



**Children and Young People Overview
and Scrutiny Committee**
5 February 2014

**Report from the Acting Director of
Children and Families**

Wards Affected:
ALL

Schools Finance Update – 2013/14

1. Background

- 1.1. This report provides an overview of the current situation regarding financial management in Brent's schools, and offers good assurance that this is improving in schools. Detailed updates on the following issues are provided:
- Audit review outcomes;
 - Leasing Arrangements.
- 1.2. The governing body of schools have a delegated responsibility for large sums of public money and it is therefore imperative that the appropriate support and controls are in place to ensure sound financial management by schools.
- 1.3. Whilst financial management has been delegated to governing bodies, the Council has to ensure that public funds being passed on to schools are being used appropriately, and that value for money is being sought by schools. The Chief Finance Officer has section 151 responsibilities to ensure that sound financial systems and controls are in place, not only within the council but also in all Brent's schools.

2. Schools Audit Update

- 2.1. As at 31st December, internal audit have issued draft or final reports on ten schools. Although five of these are still in draft format, i.e. not cleared by the school, the split of substantial and limited assurances is unlikely to alter significantly. Four schools remain to be audited before the year end.

2.2. At its meeting on 20th March 2013 the Committee was provided with an analysis of assurance ratings given to schools over 2010/11, 2011/12 and 2012/13. The assurance levels had improved in 2012/13 and the level of substantial assurance reports issued remains around 80% for 2013/14 to date. No school has received a nil assurance rating in 2013/14. A summary of the assurance levels over the current and previous three years is shown below:

Year	Substantial	Limited	Nil
2010/11	46.0%	54.0%	0.0%
2011/12	35.0%	45.0%	20.0%
2012/13	81.0%	9.5%	9.5%
2013/14	80.0%	20.0%	0.0%

2.3. The assurance ratings are based upon the number and priority of recommendations raised. Substantial assurance represents a better control environment than limited. The schools audited in 2013 are different from those audited in the previous two years and, therefore, a direct conclusion about improvement can not necessarily be made. However, there is no reason to believe that the schools visited are not representative of the whole school group. It is positive to note that two of the ten schools have improved their rating from limited to substantial since their last full audit in 2010/11. The remaining eight schools have not had a full audit for a number of years, the last audit coverage being the Financial Management Standard in Schools (FMSiS) assessments in 2009/10 for which no assurance rating was given.

2.4. Common weaknesses identified during audit work include: income administration; declaration of interests; the retention of opting out evidence for the workplace pension scheme; and compliance with procurement rules. With regard to the latter, it should be noted that although still an issue, there has been an improvement in this area in relation to catering and cleaning contracts. Specific issues identified in limited assurance schools included: lack of budget forecasting; lack of detailed minutes when approving procurement decisions; retention of procurement documentation; retention of eligibility to work evidence; and lack of detail on income registers i.e. payee name and date.

2.5. Internal Audit also undertook follow-up visits to four schools with limited assurance opinions during the 2011/12 and 2012/13 financial years. All priority 1 recommendations and 96% of all recommendations made had been implemented.

3. Schools Leasing

3.1. In 2010, the Council identified that a number of schools had entered into very unfavourable leasing arrangements with large finance companies for the hire of equipment such as photocopiers. The Council is of the view that these leases should be treated as being void from the outset, as the schools in question did not have the legal power ('vires') to enter into them. If the leases were enforceable, they would have a negative impact on the schools' financial positions. There are various grounds as to why the Council argues the leases should be considered void.

3.2. The Council then put in place an action plan in order to protect the public funds exposed to these purported leases, as reported previously. Since initiation of the

action plan, Legal Services, Children & Families and Audit & Investigation continue to help extricate the worst affected schools from their costly finance leases (leases in respect of photocopiers and other IT equipment).

- 3.3. The legal position of the schools and the Council remains that these leases should be considered void, essentially because the schools did not have the power to enter into such agreements.
- 3.4. At the time of the Schools' Finance Update Report of 20th March 2013, five schools had stopped paying the sums purportedly due under their finance leases. The schools' refusal to pay attracted legal action on the part of seven finance companies, all of which had entered into at least one purported lease with at least one of the five schools. The cases which have so far settled have done so on terms which were favourable to the school and the Council (there is currently one case which is still progressing at court and is addressed below).
- 3.5. The details of the settlements reached so far are subject to confidentiality agreements – it is not, therefore, possible for the details to be released into the public domain.
- 3.6. Since the March 2013 Report, one additional school has stopped paying the sums purportedly due to a finance company, with the support of the Council. Brent Legal Services explained to the finance company in question that, as the company had already settled with two Brent Schools by discontinuing its pursuit of sums allegedly payable, it was logical for this third school to achieve the same outcome. After some dialogue between Legal Services and the finance company in question, the finance company has not progressed the matter since July 2013 (when it was on the agenda to be discussed at the finance company's board meeting).
- 3.7. In July 2013, a lawyer from Brent Legal Services attended the termly Bursars' meeting and gave a talk warning of the tactics used by some unscrupulous photocopier salesmen.
- 3.8. There is currently one live case on-going before the High Court involving three parties (the leasing finance company, the photocopier supply company and the Council). This is the same case as that referred to in the March 2013 Report. The present position is that parties have agreed in principle to attend a mediation session in order to explore the possibility of negotiated settlement. The parties are in the process of considering the dates on which the session might take place.
- 3.9. One of the seven finance companies referred to above (which had entered into (purported) leases with three schools) intermittently threatens legal action in correspondence approximately twice a year. The correspondence is dealt with robustly. The company in question has not yet issued legal proceedings.
- 3.10. The Council will continue with its approach of taking a robust overt position regarding any legal action, whilst at the same time negotiating behind the scenes where appropriate. The Council will act in accordance with the legal advice it is continuing to obtain (but which is legally privileged from disclosure). The Council, however, is prepared to contest any finance lease case at court if necessary.

4. Schools Financial Management Update

4.1. There are many systems in place to promote good financial management in schools. This includes:

- The Schools Extranet: Regular guidance and information is provided to schools via this method;
- Bursars meetings: This is a termly meeting provided free for mainly school's finance staff to attend and to provide essential updates and information;
- Training: the Schools Finance Team offers a comprehensive financial management training programme – available to Head Teachers, Bursars and Governors (further details below);
- Regulations & Guidance – This includes the Schools Financial Regulations and the Scheme for Financing Schools which are both currently being reviewed and updated for circulation to schools. In addition, a Schools Finance Manual is being developed.

4.2. As mentioned above, a comprehensive training programme is available for schools. A number of new courses have been added in 2013/14, with further courses to be added in 2014/15. This follows feedback from Bursars and the Schools Finance Team's evaluation of where training is required. Training provided to Bursars includes:

- Returns: How to complete the required returns, including Budget Monitoring and Year End returns;
- Budgets: The importance of Budget Setting and regular Budget Monitoring;
- Excel Training: Specifically aimed at Bursars to promote efficiency in performance of financial management duties;
- An Introduction to Schools Finance: Aimed at new Head Teachers and also finance staff who are new to Brent;
- Benchmarking: To encourage and show Bursars how to benchmark to ensure that their schools are obtaining value for money;
- Pupil Premium: With more accountability for this funding stream it is important that schools are aware of the requirements and this is now an important element of Ofsted inspections;
- Audit: This is being run by the Audit and Investigations team and specifically explains the internal controls required in a schools environment and how to prevent fraud.

4.3. A review of the financial management services available for schools to buy-in from the council is currently being undertaken to be available for schools in 2014/15. This is to ensure that services being provided are value for money for schools and that schools are gaining the support they need in carrying out their day-to-day financial management duties.

5. Equalities implications

Good financial management and probity are part of promoting equality and fairness as well as good and transparent use of resources.

6. Child poverty implications

Good use of resources and effective use of the Pupil Premium are an important contributor in schools mitigating the effect of poverty.

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