



Joint Committee Report ERW Financial Arrangements

An overview of the ERW Consortium Financial arrangements

Foreword.

The purpose of this report is to respond to the decision of the ERW Joint Committee (JC) that:

‘A full financial review be undertaken of both grants and core funding’ (minute 9.6 ERW Joint Committee July 2017)

Method

The report has been constructed using information previously presented to the JC by the Section 151 Officer, information received directly from Local Authority (LA) finance officers, and from the ERW Senior Accountant. These include:

- The Statement of Accounts 2016-17 and 2017-18
- The Risk Register
- Revenue Budget and Financial Monitoring Reports
- Consortium Internal Audit Report 2016 and 2017
- Correspondence from Welsh Government
- Relevant grant terms and conditions

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1. Introduction and Purpose

The purpose of this report is to provide an overview of the ERW Consortium financial arrangements.

2. Context

In 2013 Robert Hill conducted a review of education services in Wales. This review was intended to help shape Wales' education reform programme by placing at the heart, a national model for school improvement. The development of the model was based upon a vision of regional school improvement, where consortia deliver services on behalf of local authorities (LA) and

'lead, orchestrate and coordinate improvement in the performance of schools and education of young people' (National Model for Regional Working Guidance 126/2014).

The model enabled the LA to retain the statutory responsibility for schools and school improvement but through undertaking the role of commissioner and quality assurer, rather than the traditional deliverer of services.

An agreement was reached between the leaders of all 22 local authorities, the Welsh Local Government Association and the then Minister for Education and Skills, to ringfence funding for school improvement. Following transition, some other consortia have been able to reduce this funding subsequently and in a planned way over a period of 2-4 years.

On 1st April 2014, Council Leaders agreed to transfer identified school improvement funding directly to the lead financial authority for the Region, who, in turn would make it available in full to the consortium. In addition, the major Welsh Government grants and associated Local Authority match funding would also be transferred. However, this did not take place in ERW.

At the time ERW was established, the partner authorities took a positive decision to introduce a new organisational model in a way which minimised disruption. This approach was also applied to financial management and the distribution of grants. As a consequence, the ERW authorities have continued to manage, distribute and monitor resources using their established local authority financial systems rather than moving to a regional financial model with pooled school improvement budgets and a common approach to grant arrangements.

Over the past 4 years, there has been a steady but relentless increase in the demands placed upon the consortium. As Welsh Government become more prescriptive in their expectation that School Improvement services, initiatives and resources should be delivered on a regional basis and in accordance with the National Model for regional working, the current financial arrangements become increasingly unsustainable in ERW.

3. Core Budget ERW

The National Model for School Improvement identified the required Local Authority minimum contribution to the consortium based on the 2014 -15 Mainstream Schools SSA. The total for the ERW region was £5,322,639

Table 1

Required Local Authority minimum contributions for 2014-15, based on the 2014-15 Mainstream Schools SSA

	Local Authority	Contribution
ERW	Powys	£786,048
	Ceredigion	£414,511
	Pembrokeshire	£759,950
	Carmarthenshire	£1,141,069
	Swansea	£1,370,773
	Neath Port Talbot	£850,288
	Sub total	£5,322,639 *

**The contribution is calculated according to pupil numbers taken from the Stats Wales and applied on a pro rata basis.*

At the time ERW was established, the region's Local Authorities agreed that rather than passport the identified funding to the Central Team, each LA would retain their individual School Improvement funding and make a collective contribution of £250,000 to support the running costs of the consortium. This figure has remained unchanged for the last 3 years.

Table 2

Local Authority Contribution to the running of ERW 2017-18

Local Authority	Contribution	%
Carmarthenshire	£52,500	21%
Ceredigion	£18,500	7.4%
Neath Port Talbot	£40,250	16.1%
Pembrokeshire	£34,250	13.7%
Powys	£35,000	14.0%
Swansea	£69,500	27.8%
Total	£250,000	100%

Table 3

The Central Team Revenue Budget for 2017-18 is £725k (June 2017).

ANNUAL EXPENDITURE CORE CENTRAL TEAM BUDGET	2017-18 Approved Budget February 2017 £000's	2017-18 Projected Outturn Budget as at June 2017 £000's
1. STAFFING COSTS		
Salaries	439	477
Travel, Subsistence, Training & Development	5	4
	444	481
2. RUNNING COSTS		
Accommodation	33	42
Stationery/Telephone/Printing/Copying/Equipment/IT	21	10
Translation	35	20
Rhwyd and Dolen Developments	0	44
	89	116
3. FACILITATION		
Service Level Agreements	73	128
	73	128
TOTAL ESTIMATED EXPENDITURE	£606	£725
ANNUAL INCOME		
Local Authority Contributions	250	250
Other Income/Grants	12	4
Grant Funding Administration	150	326
TOTAL ESTIMATED INCOME	£412	£580
NET EXPENDITURE	194	145
Appropriation from Reserve	(194)	(145)

It must be noted that the Projected Outturn Budget, (June 2017) presented to the Joint Committee by the Section 151 Officer for ERW, includes the £250,000 local authority contribution and in order to balance the budget, £145,000 from the local authority reserve. The Section 151 Officer advised, that moving forward, there will be a requirement to increase the contribution from the six local authorities (from within the ringfenced funding) as there will be a limited local authority reserve balance remaining. (This has also been noted also in previous years)

Local Authority School Improvement Core Budget

Each LA manages its own core school improvement budget and in 2016-17 (Table 4) a total of circa £5,480,000 was spent on non-delegated school improvement activity across the 6 local authorities (**Source:** *LA finance officers March 2017*).

However, as there has been no agreement as to which functions should be included in a School Improvement Service, all operate on a slightly different basis, providing similar but different functions. This must be taken into consideration when looking at individual LA budget figures .It also makes comparisons and judgements about efficiency or value for money difficult.

Table 4 Local Authority Core School Improvement Budget 2016-17

Local Authority	Core School Improvement Budget 2016-17
Carmarthenshire	£1,290,309
Swansea	£1,353,485
Neath Port Talbot	£709,920
Powys	£920,920
Pembrokeshire	£556,732
Ceredigion	£648,642
	Total
	£5,480,008

Source: LA Finance Officers March 2017

RISKS

- ❖ The agreed collective LA contribution to the ERW central team revenue budget set in 2014, does not support the functions and the demands now placed upon the consortium
- ❖ The funding risk to the organisation has been identified by the:

Section 151 Officer
Annual Internal Audit Report
Risk Register
Self-Evaluation Report

- ❖ The lack of core funding has resulted in an over reliance on WG grants to ensure the consortium is able to deliver the National Agenda.
- ❖ The service is dependent on ERW 'local authority reserves' to balance the budget
- ❖ There will be a requirement in future years to increase the contributions from the 6 local authorities. Over 2-4 years, 2 of the other consortia have secured savings on LA contributions on the basis that ringfenced national model funding is centralised.
- ❖ The small core budget prevents the MD from making secure appointments and this adds to the instability of the small central team.
- ❖ There has been no collective rationalisation of posts, building of capacity or significant pooling of resources across the region, leading to duplication and creating a Value for Money (VFM) concern.

4. Grants.

In 2017-18 ERW is projected to receive £68m in grant income. The two major grants targeted to drive the improvement of education outcomes for all children, are the Education Improvement Grant (EIG) and the Pupil Deprivation Grant (PDG) which is largely devolved directly to schools. . In 2017-18 these total £40,941,220 (including LA match funding) and £22,799,300 respectively. These grants are not managed or administered centrally but distributed to individual local authorities to use according to their local priorities. There is no regional approach or agreed formulae as to how funding is delegated to schools and as a consequence the school improvement resources and support for schools across the region is variable. This creates inconsistencies which are a cause of concern for Headteachers. (**Source:** *Headteacher Survey 2017*).

Education Improvement Grant (EIG)

The EIG provides financial assistance to schools, local authorities and regional education consortia to improve education outcomes for all learners. A minimum delegation rate to schools of the total gross funding (including the match -funding element) of 80% is required (2017-18). A maximum of 0.75% of the total gross grant can be retained for administrative and management purposes.

In the current financial year, (2017-18) the EIG grant for the Region is £40,941,887 (including LA match funding) of which £1,094,000 is allocated to ERW. The grant is distributed to the six LA's based upon a formula agreed by all Directors and they each have a local formula for distributing the required 80% minimum to schools. The value of administration contribution to ERW is £8,000.

When the central team was established in 2014, there were 5fte support staff and a coordinator supporting the Managing Director (MD). In July 2017, there are a total of 34 employees, who, with the exception of the MD and 6 support staff, are on temporary contracts funded by grants. Hence, these costs are in addition to the Central Team Revenue Budget. This over reliance on grant funding to support posts has been essential to meet the requirements placed upon the consortium by the Welsh Government. However, it brings instability and makes the team vulnerable as the MD does not have the resources to make secure appointments.

Table 5.a.

Education Improvement Grant (Including Match funding)

LA	EIG 2016/17	Admin 1%	EIG 2017/18	Admin .75 %
Carmarthen	8,445,042	84,450	8,310,800	62,331
Ceredigion	3,375,652	33,757	3,322,206	24,917
Neath Port Talbot	6,163,771	61,638	6,065,708	45,493
Pembrokeshire	5,714,902	57,149	5,624,464	42,183
Powys	6,133,896	61,339	6,036,899	45,277
Swansea	10,656,862	106,569	10,486,255	78,647
ERW	801,770	8,017	1,094,887	8,212
TOTALS	£41,291,895	£412,919	£40,491,219	£307,060

Table 5a shows the distribution of EIG grant across the Region (April 2016 and April 2017) the proportions allocated to each local authority and the allowable sum available for grant monitoring and administration.

Table 5.b.

Education Improvement Grant 2016/17

LA	Grant value	EIG spend on LA Staff 16/17
Carmarthenshire	8,445,042	649,202
Ceredigion	3,375,652	131,295
Neath Port Talbot	6,163,771	679,565
Pembrokeshire	5,714,902	406,751
Powys	6,133,896	296,310
Swansea	10,656,862	372,672
TOTALS	£40,490,125	£2,535,795

Table 5b shows the grant, with match funding, distributed to Local Authorities, including the LA staff costs to EIG as advised by LA finance officers March 2017.

ERW complete quarterly returns to the Welsh Government (WG). However, they do not monitor school spend as this is undertaken at a local level. The section 151 officer and MD have put into place appropriate measures to ensure that they can be assured of compliance by all 6 LAs. Whilst this may be acceptable from a financial perspective, it does not secure the vitally important closer monitoring of grant spend at school level.

Looked After Children Grant (LAC)

The purpose of the Pupil Deprivation Grant (PDG) is to make a lasting impact on outcomes for disadvantaged learners.

When the National Model for School Improvement was introduced, the Looked After Children grant(LAC) sat outside the remit of the consortia, however this changed in 2014-15 when the LAC became a component part of the Pupil Deprivation Grant. The grant conditions clearly state that the LAC element is to be retained and managed centrally by the consortium. However, in ERW, individual local authorities continue to manage and administer the majority of grant spend.

In 2016-17 the LAC element of PDG allocated to the Region was £1,068,350, with £75,365 directly allocated to the ERW central team. The remainder, was distributed across the 6 LAs and used primarily to employ staff. A member of staff is seconded from one of the constituent LAs to work as a member of the central team, the remainder, work in and are directed by each of the 6 local authorities. The current arrangements are inconsistent with the WG instruction to all Consortia Managing Directors –

“to take personal responsibility in making sure that the grant funded support is delivered as intended. We will be scrutinising Consortia plans closely when they are submitted and will need to be satisfied that these are consistent with the regional approach advocated by the Welsh Government. (Welsh Government July 2017).

Other Grants

The Region is projected to receive a further 31 grants which total £7,500,000 (2017-18). These grants are designed to support and drive National Policy and unlike EIG and PDG they are managed and administered centrally.

The Welsh Government has committed to allocate an additional £100 million Education funding in the period of the current assembly term (until May 2021). In 2017-18 £9,500,000 has been allocated across Wales, to be managed and distributed through accountable regional consortia. This demonstrates the WG commitment to fund consortia to deliver services rather than LAs. Similarly, the tighter conditions on consortia to use and be accountable for grants regionally. ERW is projected to receive £3,071,337 this financial year and further substantial regional grants are expected to be received through to 2021. It is essential that the region establishes appropriate capacity to manage effectively this significant accountability.

Table 6

Indicative grant figures for 2017-18

ID	Name	ERW IN TOTAL	Managed by ERW	Direct to LAs/ Schools
1	Education Improvement Grant	37,751,710	1,094,887	36,656,823
2	Pupil Deprivation Grant	22,799,300	75,000	22,724,300
3	Enrichment and Experiences programme for schools	25,000	25,000	0
4	Schools Challenge Cymru (SCC)	20,513	20,513	0
5	Targeted Funding	313,118	313,118	0
6	GCSE Support Programme Grant	724,935	724,935	0
7	Teaching and Learning Supply	264,126	264,126	0
8	Pioneers Grant	2,336,944	806,944	1,530,000
9	Welsh Language Use Framework (inc. Welsh Language Charter (Welsh-medium schools)	243,000	243,000	0
10	Learning in a Digital Wales (LiDW) - Phase II CPD	142,109	142,109	0
11	100 million ministerial committed to School Improvement	3,071,337	3,071,337	0
12	ALN Innovation	360,000	60,000	300,000
		£68,052,092	£6,840,969	£61,211,123

RISKS

- ❖ Current consortium grant management arrangements do not reflect WG requirements and expectations
- ❖ There is no consistent regional approach to the administration or distribution of grant funding
- ❖ Unless the grants are managed to Welsh Government requirements there is a significant risk that essential School Improvement funding will be withheld.
- ❖ There is no regional level evaluation of impact
- ❖ A significant number of local authority staff are funded through the EIG grant which is not guaranteed.
- ❖ There is inconsistency and potential duplication in the way in which the Looked After Children (LAC) element of the PDG grant is used across the Region.
- ❖ The MD has been given specific accountability for regional grant management which is not deliverable in the current structure.

Conclusions

- ❖ The agreed collective LA contribution to the central team revenue budget set in 2013-14, does not support the functions and demands now placed upon the consortium
- ❖ The funding risk to the organisation has been identified by the:
 - Section 151 Officer
 - Annual Internal Audit Report
 - Risk Register
- ❖ The budgeted salary costs for ERW 2017-18 are £3,075,000. £83,000 from core budget, and a total of £2,992,000 from grant funding.
- ❖ The lack of core funding has resulted in an over reliance on grant funding streams to ensure the consortium is able to deliver the National Agenda.
- ❖ As a result of the Section 151 Officer's requirement to balance the budget, there is a minimal Local Authority Reserve remaining
- ❖ If ERW is to remain financially viable, and respond to the increased need for support services (such as Finance, HR) local authorities will be required to increase their contribution to the core budget in line with the agreed ring fence.
- ❖ There is inconsistency and potential duplication in the way in which the Looked After Children (LAC) element of the PDG grant is used across the Region.
- ❖ The need for resilient strategic management capacity at the heart of the consortium is undermined, currently, by an overdependence on grant funding for core staff and the extensive use of temporary contracts which are a disincentive for talented potential applicants.

- ❖ Current consortium grant management arrangements do not reflect WG requirements and expectations that the LAC element of PDG and EIG will be managed and administered regionally.
- ❖ The Risk Register (June 2017), highlights (risk13), the risk that grant funding may be withdrawn.
- ❖ There is no direct line of accountability between challenge advisors responsible for monitoring the use of grant funding at school level and the central team.
- ❖ Inconsistent grant management across the Region leads to variable school and pupil access to school improvement funding
- ❖ There are a significant number of ERW and LA staff paid through grant funding streams which are not guaranteed.
- ❖ A lack of core funding prevents the MD from making secure appointments and this adds to the instability of the central team.
- ❖ There has been no collective rationalisation of posts, building of capacity or significant pooling of resources across the region, leading to duplication and creating a Value for Money (VFM) concern

Recommendations

The Joint Committee agree to:

- Instruct the Lead Chief Executive, Section 151 officer and Managing Director to establish a Programme Team with suitable governance structures and with access to the appropriate financial and HR information to manage the project of clarifying and aligning core and grant funding arrangements to enable the consortium to deliver a single effective school improvement service and to comply fully with WG requirements.
- Instruct the Lead Chief Executive, Section 151 officer, Managing Director and Programme Team to prepare a project plan bringing together the work of evolving the region with all grants by April 2018 and other resources, including staff starting from September 2018. The Programme Team scope and plan should include the following:
 - To put in place clear plans to secure and maintain effective communication with and engagement of Directors, headteachers throughout the organization and secure consistent implementation of the Business Plan.
 - To clarify, agree and document the respective roles and accountabilities of the LAs and region in relation to all School Improvement functions and services.

- To develop and cost an organisational delivery model to meet identified priorities, supported by a comprehensive and costed implementation plan.
 - To secure appropriately the current ERW Central Senior Leadership Team and develop strategic and operating capacity.
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- Instruct the Lead Chief Executive, Section 151 officer and Managing Director to create a common EIG funding formula for schools.

 - Instruct the Managing Director to ensure that the above recommendations be undertaken in parallel with the findings of the report on the capacity of Challenge Advisors.