



Department
for Education

Accounting Officer

Accountability System Statement for Education and Children's Services

September 2012



Department
for Education

Accounting Officer Accountability System Statement for Education and Children's Services

September 2012

Accounting officers in government departments are accountable to Parliament for the proper stewardship of the resources allocated to the department. Details of the requirements to ensure regularity, propriety and value for money are set out in HM Treasury's guidance *Managing Public Money*.

Sir Bob Kerslake, the Permanent Secretary of the Department for Communities and Local Government proposed in his report *Accountability: Adapting to decentralisation*, published in September 2011, that in future departmental accounting officers should publish accountability system statements explaining how they achieve accountability for the funds they distribute to local bodies. This allows accounting officers to demonstrate that, as the government moves to decentralise power to local communities, the appropriate accountability mechanisms are in place.

This document sets out the present accountability system for education and children's services. It has been agreed by Chris Wormald as accounting officer and Permanent Secretary of the Department for Education. The statement is available on the Department's website - www.education.gov.uk.

Contents

The Department's Accountability Statement Overview.....	4
Introduction.....	4
The Department's approach to accountability.....	5
Ensuring good value for money.....	6
Value for money framework.....	7
Overview of the accountability systems in education and children's services...	8
The role of inspection.....	14
Equality and fairness.....	14
Conclusion.....	15
Annex A – Requirements on Maintained Schools and Academy Trusts.....	16
Annex B – Roles and responsibilities in ensuring accountability and value for money.....	20
Introduction.....	20
Section 1. Accountability for Academies.....	21
Section 2. Accountability for maintained schools.....	27
Section 3. Ensuring value for money in Academies and maintained schools..	31
Section 4. Checks, balances and safeguards in the schools accountability system.....	36
Section 5. 16-19 education and learning for young people aged 19-24 with learning difficulties and/or disabilities.....	39
Section 6. Accountability for early years education.....	44
Section 7. Accountability for other children's services.....	47

The Department's Accountability Statement – Overview

Introduction

1. As Permanent Secretary for the Department for Education (DfE), I am responsible for delivering the Government's policies for education and children's services. The Coalition Government is committed to a wide ranging programme of reforms. In particular, the Government has been clear that education standards were not high enough and the school system needed urgent improvement.
2. The Government's ambition is for a more autonomous system in which choice and competition play a stronger role in improving service quality and children's chances in life. This means more autonomy for professionals to take decisions about what is best for children within a framework of accountability and transparency. It means an increased emphasis on schools' self-improvement and parental choice acting as a stimulus for competition. It is within this context that mechanisms for the delivery of public services have changed significantly, with greater delegation of powers and responsibility to the front line and clear, but proportionate, accountability.
3. As Principal accounting officer I am accountable to Parliament for the proper stewardship of the resources allocated to my Department. The key requirements, set by HM Treasury¹, are to ensure regularity, propriety and value for money.
4. Funding allocated to my Department is primarily channelled to and through schools, colleges, local authorities (LAs) and other providers. As accounting officer I must ensure that there is an adequate framework in place to provide assurance that all resources are managed in an effective and proper manner. I am directly accountable for ensuring regularity, propriety and value for money in the work undertaken by DfE and our agencies. I am also accountable for the system through which we provide funding to LAs and arms length bodies to ensure funds are used with regularity and propriety and that value for money is secured. From April 2012 the Department's arms length bodies are the Children and Family Court Advisory and Support Service (Cafcass) and the Office of the Children's Commissioner.
5. This Statement describes my responsibilities with regard to education and other children's services. It sets out my Department's approach to accountability and value for money and explains how and why this varies across sectors. Annex A compares the accountability requirements of academies and LA maintained schools. Annex B takes each of the services my Department is responsible for and gives further detail about roles and responsibilities, ensuring financial accountability and propriety, ensuring value for money, ensuring good performance and addressing poor performance.

¹ HM Treasury's Managing Public Money - http://www.hm-treasury.gov.uk/psr_mpm_index.htm

The Department's approach to accountability

6. The Department's system of accountability previously relied on the well-established accountability systems of local government. This remains the case for maintained schools, early years and other children's services where we rely on accountability through LAs, underpinned by local democracy, with intervention from central government used in extremis. These systems of accountability through LAs and elected members have long been used to drive regularity, propriety and value for money. It is right that we continue to trust local government and local democratic accountability where services are coordinated and funded through this route. However, the academies programme is rapidly expanding with 2309 open academies (as at 5 September 2012) made up of 501 sponsored academies and 1808 converter academies. We also have 79 Free Schools, 5 University Technical Colleges and 16 Studio Schools.
7. Over half of all secondary schools in England are now open, or are in the process of opening, as academies and this is changing the landscape of the schools system². As the academies programme expands and gives schools greater freedom we have developed stronger accountability mechanisms for academies that receive funding direct from the Department.
8. The academies programme provides greater autonomy, underpinned by greater financial freedoms and responsibilities. Academies are outside the LA accountability framework and so we have created a clear chain of accountability between each academy trust, the Education Funding Agency, and the Department. We have also increased the transparency and accountability of these providers, bringing them into a proper externally audited system.
9. The framework of accountability for academies is more rigorous than for LA maintained schools, reflecting their additional freedoms and their direct funding from the Department. In addition, we are strengthening the financial accountability system for academies for their 2011/12 returns, and even further for their 2012/13 returns, by increasing the audit requirements around academies' accounts and asking for enhanced assurances from the accounting officer of each academy trust that they are managing their resources appropriately and achieving value for money. Annex A provides a table comparing the key financial requirements for academies and LA maintained schools.
10. Free Schools fall within the same legal definition and accountability framework as academies and all references to academies within this document should be taken to include Free Schools, as well as University Technical Colleges (UTCs) and most Studio Schools.
11. The Department also supports the Secretary of State in his role as Principal Regulator for the operation as charities of foundation and voluntary schools, academy trusts and sixth form college corporations and their relevant associated

² As at 1 September 2012, 54% of secondary schools in England are either already Academies or in the pipeline to become Academies. Source: DfE figures.

charities. As Principal Regulator, he is under a duty to promote these charities' compliance with charity law.

Ensuring good value for money

12. The Government's focus on improving education is driven by an awareness of the individual and societal benefits arising from better education and the economic costs of educational failure.
13. Evidence suggests that the economic benefits of an individual achieving a good quality education are significant: for example individuals with 5 good GCSEs earn 9-11 per cent more and are around 3 percentage points more likely to be in work, compared to otherwise similar people who do not hold 5 good GCSEs³. So there is potentially very significant economic value to be gained from improving the education system and reducing the lost economic potential of thousands of individuals who are failing to achieve this level each year. In addition evidence suggests that the total benefits of education expand beyond those experienced by individuals through driving long-term economic growth by, for example, increasing the innovative capacity of the economy through new ideas and technologies. Analysis suggests that raising the attainment of UK pupils to the level of Finland (the best performing country) could ultimately add almost 1 percentage point to the UK's annual growth rate⁴.
14. A growing body of evidence suggests that good early years provision and better educational achievement is likely to have wider impacts on, for example, reducing crime and improving health in adulthood, as well as playing a vital role in increasing social mobility. Pupils leaving school with no qualifications are less likely to be participating in education and training between the ages of 16 to 18. Educational failure is very costly for the individual, the Exchequer and society more generally and analysis suggests that a period spent as NEET (Not in Education, Employment or Training) leads to increased periods of unemployment and lower wages in later life. The economic cost of educational underachievement, underemployment and wider social costs has been estimated at around £104,000 per young person who spends time as NEET⁵.
15. Assessing the full long term economic and social impact of our investments will take time. Alongside our reform programme, we will want to develop our understanding of how improved education leads to better labour market success for young people and how it affects wider social outcomes.

³ Greenwood, C. Jenkins, A. and Vignoles, A (2007): The Returns to Qualifications in England: Updating the Evidence Base on Level 2 and Level 3 Vocational Qualifications
<http://cee.lse.ac.uk/ceedps/ceedp89.pdf>

⁴ Hanushek, E. and Woessmann, L. (2012): The cost of low educational achievement in the European Union, European Expert Network on Economics of Education Analytical Report No.7

⁵ Coles, B., Godfrey, C., Keung, A., Parrott, S. and Bradshaw, J. (2010) *Estimating the life-time cost of NEET: 16-18 year olds not in Education, Employment or Training*, University of York, York.

Value for money framework

16. Given this context the Department assesses value for money as the educational and wider societal outcomes achieved in return for the taxpayer resources used to fund the system.
17. This approach underpins the Department's assessment of value for money at the system level and helps ensure that individual policies and reforms promote value for money. In an increasingly devolved system, the Department expects providers to use their autonomy and increasing responsibility to decide *how* best to achieve the desired outcomes, and ensure value for money is being delivered locally, whilst being held to account for their spending through increased transparency, user choice and competition.
18. To assess and improve value for money we need to consider the fundamental building blocks of inputs, outputs and outcomes:

Inputs – Understanding what funding and other resources the Department puts into the system and how our reforms to the main funding systems are driving better allocation of resources across the education system over time. How we are minimising the costs both of implementing system change and maintaining the system in steady state following reform. In addition, how the Department encourages and enables providers to secure better value for money across all of their spending.

Outputs – Understanding whether the reforms, coupled with providers' use of operational freedoms, have improved the efficiency of service delivery for a given level of inputs and resources and the quality of service being delivered.

Educational and other outcomes – Assessing how effectively the policy reform in question is improving short term educational outcomes or other key outcomes such as improvements in safeguarding or a successful placement for a looked after child – and the consequential economic and social outcomes that occur over the longer term. This includes, where feasible, particular consideration of how these outcomes are improving over and above what we might have expected without the reform. This will include monitoring whether our performance in international pupil tests is improving.

19. Overall value for money can then be assessed by considering:
 - a. the increase in educational standards and other outcomes achieved given the taxpayer resources used to fund the system;
 - b. whether the value of all of the relevant outcomes (both those directly related to education and children's services and the wider economic and social outcomes) outweighs the costs of delivering them; and

- c. whether the adopted approach is the most cost-effective way of achieving our objectives.
- 20. Our general approach to assessing and driving value for money at the system level should also provide a general framework for individual service providers to assess how they themselves are securing value for money.
- 21. However, value for money is a 'lagged' indicator as we can only make a proper judgement about whether it has been achieved at the end of a child's education. We rely therefore on a rigorous system based on other, more immediate, sources of information to provide assurance that our policies are providing value for money.
- 22. In Annex B we set out, for each sector, who is responsible for the different aspects of value for money, examples of how value for money is being driven across the system and our main mechanisms for measuring it.

Overview of the accountability systems in education and children's services

- 23. For each sector the Department has an accountability system based on non-bureaucratic and proportionate assurance mechanisms. This section provides an overview of the accountability system for each of the main sectors funded by my Department. Further detail about the how the system works and the accountability mechanisms for each sector is included in Annex B.

Academies

- 24. For academies, there is a clear chain of accountability from each academy trust, which has its own accounting officer, through the Education Funding Agency (EFA), where I have appointed the Chief Executive as an additional accounting officer for EFA spending, to me as the accounting officer for the Department.
- 25. Academy trusts have responsibility for achieving outcomes and managing their financial affairs to ensure regularity, propriety and value for money. Each academy trust must manage their finances within the financial accountability system established by the Department. This system is codified within the Academies Financial Handbook and each academy trust's Funding Agreement which is their direct agreement with the Secretary of State to which they must adhere to in return for funding. The accounting officer of each academy trust has personal responsibility for ensuring regularity, propriety and value for money, on behalf of the trust.
- 26. For a single, stand alone academy, the academy trust equates to the governing body in a maintained school. For groups of academies, the academy trust has responsibility for the management of the group overall, but may delegate day-to-day responsibility to a local governing body within an individual school.

27. The responsibilities of academy trusts / local governing bodies include to: ensure the quality of educational provision; challenge and monitor the performance of the school and hold senior leadership to account; oversee the management of the academy trust's finances and property; oversee the management of the staff; ensure that the academy trust complies with charity and company law; and operate the academy in accordance with the Funding Agreement and Academies Financial Handbook.
28. The trust's accounting officer must advise the governing body if they appear to be failing to act in accordance with the terms of their Funding Agreement. Further, the requirement remains that if, after discussion, the governing body of an academy continues to propose actions that breach their Agreement, the accounting officer of the trust must inform the EFA's accounting officer. We published a revised version of the Financial Handbook in September 2012, which clearly sets out the full financial accountability framework for academies, including these new arrangements.
29. The main financial requirements on academies include annual external audit of their accounts, which provides a stronger system of accountability for academies than that in place for LA maintained schools and reflects the increased autonomy enjoyed by academy trusts. The audited accounts of each academy trust must be published to ensure proper transparency of how resources have been used.
30. We are strengthening further the financial accountability system for academies. For their 2011/12 returns, each academy trust's accounting officer must include within their annual accounts a signed statement confirming that they have complied with all aspects of the accountability system as set out in their Funding Agreement and the Academies Financial Handbook. The auditors will be required to use the statement as the basis for the delivery of an enhanced 'regularity audit' opinion. This opinion will be addressed jointly to the trust and to the Secretary of State through the Education Funding Agency. Also, from 2012/13, each academy trust's accounting officer will be required to explain, in an annex to their annual statement, how they have achieved value for money in their use of resources.
31. The Education Funding Agency, on behalf of the Secretary of State, holds academy trusts to account for compliance with the terms of their Funding Agreement and the Academies Financial Handbook, including ensuring financial propriety. This relationship is set out and reinforced in letters from the EFA's accounting officer to the accounting officer of each academy trust.
32. The EFA provides advice to support good financial management and takes a risk based approach to monitoring the financial health of academies, offering greater autonomy to those academies with strong financial systems.
33. The EFA will review financial statements from all academies, focussing in particular on those statements that contain unusual financial information or that have been submitted by academies with known financial weaknesses. In addition, the EFA will look for other evidence of unsatisfactory financial management. The EFA will then speak with any academies about which they have concerns, agreeing the most appropriate form of remedial action (such as a financial action

plan). Where sufficient improvement is not made the EFA will issue a Financial Notice to Improve.

34. The accounting officer of the EFA will provide me with an annual assessment of the financial accountability system for academies, including the level of assurance that this system provides. I will use this assurance when completing my own assessment of the accountability arrangements for the wider education system and other children's services.
35. Within my Department, the Office of the Schools Commissioner (OSC) monitors academies' educational performance and intervenes in cases of poor performance on behalf of the Secretary of State. To raise standards, the OSC is working with underperforming academies. These academies are monitored, risk assessed and where they do not improve quickly enough we take further action, including instigating changes to the leadership and management of the academy. The Secretary of State can achieve that by appointing sufficient governors to take control of the academy trust or, ultimately, by terminating a Funding Agreement. More detail about the process is included at paragraph 20 in Annex B.
36. In addition to the accountability measures in place at the academy trust level and directly through to the Secretary of State, we have additional checks, balances and safeguards to help ensure that performance and financial issues are identified and tackled swiftly. Many of these, such as the role of inspection, apply across the whole schools sector (see paragraph 55). Those specifically applicable to academies include: a differentiated approach to establishing academies, so that the weakest are supported by experienced schools or chains; support and challenge from chains, federations and dioceses; and intelligence gathered through officials' contact with trusts, sponsors, dioceses and LAs.
37. The recent first annual report on the academies programme⁶ has been published to inform Parliament about developments on the academies programme and provides information about the expansion and impact of the academies programme.
38. I recognise that as the number of academies grows, my Department must ensure it has efficient administrative processes and sufficient capacity and capability to oversee the programme. Academies are a key priority for the Department and we staff these functions accordingly to ensure appropriate capacity. For example, the EFA has recently doubled the number of accountants it employs. Our delivery and monitoring arrangements are kept under review to ensure that they are effective and efficient. I am currently conducting a review of my Department, including the EFA and other agencies, to consider how we prepare our organisation to deliver Ministers' priorities even more efficiently and effectively, through a period of continued fiscal constraint. This will include addressing fundamental questions about the size, shape and role of central government in the education and children's sectors.

⁶ Academies Annual Report, published 26 June 2012:
<http://media.education.gov.uk/assets/files/pdf/a/academies%20annual%20report%20201011.pdf>

Local authority maintained schools

39. For LA maintained schools, primary responsibility for performance and financial management similarly lies at school level. Individual schools have autonomy over the use of their budgets and their governing bodies are legally accountable for all their school's major decisions. They are expected to hold the senior leadership team to account and ensure that the delegated budget is managed effectively and value for money secured. Maintained schools are accountable to their LAs, who are in turn subject to the accountability system for local government.
40. LAs are responsible for setting and monitoring a local financial framework for their schools and providing support to help their schools offer an effective service to the local community. Maintained schools must work within this financial framework which includes maintaining effective financial management arrangements, securing value for money and providing financial information as required by their authority (Annex A provides further information). The section 151 officer of each LA is statutorily responsible for ensuring that schools act in accordance with their financial framework, and that the authority has adequate oversight of distributed funds. Like the accounting officers of several other Departments, I rely on the professionalism and integrity of authorities' section 151 officers to obtain assurance for funds given to local government. In addition, LAs' responsibilities for ensuring that their schools have effective financial management and are securing good value for money are embedded in the local government system of local democracy.
41. As well as financial oversight, LAs are responsible for addressing poor performance in their schools (including schools with sixth forms and providers of free early education for three and four year olds). Authorities monitor schools on a wide range of information including performance indicators and Ofsted reports. They address poor performance by working with the school on an improvement action plan and have a series of steps they can take to intervene further. The Secretary of State also has powers of intervention (see Annex B).
42. In addition to the responsibilities at school level and their direct accountability to LAs, we are taking action to improve wider checks, balances and safeguards in the system for both maintained schools and academies. These include: improving independent performance assessments and reporting by Ofsted; work with partner organisations to promote strong school governance; greater transparency of financial and performance data; establishing a clear complaints policy; and whistleblowing arrangements.

16-19 education system

43. Within the 16-19 education system, responsibility for performance and financial management is at provider level, with direct accountability to either the EFA or the Skills Funding Agency (SFA) of the Department for Business, Innovation and Skills depending on how providers receive their funding.
44. The EFA is responsible for obtaining sufficient financial assurance on sixth form colleges (SFCs) and operates a well established and understood process for

monitoring their financial health. Much of this assurance is gained by reliance on the work that SFCs are required to commission from their own appointed independent auditors. The SFA operates a similar well established and understood process for further education (FE) colleges. Schools with sixth forms are included within the scope of their LA's overall accountability requirements (see the maintained schools section above). The SFA's process includes the same level of monitoring and assurance for FE colleges and other providers delivering 16-18 Apprenticeships. Academies with sixth forms are required to comply with the same EFA assurance arrangements as other academies (see the Academies section above).

45. The SFA and EFA monitor performance and intervene if necessary in poorly performing FE colleges and SFCs respectively. Where a college provider is performing poorly, it is given a Notice to Improve and a time-bound period in which to demonstrate improvement. We are working towards a sharper performance accountability system by setting minimum standards that we expect all providers, including school sixth forms, to meet and refocusing inspection on weaker providers.
46. In addition to the accountability measures in place at the individual provider level and directly through to the funding agencies, we have other checks, balances and safeguards to ensure that performance and financial issues are identified and tackled. These include: independent inspection by Ofsted; greater transparency of information about providers, and complaints procedures. Further information is provided in Annex B.
47. My Department is also responsible for funding education and training provision for young people aged 19-24 with learning difficulties who are subject to a Learning Difficulty Assessment (LDA). Accountability in this sector is similar to that for 16-19 provision. Responsibility for performance and financial management is focussed at provider level, with direct accountability to either the EFA or the SFA (depending on their funding route and contractual arrangements). Learning is often delivered through FE colleges and providers known as Independent Specialist Providers (ISPs). ISPs are subject to provider financial assurance checks in common with FE Colleges and other commercial and charitable providers. All ISPs are subject to inspection by Ofsted and a number are also subject to review by the Care Quality Commission. Failure to perform satisfactorily results in funding restrictions and, ultimately, termination of funding agreements.

Early years education system

48. Within the early years education system, the accountability system is based on the role of the LA. LAs have the duty to secure free early education for three and four year olds and are funded by my Department for this purpose through the Dedicated Schools Grant. From September 2013, this duty will extend to cover some two year olds, and from 2013-14 funding for two year old early education will be passed to LAs through the DSG. LAs must satisfy themselves of providers' financial propriety through their arrangements with maintained schools, or through contractual arrangements with private and other providers.

49. The Department has recently revised the statutory guidance underpinning free early education, giving LAs far greater freedom and flexibility in how they secure free early education provision. This removal of central prescription should support more effective delivery, increased performance and help LAs to deliver greater value for money.
50. Recent reforms in how LAs fund providers, through the introduction of the early years single funding formula, have increased transparency and efficiency, and further reforms are being delivered which will increase the effectiveness and impact of this funding. These include enabling LAs to compare funding to other LAs, as well as encouraging LAs to focus funding on driving impact.
51. Accountability for performance rests at the local level. My Department is supporting local communities in exercising this accountability by publishing data covering local performance and financial spend⁷. This transparency of data will help support local communities and parents to hold LAs to account for their performance. In addition Ofsted has a statutory duty to assess the quality of providers. LAs are empowered to suspend the provider as a free entitlement provider or provide improvement support for a probationary period. New statutory guidance proposes that LAs should operate a locally flexible set of eligibility criteria, and that they should not fund providers rated inadequate by Ofsted.

Other children's services

52. Within other children's services (including child protection, children in care and adoption, Sure Start Children's Centres, early intervention, youth services and LA leadership of the system), responsibility for delivery lies with LAs. Funding is provided through the Formula Grant system, operated by the Department for Communities and Local Government (DCLG), and in part through my Department, mainly through the Early Intervention Grant (EIG), although the latter will cease to exist at the end of this financial year.
53. For both Formula Grant and the Early Intervention Grant, LAs are responsible for ensuring that funding for children's services is spent with regularity and propriety, and for ensuring value for money is achieved. They are accountable both for services delivered directly by local government officers and for those services commissioned from external providers. An authority's section 151 officer is statutorily responsible for this as part of their wider assurance role. Through an annual, publicly available report to Government (the section 251 return), LAs set out the totality of their expenditure on children, young people and families, regardless of the funding source for that expenditure. This data transparency is in addition to the established local audit arrangements. DCLG is responsible for dealing with concerns about the overall financial management of an authority and would handle such concerns under their own arrangements (further information on these arrangements can be found in the DCLG Accountability System Statement).

⁷ This is available at:

<http://www.education.gov.uk/childrenandyoungpeople/earlylearningandchildcare/delivery/b00211546/foundation-years-benchmarking-tool>

54. However my Department holds LAs to account for performance in the service areas described in paragraph 52 above. The accountability system consists of:
- a. statutory duties in relation to children's services (excluding school related duties);
 - b. a requirement for LAs to appoint a "Director of Children's Services" and a "Lead Member for Children's Services" with accountability for local delivery of children's services;
 - c. increased transparency to support benchmarking and local public accountability;
 - d. inspection by Ofsted (for safeguarding services, services for looked after children and Sure Start Children's Centres);
 - e. a local government sector led improvement system, based on self assessment in each LA; peer challenge; improvement support and review, and payment by results in some trial areas rewarding progress made against the main aims of Sure Start; and
 - f. intervention by the Department where a LA is failing to deliver its services to an acceptable standard.

The role of inspection

55. Independent inspection plays an important regulatory role and underpins our accountability frameworks for education and children's services. Ofsted is independent and impartial and reports directly to Parliament. Ofsted aims to promote improvement in the services it inspects and regulates and every week it carries out hundreds of inspections and regulatory visits throughout England and publishes the results on its website. Through its inspections Ofsted gathers valuable and unique data and evidence in all areas of education and care. It seeks to promote improvement in the services it inspects and regulates and ensures that it focuses on the interests of the children and young people, parents and carers, adult learners and employers who use these services.

Equality and fairness

56. The Department is committed to developing policies that raise attainment for all children and close the gap between those facing disadvantage and their peers. Policies across education and children's services are developed to ensure fairness and equality and this is embedded within our accountability systems. For example, our reforms to education funding are specifically intended to better target resources according to pupil needs and to ensure that the disadvantaged and those with higher needs receive greater funding. Also, we are building on the positive impact early education can have on child development and social mobility so that by September 2014, the 40 per cent least advantaged two year olds (around 260,000 children) will have an entitlement to a free early education place. In addition, we are reforming the system for young people with special educational needs and disabled children to improve their outcomes and to improve their and their families' experience of the system.

57. The Department's published equality objectives set out how, in delivering our overall aims for educational reform over the next four years, we also intend to consider the impact of our reforms upon particular children and families. As required by the Equality Act 2010, we publish evidence annually to show the progress which we are making towards tackling discrimination, fostering good relations and promoting equality. This transparency enables us to be held to account publicly and by the Equality and Human Rights Commission (EHRC). Schools similarly publish equality objectives and associated evidence, usually integrating these with existing documentation so that action and accountability are embedded within wider mechanisms. These publications also enable them to be held to account locally and, if necessary, by the EHRC.
58. Inspection by Ofsted also plays an important role in delivering fairness and equality. Through its inspection programmes Ofsted directly observes what services are like for all children and students, listening to their experiences and those of parents and schools. Inspection helps people and communities hold their services to account, and ensure those providing services are clear about where improvements are necessary, for example, in tackling gaps in provision for different groups.

Conclusion

59. This Statement will be updated annually as we continue to strengthen the accountability system for education and children's services whilst ensuring a proportionate approach to maintaining autonomy and avoiding bureaucracy.

Annex A – Requirements on maintained schools and Academy Trusts

1. The main financial accountability requirements for LA maintained schools are set out in LA financial schemes. For academies, they are set out in their Funding Agreements, the Academies' Financial Handbook and charity and company law. These also detail the specific accounting procedures that maintained schools and academies are expected to abide by.
2. The table below summarises the main requirements on maintained schools and academy trusts. However, we cannot be too definitive on what LAs are requiring on issues such as budget plans, budget monitoring and deficits. The Department provides statutory guidance, but in many cases LAs can depart from this if they have the agreement of their Schools Forum. Therefore, the maintained schools column should be taken as indicative rather than definitive of requirements on schools.
3. Academy trusts' accounting officers report to the EFA as set out in the table below. In turn, the EFA's accounting officer reports on the EFA's financial position to me, as Principal accounting officer, on a monthly basis.

	Maintained Schools	Academy Trusts
Accounting Officer	No such requirement.	Designate a named individual as the accounting officer for the academy trust. The accounting officer has an overriding personal responsibility to uphold the principles of propriety, regularity and value for money in respect of public funds.
External Audit	<p>Cooperate with the audit regime determined by their LA. This will be determined with regard to their LA's internal audit function and external audit regime and is likely to rely mainly on internal audit by the LA.</p> <p>Provide audit certificates to their LA in respect of voluntary and private funds they hold and of the accounts of any trading organisations they control. Certificates should be produced by an independent person who is not associated with the funds in any other way.</p>	<p>Produce and submit annual, externally audited accounts to the EFA. Annual accounts must be prepared in compliance with the Companies Act and in a form determined by the Charities Statement of Recommended Practice, Accounting and Reporting by Charities. This ensures public transparency and rigour which goes beyond that of the LA systems for maintained schools, reflecting the increased autonomy that comes with being an academy.</p> <p>From their 2011/12 accounts, each accounting officer must include within their annual accounts a signed statement confirming that they have complied with all</p>

		<p>aspects of the accountability system. The auditors will be required to use the statement as the basis for the delivery of an enhanced 'regularity audit' opinion. This will provide the EFA with formal assurance about the regularity of academies' expenditure.</p> <p>Cooperate with the EFA's programmes of financial management reviews and system of funding audit on a sample basis of about 5% of academies.</p>
Achieving value for money	Seek to achieve efficiencies and value for money, optimise the use of their resources and invest in teaching and learning, taking into account their LA's purchasing, tendering and contracting requirements.	The accounting officer has a personal responsibility to secure value for money in the use of public funds. From 2012/13, each accounting officer will be required to explain, as an annex to their annual accounting officer's statement, how they have achieved value for money in their use of resources.
Internal Audit	No such requirement.	Academy trusts have to appoint a 'Responsible Officer' to provide the governing body with on-going assurance that their financial responsibilities are being properly discharged and that sound systems of financial management are being maintained.
Governance	Every school has a governing body that is collectively accountable in law and practice for all their school's major decisions. They are expected to hold the senior leadership team to account and ensure that the delegated budget is managed effectively and value for money secured.	<p>Every academy trust has member trustees who are party to the Funding Agreement with the Secretary of State. In a stand alone academy, the governing body and the trustees are one and the same and are held to account by the Secretary of State. For multi-academy trusts, the governing body is held to account by the trustees who are in turn held to account by the Secretary of State.</p> <p>The academy trust has to abide by charity law and members carry personal liability for their actions and decisions.</p>
Budget planning	Submit a budget plan to their LA showing their intended expenditure for the coming financial year and	Submit a budget plan to the EFA with their proposed budget including income from all sources for the current financial year. The

	their underpinning assumptions. The LA may require the submission of revised plans throughout the year (at most every 3 months).	EFA may require the submission of revised plans, including multi-year plans, for any academies in financial difficulty.
Budget monitoring	Provide their LA with details of anticipated and actual expenditure and income. This is in a form and at times determined by their LA (usually at most every 3 months).	Academy trusts are expected to monitor their budget on an ongoing basis. There is no specific requirement for the EFA to be provided with information to enable in-year budget monitoring but regular monitoring and reporting to EFA would be a requirement if the EFA has financial management concerns or an academy trust requests additional funding.
Provision of financial information	Supply all financial information which might reasonably be required to enable their LA to satisfy itself as to the school's management of its delegated budget share.	Provide additional financial information to the EFA on an as required basis. Normally used only in cases of financial weakness or sample assurance visits (see above). However it could include monthly management accounts to monitor an academy's recovery from financial failure, and external auditors' and Responsible Officer's reports to gain additional assurance over financial systems and controls.
Deficits	Agree any deficit in advance with their LA as a planned deficit. The school must plan to return to a balanced budget usually within 3 years and is likely to be more closely scrutinised by their LA whilst in deficit.	Funding Agreements expect academy trusts to avoid setting a cumulative deficit budget. Where this is not possible (for example, but not only, due to inherited overstaffing) they must prepare and submit a recovery plan to the EFA with agreed timescales. The EFA will monitor the academy's progress closely.
Financial management self-assessment	Complete the Schools Financial Value Standard annually and submit the completed return to their LA.	Rather than require academy trusts to complete a separate self assessment, from the 2011/12 returns the EFA will rely on the new regularity audit for trusts that are producing audited financial statements. New trusts that will not be producing financial statements until the following year will be asked to complete a Financial

		Management and Governance self-assessment return for their first year of operation, or to provide other agreed forms of assurance. FMGE returns will be subject to sample validation visits by the EFA which also follows up where concerns are identified.
Reporting on expenditure	Complete a Consistent Financial Reporting return annually, detailing their income and expenditure for the previous financial year, and submit it to their LA. Information is published in support of transparency and benchmarking.	Complete an Additional Accounts Return annually detailing their income and expenditure for the previous financial year, and submit it to the EFA. Information is published in support of transparency and benchmarking.
Protection against fraud	Have a robust system of controls to safeguard themselves against fraudulent or improper use of public money and assets. School is expected to report any instances of fraud or theft to their LA.	accounting officer is required to secure propriety and regularity in the use of public funds. They must bring to the attention of the EFA any instances of fraud, theft or irregularity above £5,000.
Register of business interests	Have an up-to-date register which lists for each member of the governing body and the head teacher, any business interests they or any member of their immediate family have, and to make the register available for inspection by governors, staff and parents, and their LA.	Substantially the same as maintained schools, as provided for by the Companies Act 2006 and the Charity Commission publication "A guide to conflicts of interest for charity trustees". Related party transactions involving governors and senior staff must be declared in the audited accounts.
Assets	Maintain an inventory of its moveable non-capital assets, in a form to be determined by their LA, including setting out the basic authorisation procedures for disposal of assets.	Safeguard the assets of the charity as set out in the Charity Commission publication CC25. Academies should maintain a register of fixed assets to support their annual accounts. Funding Agreements state that the disposal of higher value assets is subject to the approval of the Secretary of State, as is the acquisition of freehold and long leaseholds.

Annex B – Roles and responsibilities in ensuring accountability and value for money

Introduction

1. This Annex includes detailed information about academies, LA maintained schools, 16-19 education, early years provision and children's services, including child protection, children in care and adoption, Sure Start Children's Centres, early intervention, youth services and LA leadership of the system. It includes information about roles and responsibilities, how the financial accountability system works, mechanisms for addressing financial failure, how value for money is ensured, how performance is ensured and poor performance addressed, and additional checks, balances and safeguards in the system. It is structured as follows:

Section 1	Accountability for academies (including financial accountability and ensuring performance)
Section 2	Accountability for LA maintained schools (including financial accountability and ensuring performance)
Section 3	Ensuring value for money in academies and maintained schools
Section 4	Checks, balances and safeguards in the schools' accountability system
Section 5	Accountability for 16-19 education and learning for young people aged 19-24 with learning difficulties and/or disabilities (including financial accountability, ensuring performance, ensuring value for money and checks, balances and safeguards in the system)
Section 6	Accountability for early years education (including financial accountability, ensuring performance, ensuring value for money and checks, balances and safeguards in the system)
Section 7	Accountability for other children's services (including financial accountability, ensuring performance, ensuring value for money and checks, balances and safeguards in the system)

Section 1 – Accountability for academies

Roles and responsibilities

2. There is a clear chain of accountability from each academy trust, through the EFA, to the accounting officer for the Department for Education.
3. **Academy trusts** are responsible for achieving educational outcomes and ensuring regularity, propriety and value for money. Free Schools, Studio Schools and University Technical Colleges (UTCs) are technically ‘academies’ and are set up with the same underpinning operating and legal frameworks. Therefore, for the purposes of this document, ‘academies’ should be taken to refer to all types of academy, including Converter academies, Sponsor academies, Free Schools, Studio Schools and UTCs.
4. Academy trusts, as companies, enter into a legal contract known as a Funding Agreement with the Secretary of State. The Funding Agreement regulates their operation by imposing educational and other obligations in return for funding (including educational, financial and accounting requirements). The Funding Agreement includes a requirement to comply with the Academies Financial Handbook produced by the Education Funding Agency (EFA). The trust is therefore responsible for ensuring that the trust’s funds are used only in accordance with the governing body’s powers under the Funding Agreement, the Financial Handbook and any other conditions that the Secretary of State may impose.
5. The trustees of a stand alone academy trust are the governing body and are held to account by the Secretary of State. In multi-academy trusts, members of the trust make appointments to the governing body and so some members sit on both the academy trust and the governing body (other members of the governing body are elected members). As with stand alone academies, the trust is held to account by the Secretary of State. The Articles of Association for the academy trust (which are linked to the Funding Agreement) set out the responsibilities of the governing body and the principal. The accounting officer should take personal responsibility, which must not be delegated, to assure the governing body that there is compliance with the Financial Handbook, the Funding Agreement and all terms, conditions and requirements referred to above.
6. Academy trusts are, by virtue of section 12(4) of the Academies Act 2010, exempt charities and academy governors are therefore subject to the duties and responsibilities of charitable trustees. The Charity Commission has produced specific guidance for academies in [Academy Schools: guidance on their regulation as charities](#). The Charity Commission has produced two guidance notes which are relevant for academy governors. These guidance notes are [CC3: The Essential Trustee - What You Need to Know](#), and [CC8 - Internal Financial Controls For Charities](#).
7. As academy trusts are legally companies limited by guarantee, their internal governance must reflect the requirements of the Companies Act and the company’s memorandum and articles of association. The articles set out how the

Directors of the company are to be appointed, and, in the case of an academy trusts, the Directors are also the trustees of the trust, and are also known as governors. The Directors are bound by the legal duties of a company director (set out in the Companies Act) and include:

- a. to exercise their powers only for a proper purpose;
- b. to promote the company's success;
- c. to exercise independent judgement;
- d. to exercise care and skill; and
- e. to avoid conflicts of interest.

8. **The Secretary of State** is responsible for holding academy trusts to account for meeting the terms of their Funding Agreements (including compliance with the Financial Handbook), for performance outcomes and for academies' use of public money. If an academy fails to comply with the terms of its Funding Agreement, the Secretary of State can request compliance and could ultimately seek an order for specific performance (a court order ensuring compliance with the requirements of a contract) through the Courts.
9. The Secretary of State is also the designated Principal Regulator of academies as Charitable Companies. The Secretary of State is supported in this role by the Education Funding Agency. As Principal Regulator, he is under a duty to promote these charities' compliance with charity law. One of the Principal Regulator's main duties is to ensure information about the exempt charity is readily available to the public. This includes its governing documents, its latest statement of accounts, and information about its activities and how they relate to its objectives.
10. **The Education Funding Agency** (EFA – an executive agency of the Department) acts as an agent of the Secretary of State within the scope of the powers and discretions formally delegated to it. The Chief Executive of the EFA has been designated as its accounting officer and is responsible and accountable to Parliament for how the EFA uses its funds. The EFA's accounting officer is also responsible for the regularity and propriety of expenditure and for getting good value for money from it. The EFA directly funds academies and, in turn, the EFA's accounting officer must be satisfied that academy trusts have appropriate arrangements for sound governance, financial management, securing value for money and accounting, and that how academy trusts use public funds is consistent with the purposes for which the funds have been given. The accounting officer of the EFA will provide the accounting officer of the Department with an annual assessment of the financial accountability system for academies, including the level of assurance that this system provides.
11. The funding system for academies is based on the terms of the Funding Agreements between academies and the Secretary of State. Academies' running costs are covered by the General Annual Grant (GAG) paid by the EFA by way of Formula Funding and the LA Central Spend Equivalent Grant (LACSEG) (representing an academy's share of the central funding that its LA would otherwise retain and spend on behalf of its schools). As with maintained schools,

academies can also receive Pupil Premium funding, paid directly to them by the EFA.

12. The academies programme is a key priority for the Department, and is staffed accordingly. The Department recognises that as the number of academies grows, it must ensure it has efficient administrative processes and sufficient capacity and capability to oversee the programme. The EFA is increasing staffing on academies accordingly to ensure appropriate capacity. It has also kept delivery and monitoring arrangements under review to ensure that they are effective and efficient.

Ensuring financial accountability and propriety

13. The Secretary of State, via the EFA, holds academies to account in respect of compliance with the terms of their Funding Agreement, including ensuring financial propriety and value for money. Funding Agreements stipulate that academy trusts must abide by the requirements of the Academies' Financial Handbook, published by the EFA. This Handbook contains information on the duties and obligations of academy trusts arising from the Funding Agreement and sets out the financial requirements and audit code of practice for academies. In addition, the model Funding Agreement states clearly that the academy trust must apply 'financial and other controls which conform to the requirements both of propriety and of good financial management'. The following requirements are in place to ensure strong financial management and propriety:
 - a. all academy trusts must designate a named individual as their accounting officer – usually the Principal in a single academy trust or the Chief Executive of a multi-academy trust. ATs must comply with the requirements of their Funding Agreement and the Academies' Financial Handbook. The role of accounting officer includes personal responsibility for the propriety and regularity of the public finances for which they are answerable; for the keeping of proper accounts; for effective internal controls; for prudent and economical administration; for the avoidance of waste and extravagance; for achieving value for money; and for the efficient and effective use of all the resources in their charge. These responsibilities are set out and reinforced in letters from the EFA's accounting officer to each academy trust;
 - b. Accounting officers must advise the governing body if any action or policy under consideration by the governing body is incompatible with the terms of their Funding Agreement, or if they appear to be failing to act as required by the terms and conditions of their Funding Agreement. If, after discussion with the governing body, the accounting officer still considers that the action proposed is in breach of the Handbook or Funding Agreement, they must inform the EFA's accounting officer;
 - c. Academy trusts are required to produce and submit externally audited accounts to the EFA. The EFA relies on the professional opinion of the external auditors, including that a sound accounting system is in place and that grants have been used for the intended purposes. The annual

accounts must be prepared in compliance with the Charities' Statement of Recommended Practice, Accounting and Reporting by Charities (the Charities' SORP). From their 2011/12 accounts, each academy trust's accounting officer must include within their annual accounts a signed statement confirming that they have complied with all aspects of the accountability system as set out in their Funding Agreement and the Financial Handbook. The EFA is strengthening its relationship with academies' external auditors to ensure that robust assurance is provided that each trust has a sound system of internal control and that public funds have been used for the intended purposes. This will take the form of a new 'regularity audit' based on the model in place for Sixth Form Colleges. The auditors will be required to use accounting officers' new statement as the basis for the delivery of an enhanced 'regularity audit' opinion. This opinion will be addressed jointly to the trust and to the Secretary of State through the EFA. The EFA takes follow-up action on any qualified accounts to ensure that the reasons for qualification are being appropriately addressed by the academy trust;

- d. from 2012/13, each academy trust's accounting officer will be required to explain, as an annex to their annual statement, how they have achieved value for money in their use of resources;
- e. the proposed budget for each academic year (September to August), including income from all sources, must be approved by the governing body and submitted to the Secretary of State, either by 28 September or six weeks after receiving the final funding letter;
- f. the 2012/13 Academies' Financial Handbook requires academy trusts to bring to the attention of the Secretary of State any instances of fraud, theft or irregularity over £5000. The strengthening of the EFA relationship with academy auditors will ensure that the potential for fraud is given greater emphasis. In cases where the EFA receive information relating to such matters and an investigation is judged appropriate, this is conducted under the terms of the audit access rights contained in the Funding Agreement;
- g. as set out in section 2.4 of the Academies' Financial Handbook, most routine financial transactions are for academies to carry out without needing approval from the Secretary of State or HM Treasury. But where transactions are above a certain proportion of their budget, above a cash level (for special staff severance payments) or novel and contentious, these will require the prior approval of the Secretary of State or HM Treasury, through the EFA;
- h. the EFA obtains assurance that academy funding is properly earned through undertaking an annual programme of funding audits at a sample of academies to obtain assurance that the pupil data supplied by the academy trusts is accurate. Academies are required to draw up an action plan to deal with any weaknesses identified;

- i. the EFA uses a risk based approach to monitoring the financial health of academies to ensure a proportionate and value for money approach. This draws on a range of indicators including; financial statements received (focussing in particular on those statements that contain unusual financial information or that have been submitted by academies with known financial weaknesses), the cumulative financial position and staffing costs to income ratio, any requests for additional funding or advances, levels of deficit, deficit funding received and timely receipt of financial returns. The EFA will respond to concerns raised by external auditors, its own staff and whistleblowers about financial management weaknesses in academies. In addition, from 2012/13 the EFA will use the new value for money statements to consider whether they raise any wider issues around financial management;
 - j. The EFA will then speak with any academies about which they have concerns, agreeing the most appropriate form of remedial action (such as a financial action plan). Where sufficient improvement is not made the EFA will issue a Financial Notice to Improve.
14. The EFA is supporting academies to undertake effective financial management through a range of mechanisms. Recently, it has:
- a. published a revised Financial Handbook in September 2012 to provide clearer advice on requirements; and
 - b. confirmed, through a communication to each academy trust, their financial responsibilities; and
 - c. produced updated guidance to help academies prepare their 2011/12 annual accounts and report and for their independent auditors to audit them.
- It works with representative bodies on an ongoing basis to ensure good practice is shared.
15. The EFA is improving its framework for financial forecasting and is working with academies to ensure compliance. The EFA is developing monitoring and reporting processes that will meet the requirements of Whole of Government Accounts and Clear Line of Sight arrangements but will minimise additional bureaucracy for academies. The EFA is also planning to inject more support into the academy accounting system to improve accounting and forecasting.
16. The EFA is developing its approach to identifying and managing academy deficits and ensuring that academies are managing them effectively. It has issued a budget return for academies to complete for 2012/13 which includes an early view of 2011/12 outturn to enable academy trusts and the EFA to better identify financial health problems in advance and take early corrective action. The EFA supports academy trusts to develop and deliver robust recovery plans and monitor progress. Any academy trust in significant financial deficit is required by the EFA to prepare and submit a recovery plan with agreed timescales. The EFA monitors academies' progress against these plans closely, holding the trust to account for delivery.

Ensuring performance and addressing poor performance

17. The academies programme seeks to raise performance through providing autonomy and freedom to innovate. Academies continue to improve faster than the national average (see paragraph 64).
18. The Department monitors academies' performance and intervenes in cases of poor performance through the Office of the Schools Commissioner (OSC). The Department, via the OSC, is working with academies that are either below the floor standards, are identified as needing improvement by Ofsted or whose results have fallen, or appear in danger of falling, below the floor in order to raise standards.
19. Underperforming academies are monitored through meetings with the sponsor and visits to the academy with an Education Adviser to assess the impact of the actions being taken. Each academy is then risk assessed according to its results; our assessment of the capacity of the sponsor to bring about rapid improvement; and our assessment of the effectiveness of the improvement plan. Where academies do not improve at the pace expected, the Department takes further action, including instigating changes to leadership and management of the academy.
20. The Secretary of State has intervention powers when an academy is failing. He can appoint sufficient members of the governing body to take control or ultimately he can terminate a Funding Agreement. These powers can be used in response to situations such as being judged by Ofsted as having 'serious weaknesses' or requiring 'special measures', financial mismanagement, health and safety concerns and dropping two Ofsted categories in a prescribed period. Since January 2012, the Department has notified eight academies through a pre-warning notice that Ministers expect urgent action to bring about substantial improvements, or they will receive a warning notice. Also 20 academy heads have changed as a result of underperformance since May 2010, due in part to the Department's intervention⁸.
21. The academies programme has been developed in such a way as to promote a self sustaining system of school-to-school improvement. The Department expects all schools that are performing well and applying for academy status to partner a weaker school. Currently converter academies are supporting over 1600 named schools and 37 are already sponsoring or have agreed to sponsor weaker schools⁹. Schools that are not high performing but wish to benefit from academy freedoms are only able to do so providing they work in formal partnership with a high performing school or a proven academy sponsor.
22. Wider mechanisms supporting the identification of poor performance are explained in section 4 and include inspection, greater transparency to parents and the public, and whistleblowing.

⁸ Statistics in this paragraph are accurate as 1 September 2012

⁹ Departmental figures at 1 June 2012.

Section 2 – Accountability for maintained schools

Roles and responsibilities

23. **Individual schools** have autonomy over the use of their budgets and their governing bodies are responsible and accountable in law and in practice for all of their schools' major decisions. Schools are responsible for managing their delegated budget effectively and optimising their use of resources to raise standards and attainment for all of their pupils whilst ensuring good value for money. Governing bodies' key responsibilities include:
- a. Setting strategic direction, objectives, targets and policies for the school;
 - b. Appointing the head teacher, reviewing their performance and acting as a critical friend by providing support and challenge;
 - c. Ensuring that the school and governing body have access to an appropriate level of financial expertise;
 - d. Approving the school budget and reviewing progress against the budget, plans and targets;
 - e. Maintaining effective financial management arrangements in the school including seeking to secure good value for money at all times and ensuring that the school has adequate arrangements to guard against fraud and theft; and
 - f. Completing the new Schools Financial Value Standard (SFVS) annual self-assessment return, including agreeing and implementing an action plan to address any identified areas of weakness.
24. **LAs** are responsible for holding maintained schools to account for their financial management and performance. This includes ensuring that they have adequate oversight of their schools' financial management. They are responsible for setting and monitoring a local financial framework for schools and providing support to help their schools provide an effective service to the local community. Maintained schools must work within this financial framework, including maintaining effective financial management arrangements and providing financial information as required by their LA. LAs are accountable through the democratic process to local communities.
25. **The Department** is accountable for the overall system through which funding for schools is provided to LAs including ensuring there are sufficient routes to provide assurance that the funding is being used with regularity, propriety and in ways that secure value for money.
26. **The DCLG accounting officer** is responsible for ensuring that LAs act with regularity, propriety and value for money in the use of all of their resources.

Ensuring financial accountability and propriety

27. The funding system for maintained schools is based on the Dedicated Schools Grant (DSG) and Pupil Premium, which are channelled from the Department to LAs. The DSG pays for:
 - a. education for 3 to 15 year olds including the revenue budgets for primary and secondary schools;
 - b. early education for 3 and 4 year olds (see early years education section below);
 - c. pupils with high cost special educational needs; and
 - d. pupils in alternative provision.
28. LAs are permitted to retain a proportion of their allocated DSG for centrally administered services and support services¹⁰. They redistribute the bulk of it to their maintained schools using locally determined formulae which give weightings for factors such as pupils with special education needs, or those who speak English as an additional language. In addition, the Pupil Premium, introduced in 2011-12, is channelled through LAs to schools. It is designed to target additional funding to pupils eligible for free school meals, looked after children and service children.
29. LAs' key responsibilities include:
 - a. maintaining a local financial scheme for schools under section 48 of the School Standards and Framework Act 1998;
 - b. reviewing schools' budget plans as submitted;
 - c. carrying out high level monitoring of school budgets;
 - d. agreeing a deficit recovery programme with schools that fall into deficit;
 - e. challenging excess surplus balances held without good reason;
 - f. planning and carrying out an audit programme for their schools, taking into account schools' SFVS returns; and
 - g. intervening in schools causing financial concern.
30. The section 151 officer of each LA is statutorily responsible for ensuring that their authority acts in accordance with the authority's financial framework, and that the authority has adequate oversight of distributed funds to its maintained schools. The Department, like many other Departments, relies on the professionalism and integrity of LAs' section 151 officers in seeking assurance for funds given to local government. As well as statutory backing, the LA assurance role is subject to democratic oversight and external audit.
31. The Department requires authorities, based on their close oversight of their schools, to give sufficient and adequate assurance that distributed funds are being

¹⁰ Arrangements for the central retention of DSG by local authorities are changing for 2013-14. More information is available later in this annex.

used with regularity and propriety and that value for money is being secured. Specifically, the Department requires LAs to provide assurances about how they have used the DSG and Pupil Premium funding and that it has been deployed with regard to regularity, propriety and value for money. Each LA's Chief Financial Officer (CFO) has a responsibility (through a condition of grant) to provide the DfE accounting officer with an annual statement of financial assurance that includes:

- a. Assurances that the authority has used DSG (which includes funding to support the free entitlement for 3 and 4 year olds) and Pupil Premium funding in line with the conditions of grant set out by the Department;
- b. confirmation that the authority has in place a system of school audits which gives the CFO adequate assurance over schools' standards of financial management and the propriety and regularity of their spending; and
- c. how many School Financial Value Statements (SFVS) returns they have received and an assurance that they are taking the contents of these into account in planning their future programme of school audit.

The authority's use of DSG and Pupil Premium is subjected to external audit as part of the authority's accounts.

32. In cases of weak financial management in schools, it is the responsibility of their LAs to intervene. Authorities have a range of early warning signs available to alert them to financial mismanagement including audit reports, school budget plans (which the authority reviews), the authority's monitoring of school spending, and schools' SFVS returns, as well as any alerts through whistleblowing. If an authority has a concern about the financial management of a school, they work with the school to agree a deficit reduction plan. However, where appropriate, LAs can also:
 - a. claw back funds where the problem is an issue of excess surplus held by a school;
 - b. agree a plan to recover a deficit within three years;
 - c. issue a notice of financial concern under their local financial scheme; and
 - d. withdraw a school's right to a delegated budget under Schedule 15 to the School Standards and Framework Act 1998.
33. The Department has a role in approaching an authority if it has evidence that it is not fulfilling its functions in relation to schools' financial management as well as they should. The Department accepted the National Audit Office's (NAO) and Public Accounts Committee's (PAC) recommendations that it needs to strengthen its arrangements for approaching authorities when the information it receives indicates there may be cause for concern and to better understand the reasons for persistent school deficits and surpluses. This summer the Department published new arrangements to use authorities' section 251 outturn returns and CFO assurance statements to identify where there may be problems with the authority's or its schools' financial management. From now on the Department will analyse this information against a set of pre-agreed criteria based on:
 - a. substantial over or under-spends of the DSG;
 - b. persistent, substantial school-level deficits or surpluses; and

c. schools' completion of the SFVS.

Where this information indicates that there is reason for it to be concerned, the EFA will approach individual authorities to understand the issues better and seek appropriate additional assurances.

34. In addition to the role of the DfE, the Department for Communities and Local Government's (DCLG's) accounting officer is responsible for ensuring that a framework is in place to make sure that authorities act with regularity, propriety and value for money in the use of all of their resources. Thus concerns about the overall financial management of a LA would normally be handled by DCLG rather than directly by other government Departments.

Ensuring performance and addressing poor performance

35. LAs are responsible for addressing poor performance in maintained schools (including schools with sixth forms and providers of free early education for three and four year olds) and this sits within a system of accountability overseen at the national level by the Department.
36. LAs monitor schools on a range of performance indicators including Ofsted reports, information from their governing body and head teacher and comments or concerns raised by parents or other members of the local community. LAs address poor performance by working with the school on an improvement action plan. If performance is or remains unacceptably low, the authority may issue a warning notice. Although authorities take the lead in addressing poor school performance, the Secretary of State can direct the authority to issue a warning notice if he feels it necessary and they have not done so. If the school fails to comply satisfactorily with the warning notice, or if Ofsted judges the school to be requiring 'significant improvement' or 'special measures', then it will become eligible for intervention.
37. Where further action is necessary, the LA intervenes. It can: require the governing body to enter into arrangements with a view to improving the performance of the school¹¹; appoint additional governors; suspend the delegated authority for the school's budget or apply to the Secretary of State to appoint an Interim Executive Board. A LA can also propose the closure of any type of maintained school. A statutory process must be followed which requires: consultation; publication of closure proposals; a representation period in which to submit comments and objections; the decision; and where approved implementation of the closure. This is decided under local decision making arrangements by the relevant local LA. Certain bodies have a right of appeal to the independent Schools Adjudicator if they do not agree with a LA's decision. The Schools Adjudicator would consider the case afresh and her decision is final. Where, despite LA action, schools

¹¹ Further information is available on the Department's website:

<http://www.education.gov.uk/aboutdfe/statutory/g00192418/scc>

<http://www.education.gov.uk/aboutdfe/statutory/g00192418/scc/scc1>

continue to fail, the Secretary of State has powers to intervene in individual schools under sections 67-69 of the Education and Inspections Act 2006. The Secretary of State may:

- a. appoint additional governors;
- b. appoint an Interim Executive Board;
- c. direct a LA to close any school requiring 'special measures';
- d. make an academy order, where a further range of statutory intervention powers are available to him to bring to bear not only on the academy Head Teacher, but also (where applicable) on sponsors; and
- e. require a LA to serve a warning notice on a school.

Section 3 – Ensuring value for money in academies and maintained schools

- 38. Many aspects of value for money apply to both academies and maintained schools. This section covers those applicable to all types of school, identifying which elements are specific to just one of the sectors.
- 39. As set out in paragraphs 16-21, value for money is assessed as the educational and societal outcomes achieved in return for the taxpayer resources used to fund the system. In particular:
 - a. the increase in educational standards and other outcomes achieved given the taxpayer resources used to fund the system;
 - b. whether the value of all of the relevant outcomes (both those directly related to education and children's services and the wider economic and social outcomes) outweighs the costs of delivering them; and
 - c. whether the adopted approach is the most cost-effective way of achieving our objectives.
- 40. The academies programme is changing fundamentally the current education system and the Department is continuously improving the efficiency with which the programme is being implemented. It is too early to assess its full impact both at individual school level and across the programme as a whole, but the Department is ensuring that the right information will be available to assess value for money over time

Departmental Inputs

- 41. The Department is responsible for ensuring that, at a system level, the funding it provides to academies and maintained schools is allocated efficiently to drive value for money. In addition, it is responsible for ensuring that the costs of implementing and maintaining the new academies' system are minimised.

42. The Department is reforming the funding system for all schools. The current funding system is unfair, out of date and leads to inefficiencies in the allocation of resources across the schools sector. On 26 March 2012, the Department published "School funding reform: Next steps towards a fairer system". This document set out a commitment to introducing a fair national funding formula during the next spending period and described how the interim funding arrangements would be reformed and simplified from 2013-14.
43. In the short-term, the reforms mean that funding will be allocated to schools in a more consistent and transparent way. Allocations will also be more strongly based on pupil numbers and characteristics – targeting funding in this way is more efficient as it means funding reaches pupils who need it most. In the longer term, a new national funding formula will mean that funding is distributed to local areas and schools more fairly and efficiently.
44. At present, LAs can distribute funding using a wide range of formula factors. As a result, some authorities have developed such complex formula it is virtually impossible for head teachers and governors to understand how their budgets have been derived or to assess if it is a fair allocation. One of the consequences of distributing funding based on so many different factors is that it does not encourage schools to operate efficiently and can lock in historic funding commitments.
45. From 2013-14, LAs will be limited to using a maximum of 12 factors in their formulae. These factors will relate to pupil characteristics and exceptional premises costs (such as rates or private finance initiatives) only. Having simpler and more consistent local formulae will form a good basis for the Department to develop and implement a national funding formula over the next years.
46. In addition to simplifying the way that LAs can allocate funding to schools, the retention of DSG by the LA for the provision of central services is also being addressed. In order to provide head teachers and governors with more control over how money for schools is spent, LAs will be required to distribute more of the DSG to schools in the first instance and maintained schools can then decide to give some funding back to LAs for the provision of central services.
47. The programme of funding reform will also provide a new basis for funding both academies and LAs for central education services from 2013-14. This will replace the Local Authority Central Spend Equivalent Grant (LACSEG). The new arrangements will provide a long term solution which is sustainable, represents value for money, and provides flexibility to respond to the changing pattern of local education provision as more schools embrace the freedoms of academy status.
48. As part of this, because local authorities will be required to delegate the maximum amount of Schools Block DSG directly to maintained schools and academies from 2013-14, it will no longer be necessary to calculate a separate Schools Block LACSEG payment for academies. This means that Schools Block LACSEG will be replaced by additional money in the school budget share for academies.
49. LA Block LACSEG for academies and the corresponding element of formula grant funding for local authorities for education functions will be replaced by a single

national grant from the Department. The new grant for education services will be paid to local authorities and academies on a transparent per-pupil basis according to the number of pupils for which they are responsible. We are consulting, until 24 September, on how the grant should be allocated. In the interim, there have been changes to the way that LACSEG is calculated for 2012/13; changing aspects of the calculation so that payments better reflect the transfer of responsibilities from LAs to academies, and minimising the impact of wildly fluctuating year-on-year LACSEG allocations to help academies plan their budgets.

School-level Inputs

50. Both academies and maintained schools have autonomy over their budgets and are responsible for how they spend the financial resources allocated to them to deliver education services. Each academy's accounting officer has primary responsibility for ensuring the academy secures value for money in its use of resources. The Department's role is not to dictate how schools should be spending, but it is responsible for empowering all schools to achieve value for money across all of their spending and ensuring they can easily access appropriate advice and support.

Both maintained schools and academies

51. To support both maintained schools and academies, the Department:
 - a. maintains school efficiency "one-stop-shop" webpages providing instant access to a few key tools and clear links to the wider range offered by other organisations (www.education.gov.uk/efficiency). The advice and tools cover topics including strategic financial management, workforce deployment and the effective employment and deployment of school business managers;
 - b. promotes a range of procurement deals and web-based purchasing advice to help all schools get the best value for money, and will continue to improve the effectiveness of its support resources, working in partnership with key stakeholders and refining existing resources through user feedback; and
 - c. encourages the take-up of training provided by the National College on effective financial management for head teachers, school business managers and chairs of governing bodies which includes the importance of achieving good value for money. In addition, the Department provides tailored support for academies and maintained schools in reflection of their different circumstances.

Academies

52. For academies, this support includes:
 - a. the EFA works with representative bodies to ensure good practice is shared;

- b. the Department has explored proposals to reduce academies' insurance costs for the long-term and has put arrangements in place for the academic year 2012/13;
- c. the Department has published an "Academies Procurement Resource" to help ensure that academies are equipped to follow good practice in procurement and achieve good value for money;
- d. the Department published academies' 2010/11 financial data alongside attainment data on 19 July. The publication is designed to support benchmarking between academies, helping them to consider how they could achieve better value for money. The Department plans to align academies' and maintained schools' finance data more closely over time to enable comparisons between the sectors; and
- e. the National College has developed, in association with CIPFA, the Certificate in Financial Reporting for academies aimed at anyone that has, or plans to have, a key role in the management of academy finances.

Maintained schools

53. For maintained schools, the Department:

- a. has developed the new Schools Financial Value Standard which all maintained schools are required to complete annually. This self-assessment return is designed to assist schools in managing their finances, support them in securing value for money across all of their spending, and give assurance that they have secure financial management in place;
- b. publishes schools' spending data annually, beginning in January 2011 with 2009-10 data. The data is now published as part of Performance Tables and is grouped into key categories of income and expenditure with topline attainment indicators so that schools, parents and the wider public can compare how schools spend their money with the outcomes they achieve. This supports improved local accountability by enabling local communities to compare schools and question how far they are achieving value for money in their spending; and
- c. encourages maintained schools and LAs to use the Schools Financial Benchmarking website (www.education.gov.uk/sfb) to benchmark their schools' spending in detail against other similar schools, consider their comparative performance and think about how to improve their efficiency.

54. Schools are held to account for ensuring that they secure good value for money by the EFA (for academies) and by their LAs (for maintained schools). In recognition of academies' greater autonomy, and so the importance of strong accountability mechanisms, from 2013 the Department will require each academy trust's accounting officer to explain how they have achieved value for money in their use of resources that year (starting with the financial year 2012/13). This will be in the form of an annex to their annual accounting officer's statement. The EFA will use the information to consider whether it raises any wider issues around financial management.

Local authority level inputs

55. LAs have a statutory responsibility to ensure that the authority secures good value for money in the use of its resources. This includes the resources retained centrally for provision of services to schools and making sure that their schools are securing good value for money in their spending. This is specified in the DSG conditions of grant and is part of authorities' wider assurance role on schools' financial management.
56. To support schools to achieve good value for money, many authorities provide local guidance and resources for schools (which may be charged for) including individual advice, training and procurement frameworks.

Outputs

57. The Department plans to look at changes in spending over time against attainment using spending, performance and workforce census data. This will include using Data Envelopment Analysis (DEA) – a performance measurement technique that can be used to evaluate the relative efficiency of decision-making units in organisations e.g. schools.
58. The DEA technique can be applied to both schools and academies to assess whether they are becoming more efficient over time in their spending decisions. The Department is currently developing a DEA model for maintained secondary schools without sixth forms, but the longer term aim is to develop models for the maintained primary sector, and potentially also for academies.
59. Ultimately, the quality of the education services that academies and maintained schools choose to deliver will be assessed through Ofsted inspections and performance data. The Department will continue to use these results to monitor and assess the quality of these services and how they change over time, as the system wide reforms continue to be implemented and change how the schools system works.
60. Case study evidence suggests that academies' increased freedoms and flexibilities can support greater efficiency at school level, enabling teachers to make more choices about how to use resources to deliver more. The first Academies Annual Report (published on 26 June) gives examples of how these freedoms are being used. It also notes the benefits that sponsors bring to school operations.

Outcomes

61. Academies and maintained schools are publicly accountable for the quality of education they provide and the resulting education outcomes they achieve, through a well established framework of Ofsted reports and performance data. All schools will be judged against the extent to which they are able to deliver improvements in education outcomes.

62. Although performance data is available for the early sponsored academies, it will be some years before it will be possible for the Department to assess robustly the impact of the expanded academies programme on school performance. As educational outcomes are a 'lag' indicator we also rely on a rigorous system based on other, more immediate, sources of information to provide assurance that our policies are providing value for money.
63. The ultimate aim of the current education reforms is to create an efficient, self-improving and responsive system. Therefore, when the data is available to assess the education outcomes of the academies programme, the Department will also consider the wider impact that academies are having on the schools system, especially on maintained schools.
64. Performance data and evaluation studies have demonstrated that the early sponsored academies are driving more rapid improvement in schools' educational outcomes. For example, performance data for the 166 sponsored academies with results in 2010 and 2011 shows that the percentage of pupils achieving five or more GCSEs at A*-C including English and Maths increased by 5.7 percentage points, nearly twice the level seen across maintained schools. External research also finds that these early academies have had a positive impact on their own performance and the performance of neighbouring schools¹².
65. Once data becomes available on the educational outcomes achieved by the expanded academies programme, it will be possible to assess these outcomes in relation to the costs of achieving them, in order to examine overall value for money.

Section 4 – Checks, balances and safeguards in the schools accountability system

66. In addition to the accountability measures in place at school level and directly through to the Secretary of State (for academies) and LAs (for maintained schools), the Department has additional checks, balances and safeguards to help ensure that performance and financial issues are identified and tackled appropriately. Many of these apply across the whole schools sector, whilst some are specific to the academy framework.
67. Mechanisms applicable to the whole school sector include school governance, fostering greater accountability to parents and local communities, greater transparency (including greater publication of performance and financial data), whistleblowing arrangements and inspection by Ofsted.
68. School governance is a critical first tier of accountability for all schools. The governing body is responsible for holding the senior leadership team to account for the schools' performance and use of resources. The Department is working with stakeholders to strengthen governors' abilities to hold their schools to

¹² For example: Machin. S and Veroit. J (2011), *Changing School Autonomy: Academy Schools and their Introduction to England's Education*. Centre for the Economics of Education Discussion Paper no. 123.

account. The Department is removing the bureaucracy that distracts governing bodies from their core purpose of setting strategic direction, raising standards and financial probity. Also, the Department is providing support through the National College and the School Governors' One Stop Shop so that governing bodies can get the support they need in their local area. The Department is developing a communications strategy to help governors understand the key messages about the role and characteristics of effective governing bodies.

69. Ultimately all schools must ensure they are accountable to parents and communities as their customers. The programme of reform announced in the *Schools White Paper: the Importance of Teaching*, published in November 2010, included proposals to publish comprehensive information about each school and its performance. The Department is publishing more information than ever before to ensure that parents are able to compare schools.
70. Additional regulatory changes¹³ have also been introduced by the Department to introduce a new requirement for maintained schools to publish specified information on a website. This will make it easier for parents, governors and the public to make comparative judgements on how well a school is serving its pupils and make informed choice decisions on their child's education. Funding Agreements will ensure new academies publish the same information as maintained schools, including their Pupil Premium allocation, spend and impact on attainment.
71. Reports by Ofsted now include a clear focus on school governance. It will be easier for parents to understand inspection reports and provide direct feedback to Ofsted via a new online feedback facility to gather parental views about their children's schools.
72. In August 2012 the Department introduced a new process, and internal standards, for people wishing to complain to the Secretary of State about a school or academy. The process, which was developed in conjunction with a range of external stakeholders, sets out in plain English the steps that need to be taken before the Department will consider a complaint. It highlights the need for the local complaints system to be exhausted in the first instance. From 2013 the Department will provide an annual report to the Education Select Committee on the volume of complaints received and data relating to the type of outcomes.
73. The Department's drive to provide greater transparency on funding, spending and performance includes:

¹³ The School Information (England) (Amendment) Regulations 2012 (SI 2012/1124) were placed before Parliament on April 2012 and came into effect on 1 September 2012. They remove the requirement upon governing bodies of maintained schools to publish the annual prospectus and instead introduce a new obligation requiring schools to publish specified information on a website.

- a. reforms to the funding system to provide greater fairness and transparency and ultimately to ensure that funding is allocated to achieve better value (see paragraphs 43-46).
- b. publication of performance outcomes for schools based on standard indicators to support benchmarking and public accountability. Research suggests that the publication of performance results, based on standardised testing, is linked to higher results¹⁴. In addition the Department is making more data available on school performance, funding and spending, supporting benchmarking, monitoring and local accountability. The spend per pupil tables in Performance Tables 2011 enable schools, parents and the wider public to compare maintained schools, consider their efficiency and identify areas where they could achieve greater value for money. The Department published academies' financial data for 2010/11 alongside attainment indicators on 19 July 2012 (see paragraph 52d for further detail). From September 2012, schools will be required to publish key information online, including the school's Pupil Premium allocation, its use and the impact on attainment.

- 74. As an additional safeguard in the system all schools, including academies, are covered by the Public Interest Disclosure Act which among other things covers whistleblowing. Academies are expected to ensure they have appropriate procedures for whistleblowing, including making sure that all staff are aware of who they can report concerns to. Maintained schools must base their whistleblowing policies on their LA's policy. The governing body should agree one or more members of the school's staff to whom staff can report concerns, and also make known to staff one or more individuals at the LA to whom their staff can report concerns if they feel a need to go outside the school.
- 75. Inspection by Ofsted provides independent assessment of the performance of schools. This information is used by the Department as part of monitoring educational standards and by schools themselves for benchmarking purposes. The recent changes to Ofsted inspections will improve their ability to identify and act quickly to bring about improvement in cases of poor performance. The further improvements planned will extend Ofsted's ability to identify and target underperformance. This includes raising the bar on 'outstanding', setting 'good' as the minimum acceptable standard, replacing 'satisfactory' with 'requires improvement' and earlier re-inspection of these schools, and checking the rigor of schools' performance management arrangements during inspection.
- 76. As well the checks, balances and safeguards applicable to all schools (as detailed above in paragraphs (66-72), there is a range of mechanisms specific to academies. Inherent in the academies programme is an in-built risk-based approach to ensuring that schools becoming academies do so under the most appropriate mechanism. Where a school's past performance suggests that stronger accountability is required the Department creates a sponsored academy,

¹⁴ The Bew Review (2011) found that external accountability of testing acted as a driver for school effectiveness. Also a recent review (William, 2010) found that assessment systems with strong external accountability could result in an increase in learning of up to 20% and suggested that 'high stakes' accountability systems are probably the most cost-effective method for raising achievement yet developed.

and for schools with a weak history, the Department establishes chains or federations. Schools that have demonstrated that they can deliver are established as free standing converter academies with a requirement to support weaker schools. In addition:

- a. Academy sponsors, chains and dioceses have an inbuilt incentive to hold their schools to account for performance and use of resources as they are publicly responsible for their outcomes. Many have created their own monitoring and assurance systems to ensure the accountability of the schools in their jurisdiction;
- b. the Department continues to receive soft intelligence about academies through officials' regular contact with academies themselves, sponsors, dioceses and LAs. This includes through the OSC and EFA, and through Education Advisers working directly with academies; and
- c. local authorities continue to have general responsibilities for ensuring that sufficient education is available to meet the needs of the population in their area, as well as having specific responsibilities towards the education of looked after children for example. They can alert Ofsted and the Department to any concerns they have about the performance of academies or about financial propriety issues.

77. Academies are fully covered by statutory requirements for equalities and those which apply to children with special educational needs. The Academy Funding Agreement requires the academy to comply with equalities legislation. It also requires academies to comply with legislation relating to special educational needs. The Upper Tier Tribunal, which considers appeals by parents relating to the naming of a school on their child's SEN statement, recently confirmed that parents who wish any academy to be named in their child's statement have the same rights of appeal to the Tribunal as a parent who wishes a maintained school to be named. This helpful clarification supports the Department's intention that parents of children with special educational needs should have the same rights regardless of whether they wish their child to attend a maintained school or an academy. The Government is currently reforming the system for children with special educational needs and disabled children and academies will have the same responsibilities towards this group of children as maintained schools.

Section 5 – 16-19 education and learning for young people aged 19-24 with learning difficulties and/or disabilities

Roles and responsibilities

78. The majority of learning for 16-19 year olds is undertaken in full-time education at a further education (FE) college; a sixth form college (SFC); a school or academy sixth form; or a private/charitable provider.
79. **Providers** are directly responsible for performance and financial health and, depending on the provider type and how they are funded, they are directly accountable either to the EFA, SFA or LAs (see below for detailed roles).

80. **The EFA** funds maintained school sixth forms via LAs and FE colleges via the SFA: it funds other providers directly. Funding is based on a national funding formula for all providers of 16-19 learning. The EFA holds all providers that it funds directly to account for **financial** management and performance. LAs hold school sixth forms to account for performance. Once proposed arrangements for minimum standards for all 16-19 providers are in force, LAs will have a clear steer on what is considered to be poor performance.
81. **LAs** channel 16-19 funding to school sixth forms. Responsibility for performance lies at school level and governing bodies hold senior leadership to account. Maintained schools are accountable to the LAs, who are in turn accountable to the Government as described in the section on maintained schools.
82. **Skills Funding Agency (SFA)** – FE colleges and 16-19 apprenticeship places are funded by the EFA through SFA. The SFA holds the providers it funds directly to account for financial management and performance.
83. The Department is also responsible for funding education and training provision for young people aged 19-24 with learning difficulties who are subject to a Learning Difficulty Assessment (LDA). Responsibility for performance and financial management is focused at provider level, with direct accountability to either the EFA or the SFA (depending on their funding route and contractual arrangements). Learning is often delivered through FE colleges and providers known as Independent Specialist Providers (ISPs). ISPs are subject to provider financial assurance checks in common with FE Colleges and other commercial and charitable providers.

Ensuring financial accountability and propriety

84. Financial assurance is based on the principle of “one provider, one funding assurer”. Financial assurance is therefore overseen by the organisation from which the provider receives its funding.
- a. the EFA is responsible for obtaining sufficient financial assurance on SFCs and operates a well established and understood process for monitoring their financial health. Much of this assurance is gained by reliance on the work that SFCs are required to commission from their own appointed independent auditors. This includes a regularity audit undertaken by SFCs’ own external auditors who also report on this directly to EFA;
 - b. the SFA operates similar arrangements for FE colleges;
 - c. schools with sixth forms are included within the scope of a LA’s overall internal audit and regularity audit requirements (see above), and a use of funds statement is required by the EFA from each LA covering all funding received from EFA and SFA; and
 - d. Academies with sixth forms are included in the EFA assurance arrangements for academies (see academies section above).
85. For LD/D provision delivered through ISPs for the 19-24 age group, these providers are subject to provider financial assurance checks in common with FE

colleges and other commercial and charitable providers. In addition, the Financial Assurance team also audit use of funds on an individual learner sample basis.

Ensuring value for money

Departmental Inputs

86. The Department has recently changed its funding mechanisms to reduce the number of surplus places funded in the system to achieve greater efficiency and value for money. Since 2011/12 the Department has based 16-19 funding on using student numbers from the previous year to inform the funding for the subsequent year (i.e. the "lagged" system), rather than requiring detailed planning and lengthy local negotiations about expected numbers of students each year. Allocations are based on straightforward data returns from providers in the autumn term, allowing institutions to decide their curriculum offer and mix of provision based on the needs of their young people. Using "lagged" student numbers in the funding formula is the best way of predicting future recruitment, as well as ensuring funding follows the student, which in turn ensures better value for money.
87. The Department is also working to develop the market to provide a broad range of high quality institutions to meet demand from students and their parents, with such increased choice and competition driving improvement, quality and innovation. Before any new 16-19 provision is agreed, however, there is an assessment of how that new provision fits with existing provision in that area. In all cases, the Department expects LAs and the EFA to offer a view in considering and agreeing new 16-19 provision, which would include value for money considerations around quality, choice and demand.
88. The funding for qualifications is reviewed on an annual basis to ensure that the amount of teaching time the Department funds corresponds to the amount of teaching time institutions deliver, which helps ensure a continued focus on achieving value for money.
89. The Department is reforming the funding formula for 16-19 participation to make it more transparent, simpler, and ensure that the funding follows the learner more closely. Following a public consultation at the end of 2011, the Department announced a new funding formula on 2 July which will be implemented from 2013/14. Under the new formula, funding will move from a per qualification basis to a per student basis (based on funding equivalent to teaching time of around 600 hours per full-time student per year).

Outputs and outcomes

90. The Department uses a range of data sources to determine performance over time. For the FE sector, success rates are primarily used to determine if providers meet minimum levels of performance. The SFA and the EFA use the data to inform fitness for funding decisions. Minimum Levels of Performance have increased over time to reflect rising standards.

91. The Department is planning to put more information into 16-18 performance tables so that there is greater public accountability. Education destinations were published for the first time as an Experimental Statistical First Release in July 2012. All destinations, including employment destinations, will be published in 2013. The aim is that destination measures will be included in published performance tables in due course and become part of the public accountability system.

Accountability for performance outcomes and addressing poor performance

92. The SFA and EFA monitor performance and intervene if necessary in poorly performing FE colleges and SFCs respectively. Poor performance is identified in three ways: through an inadequate rating from an Ofsted inspection; through a failure to meet minimum standards; and/or poor financial health or control. The EFA and SFA maintain risk registers to help identify those providers at risk of failure, and these are reviewed regularly with DfE and BIS.
93. Where a FE college is performing poorly it receives improvement support through the Learning and Skills Improvement Service. Where a sixth form college is performing poorly improvement support is brokered through the EFA. Both types of college receive a Notice to Improve and a time-bound period in which to demonstrate improvement. Where a work-based learning provider performs poorly the contract is terminated and new provision is sought.
94. There are currently no minimum standards that apply to school sixth forms. Proposals are being considered that will introduce comparable minimum standards across all 16-18 providers, as outlined in the following paragraph. Support to schools is provided through the National College.
95. The Department is working towards a sharper performance accountability system setting minimum standards that the Department expects all 16-19 providers to meet and is refocusing inspection on weaker providers. The Department expects the development of consistent standards applied across all 16-19 providers to enable the identification of underperformance in a comparable way across all types of providers.
96. The Department is further developing intervention options across all 16-19 providers. Currently FE providers are subject to the intervention process set out by BIS in their document *New Challenges, New Chances*. Poorly performing colleges will receive an 'Inadequacy Warning Notice', giving them limited time to resolve any quality or financial issues, with support from the Learning and Skills Improvement Service. Where persistent poor performance continues and minimum standards are not achieved colleges undertake a Structure and Prospects Appraisal. The Appraisal will lead to one of the following: leadership change; restructuring the model of delivery; new partnerships; or opening up the provision to new providers. Where new partnerships are considered, even with other FE colleges, an open and transparent tendering process will be undertaken to secure the best solution. DfE proposals will align with that process as far as possible and

seek structural solutions, through open competition where appropriate for new provision to replace failing providers.

97. Addressing poor performance in LD/D provision follows a similar framework to 16-19 provision; failure to perform satisfactorily leads to possible funding and/or other restrictions and in cases where improvements are not secured, to the termination of funding agreements with the EFA.

Checks balances and safeguards

98. In addition to the accountability measures in place at the individual provider level and directly through to the Funding Agencies, as with the school sector, the Department has other mechanisms to ensure that performance and financial issues are identified and tackled. Inspection by Ofsted provides independent assessment of performance which is used by the funding agencies. The Department is also working towards a sharper accountability system through:
- a. increasing transparency – making information about providers more easily available, through an on-line website that includes performance and destination measures information. This will increase public accountability and inform parent and student choice;
 - b. setting minimum, or floor, standards that all providers are expected to meet. Where providers fail to meet these standards, funding agencies intervene and provide support for improvement;
 - c. creating the right environment for a market of providers to increase choice and ensure that only high quality provision is funded. This includes expansion of the academies programme, Free Schools and University Technical Colleges;
 - d. refocusing inspection on weaker providers, with more attention in inspection on observing teaching and learning; and
 - e. whistleblowing via the Departmental complaints procedure, which allows individuals or organisations to express their concerns. Details about the complaints procedures can be found on the Departmental website: <http://www.education.gov.uk/aboutdfe/complaintsprocedure>
99. For LD/D provision for the 19-24 age group, all ISPs are, in common with 16 – 19 providers, subject to independent inspection by Ofsted. In addition they are subject to review by the Care Quality Commission (CQC). Also all placements categorised as exceptional funding (those costing more than £35,000 above the highest matrix funding band (£68,000) per annum) are subject to independent expert scrutiny as a further means of advising the LA that the placement is suitable and appropriate.

Section 6 – Accountability for early years education

Roles and responsibilities

100. **The Department** is responsible for providing funding to LAs for the provision of free early years education. The Department provides funding for 3 and 4 year olds as part of the Dedicated Schools Grant (DSG). The Department requires LAs to complete section 251 returns setting out the totality of their expenditure on schools, children, young people and families, which is published annually, and this includes expenditure on early years education.
101. **LAs** are responsible for securing free early education in line with their statutory duties: they have a duty to deliver free early education for 3 and 4 year olds (15 hours a week of early education, 38 weeks a year). From September 2013 the entitlement to early years provision is being extended to the most disadvantaged 20% of two year olds, and then to the 40% least advantaged in 2014. This will give about an additional 260,000 children access to free early education. The responsibilities of LAs include: securing sufficient supply of free early education places through providers who deliver the Early Years Foundation Stage; funding providers for hours of free early education delivered; securing value for money and ensuring probity of spend. This is underpinned by primary and secondary legislation, as well as statutory guidance. LAs deliver their duty to secure free early years education through a wide range of providers. LAs are also required by legislation to improve the well-being of young children in their area and reduce inequalities between them, and free early education plays a major role in the delivery of this duty.
102. **Providers** are responsible for delivering free early education in line with the Early Years Foundation Stage, for accurately claiming funding from the relevant LAs, and for meeting LA demands on probity of public funding. In total, early education is delivered by nearly 30,000 providers consisting of maintained schools, academies and private and voluntary nurseries, some independent schools and some childminders. Free early education is, however, only one part of a larger market for childcare and early education; for many providers there is a mix of public and parental funding, including for children accessing free early education, e.g. those accessing more than 15 hours a week.

Ensuring financial accountability and propriety

103. LAs are responsible for satisfying themselves of providers' financial probity. For maintained schools, this is managed through the wider arrangements for school spend (as explained in the maintained schools section). For private, voluntary and independent providers, this is managed through contract arrangements and agreements between LAs and individual providers. Local LAs can terminate agreements with providers in cases of financial mismanagement (as well as cases of poor performance). In turn LAs are accountable to the Department for their spend on free early education through section 251 financial returns which are published annually.

Ensuring value for money

Departmental inputs

104. Three and four year old funding is part of the DSG and is non-ringfenced. This allows LAs to make their own spending decisions, working with schools forums to ensure funding is used efficiently and where it is most needed. In 2013-14, funding for two year old early education will transfer from the Early Intervention Grant to the DSG.
105. LAs fund providers through an early years single funding formula (EYSFF). The EYSFF was introduced nationally in April 2011 and is required through the School Finance Regulations. The EYSFF requires LAs to fund providers on a formula basis for actual hours of participation, hence improving efficiency, fairness and transparency. The EYSFF introduced greater value for money by stopping funding empty places in some settings, and is based on a system of financial supplements enabling LAs to target resources to secure key policy outcomes. Authorities are required to operate a supplement to target funding to support disadvantaged children, and have regulatory freedom to operate other supplements if they choose, for example to use funding to incentivise providers to increase the quality of their provision. From April 2013, LAs will be required to fund providers of free early education for two year olds through an EYSFF, modified to support LAs in building capacity to ensure successful delivery of the two year old entitlement.

Local authority level inputs

106. It is the responsibility of LAs to achieve value for money by making sure that they efficiently and effectively manage the funding, through sensibly allocating funding to LAs.
107. The Department is supporting LAs to review their EYSFF to ensure it is as simple and effective as possible in driving up quality and tackling disadvantage. The Department is providing clear supporting material and best practice to support authorities in this.

Outputs and outcomes

108. LAs are responsible for ensuring that value for money is secured in the outputs and outcomes achieved by early years' providers. LAs are expected to:
 - a. evaluate local delivery against a number of inputs and outputs, including levels of spend, outcomes at age five, levels of participation in free early education, and quality of free early education provided locally;
 - b. optimise outcomes through raising the quality of early education provision, through using the EYSFF supplements to drive up quality and through setting the eligibility criteria for providers using new freedoms introduced in revised statutory guidance (see below); and

- c. encourage take up of free early education and conduct outreach activities to identify children who are not taking their entitlement and who would benefit from doing so.
109. The Department is supporting LAs to deliver this by:
- a. issuing revised statutory guidance giving authorities greater discretion and freedom in how they deliver free early education, including raising the quality threshold for providers. This will come into effect for September 2012; and
 - b. publishing benchmarking data enabling LAs to benchmark their performance against other authorities (including outcomes at age 5, levels of take up of free early education, quality of provision as inspected by Ofsted and funding rates).

Accountability for performance outcomes and addressing poor performance

110. Failure most commonly occurs when early years providers fall below the minimum quality threshold required to deliver the free entitlement. Ofsted have statutory duties to assess the quality of providers, including their delivery against the Early Years Foundation Stage. LAs often undertake their own quality assurance and support activities. If a provider ceases to meet the eligibility criteria, LAs are empowered to suspend the provider as a free entitlement provider or provide improvement support for a probationary period. The Department's new statutory guidance proposes that LAs operate a locally flexible set of eligibility criteria, and that they should not fund providers rated 'inadequate' by Ofsted.

Checks, balances and safeguards

111. The Department has brought greater transparency to free entitlement spending though recent reforms such as the EYSFF. Further developments, such as benchmarking data and requiring LAs to complete a simple proforma to describe their EYSFF will further improve transparency. The Department is also working with LAs to remove any unnecessary complexity in how local EYSFF operate. The Department aims to bring similar transparency to funding for two year olds and the move to using an EYSFF for the free entitlement for two year olds will support this.
112. LAs are also accountable to parents and communities for their effective delivery. The Department recognises that this needs to be supported by the provision of suitable and easily understandable data to enable parents and communities to effectively hold LAs to account. We have published a wide range of data at LA level, covering funding but also areas such as the quality of local provision, child outcomes at age 5 and take up levels of free early education in order to further support transparency and benchmarking activity. We will look to update and expand this as more data becomes available.

Section 7 – Accountability for other children’s services

Roles and responsibilities

113. **LAs** have responsibility for the delivery of services in relation to child protection, children in care and adoption, Sure Start Children’s Centres, early intervention, youth services and LA leadership of the system. Funding for those services is provided, in part through the **Department**, but to a much greater extent through the formula grant system operated by **DCLG**. DCLG is, therefore responsible for the overall financial arrangements in this part of the system. Further information about DCLG’s role can be found in the DCLG accountability statement.
114. LAs primary responsibility for delivery of services is to their communities, through their electorate and elected Councillors, although the Department has a responsibility for holding LAs to account for their performance in delivering children’s services.
115. Statutory duties set out the roles and responsibilities of LAs and each authority is required to appoint a “Director of Children’s Services” and a “Lead Member for Children’s Services” with accountability for the whole of local delivery of children’s services.

Ensuring financial accountability and propriety

116. Ensuring the financial accountability and propriety arrangements for children’s services is primarily the responsibility of the LAs themselves and DCLG.
117. LAs are responsible for ensuring that funding for children’s services is spent with regularity and propriety, and for ensuring that value for money is achieved. They are accountable both for services delivered directly by local government officers and for those services commissioned from external providers. An authority’s section 151 officer is statutorily responsible for this as part of their wider assurance role. Through an annual, publicly available report to government (the Section 251 return), LAs set out the totality of their expenditure on children, young people and families, regardless of the funding source for that expenditure. This data transparency is in addition to the established local audit arrangements.
118. DCLG is responsible for dealing with any concerns about the overall financial management of an authority and would handle such concerns under its own arrangements.
119. Funding for children’s services comes principally from two sources:
 - a. **Formula grant** – This is a non-ringfenced grant for a wide range of services including children’s social services. How spending is divided between the different services is a matter of policy for LAs. Government policy is to reduce the number of grants overall and the ring fences within and between them, in order to maximise the flexibility available to LAs to use their

funding as efficiently and effectively as possible, reflecting the local context and each authority's priorities.

- b. The **Early Intervention Grant (EIG)** – This was introduced in 2011-12. It is similarly non-ringfenced and replaced several centrally-directed funding streams. Like formula grant, the EIG reflects both a reduction in central prescription and a stronger focus on what works for different localities. From 2013-14 most of this funding will be included within the local share of the new local government funding system which replaces Formula Grant. LAs currently use the EIG to support a wide range of services for children, young people and families including:
- Sure Start Children's Centres
 - free early education places for disadvantaged two-year-olds;
 - short breaks for disabled children;
 - targeted support for vulnerable young people;
 - targeted mental health in schools, and
 - targeted support for families with multiple problems.

Ensuring value for money

120. LAs are responsible to local taxpayers. The key value for money check on LAs is the responsibility to meet statutory duties and carry out a wide range of functions with a limited budget. They must therefore take decisions about resource allocation. Democratic accountability provides a strong assurance that councillors, knowing what their communities need, will strive to use available resources as effectively as possible. Councils are under a duty to achieve continuous improvement in how they deliver their functions. Their performance can be scrutinised by the public and by councillors. This is made possible by the availability of transparent data.

Departmental inputs

121. The EIG replaced a number of ring-fenced grants which constrained how LAs could make use of their resources to meet their statutory duties and achieve value for money. By giving authorities increased flexibility through a non-ringfenced grant, they are better able to secure value for money in line with their statutory duties.

Outputs and outcomes

122. Local innovation and decision-taking are major drivers for service improvement under the Government's approach and are the natural consequences of a more decentralised approach. Building on such an approach, the Department is trialling payment by results for Sure Start in a number of LAs to reward progress against priority objectives and drive better outcomes. Ultimately, the Department expects payment by results to drive better outcomes and greater efficiencies in the system.

123. LAs have a choice of providing or commissioning many of their services for looked after children and children in need. For key elements of those services - adoption, fostering and children's homes - the regulatory framework including Ofsted inspection applies to the voluntary and private sector too. This means LAs can be assured of minimum standards and can focus on securing best value for money in their commissioning decisions.

Ensuring performance outcomes and addressing poor performance

124. Again, LAs are accountable to their communities, electorates and councillors for performance (including through their overview and scrutiny committees). However there is a clear role for the Department in holding LAs to account for performance in the delivery of children's services and for tackling poor performance. The accountability system is broadly:
- a. Around 100 statutory duties (in primary legislation and regulations) which set out the roles and responsibilities local LAs have in relation to "non schools" children's services;
 - b. Each LA is required to appoint a "Director of Children's Services" and a "Lead Member for Children's Services" with accountability for the whole of local delivery of children's services. Statutory guidance on this has recently been revised – to increase clarity and reduce over-prescription around these roles;
 - c. Increased transparency - data is made publicly available in a number of areas of delivery of children's services – in part at the direct behest of DfE and in part agreed by the local government sector in the interests of transparency, benchmarking and local (public) accountability;
 - d. Inspection, by Ofsted, of an LA's safeguarding services and various aspects of services for children looked after and of Sure Start Children's Centres. The current cycle of inspections of safeguarding and looked after children's services together is drawing to a close, to be replaced by separate safeguarding and children in care inspections, the latter being likely to incorporate the currently separate adoption and fostering inspections.
 - e. A local government sector led improvement system – based on comparable data, self assessment in each LA, peer challenge, improvement support and review. The system (headed by the "Children's Improvement Board") is in large part funded by the Department and the Board is held to account for the delivery of an agreed work programme;
 - f. In some trial areas, payment by results, rewarding progress made against the main aims of Sure Start: to reduce inequalities in child development, school readiness, health and life chances, and to improve parenting aspiration and skills. We are evaluating this first year of the trials and will expand them based on that learning;

Intervention by the Department where a LA is failing to deliver its services to an acceptable standard. The Department uses either statutory Directions or (more

frequently in recent years) non -statutory improvement notices to require and where necessary set out steps towards improvement.

Checks, balances and safeguards

125. Checks, balances and safeguards in the system are mainly described in the sections above. They include accountability to local people, local assurance arrangements, a strong element of sector-led peer challenge and support, and this is underpinned by Departmental oversight, particularly where things go wrong. This system includes the following:
- a. improvements in data transparency to help drive local accountability;
 - b. DfE's direct intervention powers and those of CLG (including on corporate governance), provide a strong safeguard if local arrangements break down;
 - c. the emerging sector led improvement system, is designed to catch Councils with declining performance and drive improvement; and
 - d. Ofsted continuing to provide an independent assessment of performance, more actively than the inspectorates in a number of other areas of LA services.



Department
for Education

© Crown copyright 2012

You may re-use this information (excluding logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit **<http://www.nationalarchives.gov.uk/doc/open-government-licence/>** or e-mail: **psi@nationalarchives.gsi.gov.uk**.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

Any enquiries regarding this publication should be sent to us at **<https://www.education.gov.uk/help/contactus>** 0370 000 2288

This document is also available from our website at **www.education.gov.uk** .