

Meeting:	Date:
Education Board – For Decision CoLAT Board – For Decision	12 January 2017 5 April 2017
Subject: Financial Scrutiny of CoLAT Academies	Public
Report of: Chief Executive Officer, City of London Academies Trust	For Decision
<p style="text-align: center;">Summary and Recommendations</p> <p>This report sets out a set of financial scrutiny recommendations for the City of London Academy Trust and the academies sponsored and co-sponsored by the City.</p> <p>This is necessary to ensure that CoLAT and the academies maintain a strong financial position in the context of flat budgets, increasing staff costs and a potential national funding formula, which will re-direct resources away from urban schools.</p> <p>In addition increased financial scrutiny is now expected by central government to ensure the best use of public funds in an era of greater independence through the widespread development of multi-academy trusts.</p> <p>Recommendation(s)</p> <p>The Education Board is asked to:</p> <ul style="list-style-type: none"> • Endorse the proposal to formalise the central financial scrutiny of the City's academies as described in this report • Ask the CoLAT Board to finalise, ratify and share the recommendations they adopt 	

Main Report

Background

1. The re-constitution of the City of London Academies Trust (CoLAT) in January 2016 involved setting an expectation that from September 2017 each school in the CoLAT would have 2% of their direct funding from the government top sliced to support the central CoLAT function.

2. The CoLAT will grow to 7 schools in 2017. These are:

City of London Academy...

- Southwark
- Redriff Primary
- Galleywall Primary

- Shoreditch Park (New)
 - Highgate Hill (New, formerly Mount Carmel RC Girls School)
 - Islington Primary (New)
 - Newham Collegiate Sixth Form (Existing without a legal status at present)
3. The current expected limit of academies sponsored by the City is 12 schools which would provide a critical mass of CoLAT schools in order to make economies of scale.
 4. The City as sponsor expects rigorous and transparent financial scrutiny of the City of London Academies Trust and the academies which the City sponsors, directly or through the Trust. This has also been the subject of increased central government concern.
 5. Central government is now expecting greater financial and procedural scrutiny of multi-academy trusts. This has been reinforced in the revised academies financial handbook for 2016.
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535870/Academies_Financial_Handbook_2016_final.pdf
 6. It was further re-inforced by a letter from Lord Nash sent to all multi-academy trusts in October 2016. **Appendix 1.**

Current Position

7. The academy financial year runs from September to September.
8. Each school currently manages its own finances. Operating different accounting systems which are all subject to external audit.
9. Each school has a finance committee which regularly reviews finances budget and contributes to the end of year audit and published accounts.
10. CoLAT has recently appointed a new Chief Financial Officer and holds a series of Finance, Audit and Risk meetings through the year to examine individual school and central corporate financial matters.
11. The Trust is subject to independent external audit currently undertaken by Buzzacotts. It is intended that this contract will be re-tendered this financial year.
12. CoLAT carried forward a total reserve fund of approximately 3million in August 2016 which currently sit with the two founder schools.
13. However, there are increasing financial pressures caused by flat budgets being allocated to schools who have had to absorb increases in on-costs, recommended pay increases of 1% and staff yearly incremental pay rises.
14. The proposed National funding formula is intended to redirect resources away from the well-funded inner-city areas to areas where there has been underfunding. It is expected that this will deplete the resources available to London schools disproportionately.

15. Up to 1/3 of schools nationally are predicting they will run deficits in 16/17
16. At the same time there are greater expectations on MAT and individual schools to manage their finances independently of LA or external support.
17. While the City as sponsor does not carry a risk of financial exposure as the EFA do operate recovery plans for Trusts or schools in difficulty it does carry significant reputational risk.
18. In a number of high profile cases the EFA has taken schools away from Trusts and either closed them or re-allocated them to a new Trust.

Purpose

19. The aim of providing a financial scrutiny process is to mitigate the reputational risk to the City of a school, or CoLAT failure due to financial difficulty.

Recommendations

20. The actions that follow are implemented and reviewed in 12 months.
21. CoLAT should consider independent external membership of the Finance, Audit and Risk Committee.
22. CoLAT will re-tender the independent auditor contract as Buzzacotts have retained that contract unchallenged for over 7 years.

CoLAT will set up financial scrutiny meetings with each school in the Trust and (subject to consultation with the joint sponsors) with the co-sponsored academies. These meetings would involve the Headteacher, Chair of Governors and Business Manager of each school presenting key financial documents to the Chief Financial Officer, The Chief Executive and the Chair of CoLAT Finance, Audit and Risk Committee.

CoLAT audit takes place in November each year so it is important that the financial scrutiny check happens prior to the audit procedure and following the EFA funding letter and budgeting process. For this reason it is proposed that this would happen in June/July each year.

The school/academy would be required to present an analysis of financial risk incorporating the following documentation:

- A projected budget out-turn for that year
- A 3 year budget forecast
- A 12 month (Sept-Aug) cash flow forecast
- A breakdown of current reserves and an explanation of proposed use

Mark Emmerson

CEO City of London Academies Trust

T: 020 7332 1432

E: mark.emmerson@cityoflondon.gov.uk

Appendix 1. Letter from Lord Nash regarding MATs and robust financial management



Lord Nash

Parliamentary Under Secretary of State for the School System
Sanctuary Buildings Great Smith Street Westminster London SW1P 3BT
tel: 0370 000 2288 www.education.gov.uk/help/contactus

21 October 2016

Dear Chair,

I want to thank you directly for the vital role you play as chair of the board in overseeing the success of your trust.

In an increasingly school-led education system, good governance is crucial to ensuring the best possible education for all children and young people. Effective boards provide strategic direction and control to schools and create robust accountability, oversight and assurance not just for their educational outcomes but also for their financial performance.

We are making good progress in raising awareness of the importance of good governance but we cannot be complacent. Where there is weak governance this can lead to a lack of oversight and failure to provide appropriate challenge, including for financial transactions. Certain types of transactions rightly attract scrutiny such as those with related parties; excessive salaries for senior staff which are not linked to their performance; and excessive or inappropriate expenses payments to employees or trustees. As well as safeguarding the use of public funds, sound financial management and governance is essential to retaining the confidence of parents and the wider public.

I want to stamp out any instances of public funds not being used for the purpose intended. I am therefore writing to emphasize the key issues that I would be grateful for you as chair to be focussing on to ensure that the governance of your trust and its use of money are as robust as possible:

Is there robust oversight of financial management?

Academy trusts have a significant level of autonomy but this brings a responsibility for the board to consider the regularity, propriety and value for money of all aspects of trust business – including the actions of the leadership team itself. **You should establish and monitor policies, particularly on related party transactions and executive salaries and expenses**, so that you and your trustees would be confident to expose them to public scrutiny.

The Department provides information for academy trusts on financial benchmarking which helps boards to question whether their resources could be used more efficiently, for example, how executive salaries compare to those similar trusts. Of

either recruitment or training. Alongside the ongoing [Academy Ambassadors](#) programme helping MAT boards recruit senior business leaders, the Department has recently re-tendered and awarded funding for trustee recruitment support to all schools and academy trusts from [Inspiring Governance](#). Both services are focused on helping boards find trustees with the specific skills they need.

To support you in addressing any training needs you have identified in relation to using data and building financial skills, we provide funding for up to 3 trustees or governors in your academy trust to attend workshops on **RaiseOnline**, **Understanding and Using Performance-Related Pay** and **Improving Financial Efficiencies**.

Alongside ensuring and developing the skills of your board, please do not neglect your own development needs – I would urge you to actively build your network of relationships with other chairs to share experience and learning and to make the most of every available professional development opportunity.

You may want to consider attending our *Chairs of Governors Leadership Development Programme* which aims to develop your skills in leading effective governance; strategic leadership and influencing skills; leading change and continuous improvement. A limited number of scholarships towards the full cost of the programme will be available until March 2017.

You can find a list of the organisations licensed to offer the [workshops and the development programme](#) on GOV.UK.

In addition, there are several courses for existing and aspiring MAT CEOs and senior leaders wishing to develop their leadership skills. The content of many of these courses is equally relevant to you in your role as chair. You can find the details of the [Executive Educators programme and other courses and providers](#) on GOV.UK.

Is responsibility for governance clearly assigned?

It is essential that all trusts, but particularly MATs that have appointed local governing bodies, explicitly define, document and publish on their website a scheme of delegation to set out the precise role and function of each tier of governance below the board to which they have delegated functions. This is a requirement under the Academies Financial Handbook to ensure trusts develop coherent governance arrangements that are transparent to everyone both within and outside the trust.

Conclusion

You should by now also have received a copy of [the letter](#) that Peter Lauener, EFA's chief executive, sent to academy trust accounting officers on 6 October. In his letter, he too reflected on some of the key issues that have impacted on the strength of financial management and governance in academy trusts over the past year and provided some useful links to [tools and guidance](#) available to support you. As with that letter, please share this letter with your trustees and senior management team.

course, the circumstances of all trusts differ but use of benchmarking information in this way can be an important basis for scrutiny and challenge.

Does your board of trustees have sufficient independence and diversity of perspectives?

The most robust governance structures will have a significant degree of separation between the individuals who are members and those who are trustees. This enables more objective oversight of the board's performance and decision-making.

The board itself should be made up of a diverse range of people that bring a range of perspectives to bear to enable robust decision making. There should be clear separation between the role of the board in providing strategic leadership and oversight and that of senior executives providing operational leadership. I would not expect those in a senior leadership position to occupy a board position where this could reduce the scope for independent scrutiny. For example, it is prohibited for a finance director, or any other employee, to also be a member of the Audit Committee. It is also no longer a requirement in our model articles that the Principal/ CEO is a trustee – this is rightly a decision for the members who may decide that in line with common practice in the charity sector they want complete separation between the board and its executive.

The board should also avoid other concentrations of power that might limit independence and objectivity. This means that **employees should not be members of the trust** – this is a requirement in the articles of association for new trusts and strongly recommended for all trusts. It also means that the board should give careful consideration as to whether related or connected parties collectively exercise significant influence at board level or create inappropriate conflicts of interest – for example through close family relationships between trustees, members or senior executive leaders. Please take the lead in reviewing the composition of your own board with regard to these matters and ensure that any potential interests that remain are recorded and published as is required.

Do your trustees have the right skills and experience to discharge these duties?

It is enormously important for those in governance to have the right knowledge and skills to carry out their role effectively. The Department will soon publish a competency framework for governance setting out the skills, knowledge and behaviours required for effective governance.

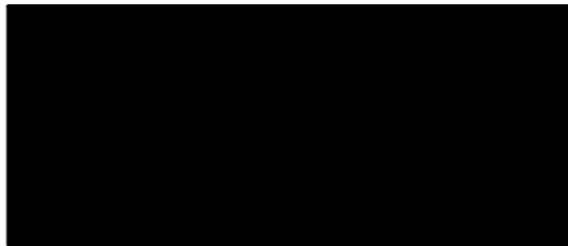
In relation to finance, all trustees should have an understanding of the statutory and contractual requirements around financial accountability and the principles of good financial management. In addition, you should consider what specialist financial expertise your board requires and recruit or provide training as appropriate: of course, all trustees should have an understanding of the pupil performance data of the trust and its schools so they can effectively hold the executive to account.

Boards should carry out regular audits of trustees' skills, as now required by the Academies Financial Handbook, and actively seek to address any gaps through

I know there are many examples of outstanding governance across the system. I look forward to recognising and celebrating this when I present the National Governors' Association Outstanding Governance Awards in May next year. Please do consider entering by the closing date of 31 December so that we can showcase the very best of academy governance.

Thank you again for the vital role you play in the academy system. I wish you every success in the year ahead.

Yours sincerely



Lord Nash
Parliamentary Under Secretary of State for the School System