined below will further assist those schools called in by the LA together with **all** other schools in Haringey in acute financial management.

Schools Forum

- 6.14 At the beginning of January 2017 the Haringey Schools Forum³ agreed to designate a sum of money amounting to £80,000 to be used by the Council to provide financial support to schools. This sum was allocated following the failure of a number of applications that had been made by 'schools in financial difficulty' to secure additional funding to prop up their school's financial position.

³ The Schools Forum is made up of representatives from schools and academies, with some representation from other non-school organisations, such as nurseries and 14-19 education providers. The forum acts as a consultative body on some issues and a decision making body on others. One of its functions is to decide how much funding may be centrally retained within the Dedicated Schools Grant. Further information on the roles and responsibilities of the Forum can be found [here](#).

Officers reported back to Forum in July 2017 that they proposed to commission high quality and targeted financial support to address the following areas:

1. Universal high quality training and support to head teachers, school business managers and chairs of governors (with support to enable effective challenge for CoGs):
2. Advice on specific issues/targeted support to specific schools, e.g. supporting one form entry schools and their economies of scale, potential for federation and sharing back office and other functions, model structures for 1fe, 2fe, 3fe etc. schools.
3. Work with Haringey's Finance team to agree fit for purpose templates for our schools across a range of financial functions.

6.15 This work is expected to be commissioned by officers and begin to be delivered early in the autumn term 2017.

Council's Finance Board

6.16 A Finance Board has been agreed and will meet from September 2017 with monthly meeting scheduled and diarised across the school year up to and including July 2018. The purpose of the Board will be to:

1. Challenge any restructure proposal within a community or voluntary aided school where the restructure could result in redundancy(s). The LA is responsible for the payment of any redundancies monies⁴ in all but very limited circumstances and the Board will challenge all restructures to ensure that they are, among other things, a last resort, that there is a clear rationale for the proposed staffing reduction, and that the restructure is based on an accurate and reasonable prediction of the school's future financial position;
2. challenge and determine applications for licensed deficits including challenge to ensure repayment within a specified and reasonable timeframe;
3. determine ongoing proposals to support schools in financial difficulty, including dedicated and tailored high quality financial advice and support, such determination to take account of support offered to date from the LA and feedback from schools and from finance colleagues on the effectiveness and relevancy of such support.

Other matters expected to impact on the financial viability of our schools.

6.17 Following extensive and prolonged consultation on a national funding formula (NFF) for schools, we are expecting an announcement on the practicalities of how that formula will be introduced imminently. A very successful national campaign that was instigated within Haringey by a parent (Fair Funding for All Schools) was very successful in lobbying government and forcing some concessions in how any NFF might be rolled out, and led to Justine Greening, Minister for Education, to comment on 27th June 2017 that the government will

⁴ Section 37 of the Education Act 2002 makes it clear that the costs incurred in respect of securing a dismissal of staff through redundancies shall not come from the school's delegated budget unless the Local Authority has good reason for refusing to fund all or part of the costs (good reason, while not defined, might be that the Local Authority believes that the proposed redundancy was unnecessary).

stand by its manifesto pledge that no school will lose out under ifs NFF. However, the Education Secretary failed to confirm how much money schools in England will receive in total over this Parliament.

- 6.18 Officers in Haringey have carried out extensive modelling on how a NFF *might* impact on Haringey's schools and presented this modelling to Schools Forum. From this modelling it is clear that we can expect an overall reduction in funding to Haringey's schools at a level of around -10%. Further clarification on actual impact will only be possible once the details of the NFF are published by the Education Funding Agency (EFA). However, back in 2016 officers, working with representatives from the Schools Forum, established a Funding Formula Review Group tasked with determining the expected impact of a NFF and how to best to positively mitigate against these impacts. The group is chaired by a primary Head teacher and has primary, secondary, and officer representation. The group's next meeting is scheduled for mid-September 2017 upon schools' return from the summer break.

Conclusion

- 6.19 The above sets out the steps that officers have already or are in the process of implementing to challenge and support schools in being able to carry out robust and sound financial management.
- 6.20 The information in this report also sets out other pre-emptive measures that officers are taking to respond to the likely impacts of the emerging NFF and to ensure that any restructures that result in redundancies are carefully planned and a last resort measure having regard to all material implications in any given school.

7. Contribution to strategic outcomes

- 7.1 The work and actions outlined above contribute to Priority 1 of the Corporate Plan, enable every child and young person to have the best start in life, with high quality education.

8. Statutory Officers comments

Legal – Victoria Barman, Principle Corporate Lawyer

- 8.1** This report sets out the findings of an internal audit into maintained schools to assess compliance with the Schools Financial Manual 2007. Corrective actions undertaken to date and proposed actions for implementation are detailed for the Committee to note.
- 8.2** In cases of financial mismanagement or failure to comply with requirements, a school governing body's right to a delegated budget can be suspended by the local authority in accordance with section 51 of the Schools Standards and Framework Act 1998. Pursuant to Part 3 Section C of the Constitution, any decision to suspend a delegated budget is delegated to the Director in consultation with the relevant Cabinet member.

Finance CAPH55 – Yoke O' Brien, Interim Finance Business Partner - Schools & Learning

- 8.3** At the end of Summer term 2017 the Chair of Governors, Headteacher and School Business Manager of six Primary and two Secondary schools were invited before a Schools in Financial Difficulty Panel of Council Officers consisting of the Director of Children's Services, the Joint Assistant Director for Schools and Learning, the Head of Audit and Risk Management and the Finance Business Partner for Schools & Learning, to discuss the financial health of their school.

These eight schools faced acute urgent financial management issues and needed Licensed Deficit Order approvals for their forecast deficits and additional financial cash loan advance to help sustain their continuing day to day operations. Two of this eight schools have nil assurance audit rating. Amongst these two schools, one of them will be audited again on the 25th September 2017 to determine whether financial delegation will need to be withdrawn.

The discussions between the LA and the school re-affirmed some of the concerns the LA had with regards to the school's financial and audit health. A number of these schools relied heavily on the advice and services of external consultants which do not always match the needs of the school which in turn has a detrimental effect on the school financial health.

At the close of 2016-17 14 out of 65 Haringey Schools ended the year with a revenue budget deficit, the highest with a deficit of £204,273. 60% of all Haringey schools had relied heavily on brought forward reserves to balance their budgets, the highest with an in year revenue deficit of £519,564.51. This is the current landscape prior to the arrival of the proposed Schools National Funding Formula which will potentially affect every schools funding.

Haringey Schools are currently operating under very difficult and challenging financial landscape. Every school needs to be financially alert and operate at

optimal cost during these difficult times. Governing bodies of single form entry schools need to consider the various options available to them in terms of sharing resources with other neighbouring schools to achieve value for money back office and pastoral support. At present Haringey Council is owed more than £2.7M by 12 schools in terms of cash loan advances which if withdrawn would put those schools day to day operations at risk. This in turn is a financial risk to the Council's should one of those schools were to go insolvent.

9. Use of Appendices

9.1 NA

10. Local Government (Access to Information) Act 1985

10.1 NA