

## ANNEX A - DEPARTMENT FOR EDUCATION – PROPOSED REFORMS TO THE REPORTING FRAMEWORK

### Introduction

1. This note summarises:
  - a) how and why the existing arrangement for academies are failing to meet the principles and achieve the benefits of Clear Line of Sight (CLOs);
  - b) the options that have been considered to improve on the status quo;
  - c) how the proposed alternative approach may better meet the principles and intended benefits of CLOs;
  - d) review arrangements that would exist to monitor the implementation of the new approach to ensure it achieves the intended benefits.

### Failure of the existing consolidation approach

2. CLOs reforms were implemented in 2011-12 in order to improve the transparency, clarity and consistency of reporting on public expenditure by aligning budgets, Supply Estimates and accounts across government. It aimed to do this by:
  - a) aligning parliamentary controls (in Supply Estimates) with the government's budgetary controls and setting these on a net resource basis;
  - b) including all non-voted expenditure and income within the boundary of Estimates; and
  - c) extending the Estimates and accounting boundaries to consolidate non departmental public bodies and other bodies classified to the central government sector.
3. DfE's existing reporting arrangements seek to meet the requirements and principles of CLOs. 'Net spending' by academies is included in the Supply Estimates and the departmental resource accounts seek to consolidate all academies. However it is clear that, in practice, the underlying aims and benefits of CLOs are not being achieved. There are four key issues that demonstrate failure to meet these aims and benefits.
  - a) In the absence of a better model to forecast academy trusts' expenditure the academies' 'net spending' total approved by Parliament through the Estimates process is, in practice, the planned grant payments of General Annual Grant



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- (GAG) rather than the net spending forecast;
- b) There is very limited in-year financial data to enable academies' spending to be properly factored into the government's aggregate public spending controls and to inform wider financial decisions;
  - c) DfE's consolidated resource accounts for 2013-14 received an adverse opinion from the Comptroller and Auditor General (C&AG) as they were not considered to be true and fair. The problems with the current approach are primarily driven by:
    - i. non-coterminous year ends; and
    - ii. the rapid speed of growth and diversity in the sector with around 1,000 schools converting to academy status each year. There are now 3,026 charitable academy trusts consisting of 5,591 educational establishments<sup>1</sup>; and
  - d) The laying of accounts and provision of underlying financial information are not timely. DfE publishes its annual report and accounts up to ten months after the financial year-end and is at risk of not meeting the statutory deadline of 31 January.

### Criteria and issues considered in assessing the options

4. The options for reform were assessed by considering their impact on a number of issues and whether they meet certain criteria. Issues considered include:
- a) whether the transparency, clarity, accuracy and usefulness of DfE's reports would be improved, not only in terms of the information provided to Parliament but also information that is useful for the academy sector;
  - b) whether the proposals would allow the requirement for significant improvements to in-year data and financial year forecasting to be achieved;
  - c) the potential need for a new parliamentary mechanism for net spending (see paragraph 15);
  - d) the possible improvements to DfE's approach to Whole of Government Accounts (WGA) (see paragraph 18);
  - e) any legal barriers that would need to be overcome;

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<sup>1</sup> As at October 2015



- f) the impact on academies with a view to minimising burdens;
- g) the timeliness of reporting, particularly whether reports can be laid before the summer recess;
- h) the changes required to Treasury systems (OSCAR);
- i) how ongoing action by the department to improve the management of cash balances within the sector is supported;
- j) the implications for the recognition of land and buildings (see paragraph 17); and
- k) opportunities to support ongoing efforts to improve financial management capability across the sector.

### Summary of options to improve the status quo

5. A wide number of options for improving on the status quo have been considered. The principal options considered are outlined below.

#### Align year-ends to 31 March

This could be done by:

- i. Forcing a change in academy trusts' own year-end however, DfE legal advice suggests there may be significant legal barriers to doing so. Primary legislation would be required to force existing academy trusts to have 31<sup>st</sup> March year-end because their year-end dates are currently stipulated in individual funding agreements; and
- ii. Requiring academies to produce an audited return to 31 March in addition to their financial statements to 31 August. However, this is likely to lead to:
  - a significant administrative burden to the academy sector by creating misalignment with its operating cycle; and
  - a heavy cost implication for the sector in respect of additional audit fees, estimated by DfE to be in the region of £30m.

#### Reclassification

The government could remove further controls from the sector to enable academies to be classified by the ONS as outside of the public sector for the National Accounts (in



accordance with the requirements of European System of Accounts 2010). However, academy trust assets are used by government to deliver statutory requirements and it was agreed that in order to satisfy the ONS criteria of reclassification to the private sector, a disproportionate degree of control would need to be discarded.

#### Alternative approach to Clear Line of Sight

An alternative option considered involves deviation from the normal parliamentary and spending control framework underpinned by CLoS. In summary DfE would:

- i. include the grant paid to academies for the financial year in their departmental Estimate and accounts;
- ii. cease to consolidate academies in their departmental resource accounts; and
- iii. publish a separate additional audited "sector report and accounts" which reports academies' financial performance on an academic year basis (ie. to a 31 August year end). The report would be prepared on a Financial Reporting Manual (FReM) compliant basis and include all designated academies for the academic year in accordance with an Accounts Direction issued by the Treasury.

The Treasury budget controls for DfE would continue to apply to academies' net spending to support the management of the wider public finances. Under this approach it is envisaged that Parliament would have more relevant, accurate and useful information needed to assess performance and governance, not only of the core department but also of the academy sector itself.

The balance of benefits and drawbacks of the above options has been considered by DfE and the Treasury, in consultation with the NAO, as well as by the Alignment Review Committee (ARC). Agreement has been reached that moving to the sector report approach is the most attractive and appropriate solution to address the significant weaknesses within DfE's current reporting approach. This is explored in more detail below.

The sector report will follow the structure agreed by Parliament under the simplification and streamlining project for all those entities within the FReM boundary and will include



a performance report, an accountability report and financial statements. A summary of the proposed contents of the sector report and accounts is provided in Annex B.

It is proposed that the new approach should be effective from the 2016-17 financial year with the first sector report and accounts for academic year 2015/16 published in 2017. The anticipated production timeline is set out in Annex C. The proposals for reform being put forward will be subject to a series of review points overseen by a governance committee reporting periodically to ARC.

### Assessment of alternative approach against the principles and intended benefits of Clear Line of Sight

6. Meeting the principles of CLoS is at the heart of the reform proposals and any departure from it is seen as a unique circumstance with no intention of setting a precedent of misalignment. When CLoS was introduced it was recognised that it is not always possible to achieve full alignment in all areas and that a different treatment may, in certain cases, be legitimate. With this in mind, the proposals under the alternative approach seek, in practice, to align more fully with the overarching principles of CLoS by improving the transparency, clarity and timeliness of reported information, thereby making it easier for Parliament to scrutinise how voted funds are being spent.

7. The sector report would provide more comprehensible financial information on the academy sector by:

- a) allowing Parliament to track more clearly the trends in academy spending over time;
- b) drawing together more benchmarking information that DfE collects across all schools;
- c) improving clarity and coherence through separate and more accurate reporting linked to the operational performance of the sector;
- d) removing significant uncertainties arising from the existing complex consolidation methodology to enable a clear reporting trail and line of accountability between the grant voted by Parliament (and received by

