



Education Committee

Oral evidence: [Financial management at the Department for Education](#), HC 813

Wednesday 9 March 2016

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Members present: Neil Carmichael (Chair), Lucy Allan, Ian Austin, Marion Fellows, Suella Fernandes, Lucy Frazer, Catherine McKinnell, Ian Mearns, Stephen Timms.

Questions 1 – 87

Witnesses: **Chris Wormald**, Permanent Secretary, Department for Education, **Peter Lauener**, Chief Executive, Education Funding Agency, Department for Education, and **Richard Calvert**, Director General, Strategy and Resources Directorate, Department for Education gave evidence.

Q1 Chair: Good morning and welcome to this very important session of the Select Committee, on financial management of the Department for Education. We have several objectives here and one of them is to hold the Department to account in respect of the late publication of its annual report and accounts for 2014-15; to question the Department on the separation of its accounts and the accounts of academies, because that is obviously an area of some interest, and to explore the relationship between financial management strategy and policy, because of course in this respect they are closely connected, but that is not unusual in any Government Department. First, if you just explain who you are for the purposes of the broadcasting.

Chris Wormald: I am Chris Wormald, I am Permanent Secretary of the Education Department.

Richard Calvert: Richard Calvert, the Director General for Strategy and Resources.

Peter Lauener: I am Peter Lauener, Chief Executive of the Education Funding Agency.

Chair: Thank you very much indeed. The opening question, which goes to the heart of this, is why does the difference in financial year between Government and academies cause so many problems, not least given the fact that local authorities have been dealing with such matters for quite some time, certainly since 1992, with the introduction of local management of schools?

Chris Wormald: I first want to say that it is obviously disappointing that we were not able to lay our accounts on time and we are sorry for the delay. While we think the delay was the right decision and explicable, it is clearly not a satisfactory position and the process has not worked in the way we planned. We fully appreciate that we will need to do better in future. As you say, that is part of the reason why we want to take a different approach to how we account for all academies in future, which I am sure we will come on to during the course of the hearing. However, I wanted to put that on the record first: that I do not think there is a disagreement between us and the Committee that we are not in a position that we wanted to be in. We can explain how that came about, but that does not change the fact that it is clearly unsatisfactory that we did not deliver what we wanted to deliver.

The challenge of accounting for the academies sector I will set out a bit and then I will ask Peter Lauener to comment, because the Education Funding Agency leads on this work. There are three big challenges. The first, as you say, is the differential year end between the academic year and the financial year; the second is the sheer volume. We think, Peter, this is certainly the biggest consolidation anywhere in Government and we think it is one of the biggest in the world.

Peter Lauener: It is the biggest in the UK and it is third or fourth biggest in the world.

Chris Wormald: Yes. The third challenge is that academies and free schools open throughout the year, so for a number of institutions we don't have underlying accounts to rely on. The key difference between academies and maintained schools, and local authority maintained schools in this respect, is that only academies produce independently audited proper full accounts. That is not the case for maintained schools. A local authority does not have to do this kind of consolidation exercise. The fact that academies produce properly independently audited accounts is a hugely positive thing and improves the accountability of the school system considerably, in line with the greater autonomy that we give to academies. But it does give us this big problem about how one consolidates from one to the other.

At one level there would be a very simple solution, which would be to make all academies account for themselves on a financial year rather than an academic year basis. The view we took was: first, the most important thing was to ensure that academy accounts made them properly locally accountable, then it clearly makes sense to produce your accounts on the same timetable that you run your school, which is done on an academic year—so teachers are hired on an academic year, budgets are given on an academic year, people recruitment—and we want academy accounts to relate to academic years to allow them to be properly held to account. Very bluntly, we took the view that if there was pain to be taken, we ought to take that at national level, rather than individual school level, so we left the problem of how you do this with us, rather than shipping it on to schools.

I will let Peter describe it in a bit more detail, but essentially the challenge of moving from one year end to the other involves us making a series of estimations of what the financial year, the March position, would be from a set of accounts that are compiled on the academic year basis. When we began this process on the basis of the professional advice we had at the time, I would not say we were confident, but we believed—understanding the risks—that it would be possible to get to good accounts by doing that methodology. That has not worked as well in practice as we anticipated, which is why we took the decision in January 2015, after the National Audit Office's opinion of our accounts for the

previous year, that we needed the different approach. I am sure we will come on to it. Peter, do you want to say a bit more about the actual consolidation process?

Peter Lauener: Maybe to emphasise two points. The first is that it is very unusual, of course, in accounting terms to have a gap of seven months in a consolidation process between one year and the other. We take the academy accounts for the accounts that we are preparing now, for the year ending August 2014, and then we are reading that into the Department's financial year position at the end of March 2015, so that is a gap of seven months and that is quite a challenge by any normal accounting standards. The reason that we thought that that was a viable option to take is that school finances are reasonably stable, then we did a comparison study in each of the three years for which we have done this consolidation and asked a number of academies to carry out a separate audited statement at the end of March and then we were able to compare the previous August to the end of March. For those academies, they produce two sets of audited accounts and we paid the separate costs, because it would be unreasonable to expect the academies to pay for those costs. That is one complexity in the process.

The second complexity is that every year, as the number of academies has grown, a number of academies have started in the second part of the year, so they do not have a set of audited accounts for us to consolidate. We get a separate return that we validate but do not audit for those academies starting between August of one year and March of the second year. The whole consolidation process includes that first set of academies where we are reading forward and the second set of academies that have recently started, where we are adding on those separate returns and then we need to make a lot of very complex technical adjustments.

Q2 Chair: Can I ask what I think is a fairly obvious question? You said this was an unusual situation, but it was also foreseeable and foreseeable some time in the past, because we have had academies for a long time now. What was the Department thinking about in terms of this potential problem, let's say 10 years ago?

Peter Lauener: With some of the early academies, 10 years ago, would take us before the new arrangements for Clear Line of Sight across Government. But of course the number of academies was so small at that time that they were not material in the overall accounts and they were not consolidated into the departmental accounts at all. We have only been consolidating in line with the principles of Clear Line of Sight. The first set of accounts were produced just two years ago, the second a year ago and this is the third.

Chris Wormald: Sorry, can I add that I think it is a fair challenge? The thing that causes us the accounting problem was our attempt to make how we account for academies fit with Clear Line of Sight and the Whole of Government Accounts. The problem was predicted. It is not the prediction that was the problem, it is that the solution we came up with has not worked as well as it could. In retrospect, if we knew what we know now, our attempt to make academies' finances fit perfectly with Clear Line of Sight and the WGA is the heart of our problem, so it was our attempt to reach the perfect world.

The new approach that we are implementing from 2016-17 is essentially saying there is not a way of doing that perfectly, so we have to come up with a system that does as well as it can, but doesn't fit absolutely perfectly with WGA and Clear Line of Sight. It has been

the last two years and it has been those changes that was the problem. But as I say, it is a fair challenge.

Q3 Chair: Earlier, Chris, you referred to, and I quote, “Professional advice at the time”. That professional advice has obviously not been as helpful as you might have hoped. Do you think someone over-promised and where did that professional advice come from?

Chris Wormald: No. The professional advice—it is obviously the Department’s responsibility to prepare its accounts and we have accountancy staff within the Department who advise us. We discuss our accountancy approach both with the Treasury and with the National Audit Office, but it is our decision. From the professional advice at the time, it was clear that there was no strategy that we could adopt that had a 100% success rate. There were some very clear risks. We assessed those risks and concluded that the approach we took was the best alternative in the circumstance. What happened was that the risk that had been identified materialised.

In retrospect, we would clearly take that decision differently, knowing what we know now. But on the basis of what was available then—and I do not doubt the professional advice we were given at the time—I and my colleagues decided that that was the best way forward, taking that risk. As I say, it has not worked out as we had planned and therefore we have to put it right again.

Q4 Ian Mearns: I must admit I am a bit bemused by your assertion about maintained schools, Chris. I am still a governor of a maintained school—and have been since LMS was introduced after the 1988 Act—and if governors of a maintained school got budget planning wrong and did not have properly balanced accounts at the end of every financial year, the local authority and others would have something to say about it, probably Ofsted as well. Therefore to assert that maintained schools do not have to produce accounts, okay, they might not be exactly in the same form as academies have to produce accounts, but they still have to do budget planning on a 5/12ths 7/12ths basis, which has been the case since 1992. This is not rocket science from that perspective. I do wonder about that. Is there not a problem here that, in terms of watching academisation taking place and promoting academisation, we have not foreseen the potential implications?

Chris Wormald: Yes, I am sorry if I gave the wrong impression in what I was saying about maintained schools. I was not saying that they do this in any way badly, for exactly the reasons that you say. I am just saying that it is very different. The process of producing a formal independently audited and published annual account in line with both the Companies Act, and in our case the Charities Act, is very different from what maintained schools do, which are formally emanations of the local authority. They do exactly the process that you are saying, but that is not a formal published independently audited account and therefore doesn’t have to be consolidated in the same way.

It is not a question about the financial management, it is the technicals of having 3,000 separate published accounts and seeking to consolidate them, which the local authority does not have to do in the preparation of its accounts. We have a higher level of financial transparency and accountability for academies, which is the flipside of the greater autonomy. It is not a criticism of the way maintained schools do it, it is simply a reflection of us giving academies more autonomy and we ask for, in return, a higher level of

accountability. As I said, that is an accountancy technical thing, as opposed to being about the base financial management.

Q5 Ian Mearns: The big question, Chris, from that perspective, is we have gone back from the pre-2010 Government when academies were taken into academy status because it was about school improvement for particular schools with particular problems. Since the Government in 2010 decided to roll out the academisation programme to anyone who basically wanted to do it, as long as they were fit and proper, as it were, was there no one at the time in 2010 and onwards who foresaw the accounting problems, particularly in relation to the Charities Act and the Companies Act?

Chris Wormald: Yes, as I say, we had foreseen this problem and we had developed a solution. The challenge is that our solution has not worked as well as it could.

Q6 Ian Mearns: Is it the solution in that case?

Chris Wormald: Yes. If we had been seeking to make life easy for ourselves, the easiest thing to do would be not to have had those extra financial requirements on academies for producing individual accounting and do it exactly like local authorities do it. We did not think that was appropriate because we think that published and independently audited accounts are a very important part of our financial management system.

Peter Lauener: Could I emphasise one point very quickly? This is not concerns about the underlying quality of accounts by academy trusts, this is about the technical process of adding them all up to get to the EFA and departmental position. In the last set of accounts the Comptroller and Auditor General made it clear that he had confidence in the underlying veracity and usefulness of the underlying accounts, but obviously there are a lot of technical accounting issues above that.

Q7 Chair: On that specific point you have just raised about academies, I am under the impression that you were sampling those accounts of academies, but you may not be doing so in the future, is that correct?

Peter Lauener: Yes, the specific point that I mentioned a moment ago, but to draw it out, because we were doing this process of consolidating on the year end in August and reading that across to March, we did a special comparison study in each year of the last three years where we also took a sample of the academies returning in August a set of accounts, asked them to do it again the following March and then compared the movements between those two periods to see whether they were significant. The cost of that sample survey was £2 million and we concluded that to get a robust sample on that to make proper adjustments to the accounts, we would have had to more than double the size and the cost of it. We concluded that was not worth doing and we have agreed with the National Audit Office that is not a central part of next year's accounts. We have some evidence from those three years and we will not do that in future, so that will save £2 million.

Chris Wormald: But just to be clear on that, that is something we did purely to assist us in the creation of accounts. That is entirely separate from the financial monitoring of day-to-day expenditure that the EFA does on individual academies. We have not reduced at all—indeed, we are increasing it—our oversight of academy governance and academy

spending: that is separate. This is a very specific thing we did to aid us with the conversion from September to March.

Q8 Chair: Are you therefore satisfied that while defining that system you have other mechanisms that would be able to check the performance of academies in an accounting space?

Chris Wormald: Yes. We are evolving these systems all the time and Peter might like to say a bit about how. We are not going to claim that they are perfect and we evolve them every year in the light of experience. But, Peter, do you want to describe how the EFA does that?

Peter Lauener: Yes, of course. The first thing to say is that we have a very large database because we allocate funding to 5,500 academies now. We have refined and improved the systems for doing that quite considerably over the last few years. We have just issued allocations for the 2016-17 academic year. Our target is always to issue them by the end of March. We did 90% by the end of February, so quite a bit ahead of schedule. So getting the basic data and allocations out to academies is going very well and that is important so that academies have time to plan their expenditure properly and get their financial plans approved. We then do of course get a number of returns a year, including a budget forecast return, including the financial statements once a year. I always think that the primary purpose of the financial statement is for the local trust to monitor what is happening and we just take the data to aggregate up. But we also triage all the accounts as they come in and look for any points of concern. We then have our systematic national processes looking at financial performance, looking at education performance, looking at a number of other measures, such as governance measures, and we put that into an analytical tool that allows us to identify academies of concern, which we monitor on a monthly basis.

Q9 Ian Austin: We can sort of dress this up with all the technical explanations that you want, but the fact is, apart from DCMS after the Olympics, which was a huge, unique and one-off event, no Government Department has ever been in this position.

Chris Wormald: Yes.

Ian Austin: I think the concern most people had about academies was that when it came to performance, there was no one between the Chair of Governors and the Secretary of State. Obviously you are addressing that with the Regional Schools Commissioners and all that, but the Department is not capable. This shows that the Department is not capable of running this programme.

Chris Wormald: No, I do not—

Ian Austin: This is a huge area of public expense and you are not able to account for it.

Chris Wormald: Yes.

Q10 Ian Austin: You say you have no clue what is happening really with a massive area of your Department's spending. The question I want to ask about this is what advice did

you give to Ministers about the massive expansion in the number of academies and your inability to manage the programme effectively?

Chris Wormald: Sorry, I do not agree with the proposition in that question. We believe that we can manage this effectively via other things.

Ian Austin: But you haven't.

Chris Wormald: Mr Lauener has been describing that what we have here is a technical difficulty with how we aggregate all the accounts together. As I have said all the way through, we do not believe that what we have delivered to you is satisfactory.

Q11 Ian Austin: Okay. Did you tell Ministers that you would be able to sign the accounts?

Chris Wormald: As you know, I do not discuss the advice that we do and don't give to Ministers and that is a longstanding precedent of Government. We are confident that we have the systems to manage this expansion properly. We enhance those systems all the time, part of which is, as you say, Regional Schools Commissioners, which I know the Committee has been looking at and the EFA on the financial management side enhances its systems in the light of experience every year. We are confident that we have good systems for managing the expansion and ongoing management of the academy programme. As I said, for the 5,500 schools that have become academies, 3,000 trusts, we have considerably more national financial information than we ever had on maintained schools.

Q12 Ian Austin: I understand all that, but Ministers took the decision to massively expand the academy programme. The Department is not able to account for the finances and I want to know whether Ministers were told that that would be the outcome before they took that decision. If you will not tell us whether you told them that, I think we should ask Ministers the answer to that question.

Chair: In short, what the Committee wants to know is, when did Ministers know there was this problem about accounting? Before, after, during the period when they were—

Ian Austin: I want to know if Ministers were warned that the Department was incapable of managing a huge area of Government expense that would arise for a policy decision that Ministers were taking. That is what I want to know.

The Government's policy now is for all schools to become academies. I do not particularly have an ideological objection to that, but I do have an objection to it if you cannot manage what you are doing at the moment. How can you have any confidence at all that you can cope competently with a policy that the Department is enacting?

Chris Wormald: This is why we are developing the new system for accounting for academies that we set out in our letter to the Committee and will be implementing from 2016-17, because we do, as I have said all along, appreciate that the system we put in place has not worked as well as it should have done. I know people will want to argue about the merits or otherwise of the academy programme, but I don't think anyone would want to get into the position where you took decisions about policies aimed at raising standards on the basis of the technical accounting treatment, which is what we are dealing

with here. We do accept—and I accepted all the way through the thrust of your questions—that we need a different system.

Ian Austin: I think it is certainly fair to take policy decisions on the basis of whether the Department can enact them.

Chris Wormald: Yes. We will come on to this. This is exactly why we are saying we need a new system that does not involve this technical problem for exactly the reason that you say.

Q13 Lucy Frazer: You have written a letter, Chris, to us raising four ways that you are going to change the accounts for the future. The first point is timely financial reporting to Parliament and you say that you hope to be in a position to lay the Department's accounts before summer recess. Will they be accurate?

Chris Wormald: We hope so. I might ask Richard to comment on the new system, as he has been leading the work on that.

Richard Calvert: Under the new system there will be two accounts laid, obviously there will be the sector account, which represents the academies, and at the moment, as Peter said, that will be based still on the audited accounts of academies as at the end of August, but we expect to be able to lay that account before the following summer recess. That is significantly quicker than where we are at the moment, where effectively we have a delay of close to 16 to 18 months before those accounts are laid. That is one aspect of it.

The second aspect is the departmental group accounts we would expect to be able to lay, like most Government Departments, before the summer recess following the end of the financial year.

Q14 Lucy Frazer: You will have an eight-month lag on the academies, but the maintained schools will—

Richard Calvert: Yes. We will clearly aim to produce the sector account as quickly as we can. I think until we have had a first go at it, saying precisely when we should aim to produce it is difficult. We certainly commit to doing it before the summer recess but how early we can do it before the summer recess we will have to see when we have done the first one.

Q15 Lucy Frazer: Will you always lay them both at the same time?

Richard Calvert: No. We will lay the sector account as soon as we can and I would expect that we will be in a position to lay the sector account ahead of the departmental accounts.

Lucy Frazer: Will it be accurate—

Peter Lauener: Could I just add a point about the individual academy trust accounts, which are published by academy trusts and published nationally by the Department? They are available within four months of the end of year, so we get them at the end of December and as soon as they are submitted to us, the academy trusts are expected to publish them on their own websites.

Q16 Lucy Frazer: The issue is the consolidation?

Peter Lauener: The issue above that is the consolidation.

Q17 Lucy Frazer: You said the reason this has been difficult is because academies are coming on board all the time, but you are confident—notwithstanding the fact that academies are coming on board all the time—that the eight-month lag won't make any difference because it will be historical, in any event?

Richard Calvert: What we are aiming to do with the sector account is consolidate the accounts of academies reporting at the end of August. Obviously year by year more academies will come into that consolidation.

Q18 Lucy Frazer: Do you know how long it takes the private sector to consolidate a number of accounts in group companies in a global entity?

Richard Calvert: It depends on the organisation and the complexity of the consolidation. As Peter says, we would receive the accounts from schools at the end of December and then we would expect to take somewhere between four and six months to have that fully consolidated.

Q19 Lucy Frazer: Would you expect a group company operating internationally to take four to six months?

Richard Calvert: No, I think a group company internationally would potentially do it quicker, but a group company internationally would probably have a single finance system covering its group activities, rather than a situation where we have 2,800 entities not operating on a single finance system from which we can draw a single set of data.

Peter Lauener: The standard requirements for charities is to lay their accounts with the Charity Commission within 10 months of the end of the year and for companies I think it is within nine months of the end of the year. Once we establish the new system, we are not that much different from that.

Q20 Ian Mearns: Peter, the thing is the majority of charities are not working exclusively with money that is directed to them from the Government in the way that you have talked about there. The vast majority of these entities are funded by Government and public money.

Peter Lauener: That is why we apply the requirements for managing public money through the academies financial handbook, but their accounts are presented according to the Charity Act's statement of recommended practice.

Q21 Ian Mearns: That is fine, but it seems that by not setting up these entities in such a way that is manageable in the first place, we have ended up with this particular problem.

Peter Lauener: It all comes back to the year-end issue and also the fact that academies are independent autonomous bodies. This is not a problem in the further education sector or

the higher education sector because the accounts of these bodies are not consolidated into the core departmental accounts.

Q22 Lucy Frazer: You have raised the four points there. I want to move on to the second one, which is improved transparency, clarity and scrutiny of information. You have already mentioned that you are cutting back, you are saving £2 million on taking out one of your systems because you have actual figures now, you don't need to estimate. Are you always going to not estimate? I am thinking, for example, what are you going to do with a new academy that comes on board? Surely you need to estimate in that situation. How are you going to be more accurate by doing less work?

Richard Calvert: The sector account will consolidate the accounts of academies in existence and reporting at the end of August. For the sector account, we will not attempt to bring in academies that haven't done that. The key thing in terms of avoiding estimation is that because the sector—

Lucy Frazer: Sorry, can you just explain that, Richard? What won't you do?

Richard Calvert: We will only consolidate the accounts of academies that are reporting at the end of August.

Q23 Lucy Frazer: What will you do to an academy at year end?

Richard Calvert: For example, if an academy has opened on 1 August 2016, it will not produce audited accounts.

Q24 Lucy Frazer: What if it is on 1 January, so it has not been going the full year, would it then produce accounts?

Richard Calvert: It will depend on whether it has produced a full set of accounts. I think Peter will confirm the period of time in which a full set of accounts has to be produced by an academy.

Peter Lauener: There are options, but basically academies can choose themselves. Basically, we will consolidate, as Richard said, for academies that are in existence. We will account for spend to academies in the Department spend and then, when an academy produces its full sets of accounts, it will be consolidated into the next sector account.

Q25 Lucy Frazer: Let me just clarify that: if they have produced their accounts because they have been going for a year, they will be in the sector account?

Peter Lauener: Correct, yes.

Q26 Lucy Frazer: If they have not been going for a full year, you will do it as you would do a maintained school or you wouldn't do it at all or how would they—

Chris Wormald: This is all about how we account for the expenditure, as opposed to account for the money we give them. For the schools that are opening in year, we will account for the money they receive, but we will not attempt to estimate their expenditure, so there will be a lag for all those schools during the transition period.

Q27 Lucy Frazer: Does that give you sufficient information on your consolidated accounts, an accurate representation if you have not done expenditure as well as—

Chris Wormald: We think it should do. We need to work through the details of how exactly all those things will work in practice, which is one of the reasons why we are going to use 2015-16 as a transition year, where we will do our accounts, unfortunately, on the same basis as we are doing them this year, but we will also produce a shadow version of what Parliament would see for the sector account. We will then seek feedback. This is correct, isn't it, Peter?

Peter Lauener: Yes.

Chris Wormald: We will then seek feedback from this Committee, the Public Accounts Committee, the National Audit Office, Treasury and everyone else on that sector account. When we get to the full account we will have had a trial go and we will have been able to take feedback about what Parliament and others find most useful. That is why we are doing it over this—

Richard Calvert: There is a time lag, but I think the prize of avoiding the uncertainty of estimation across the different year ends, in our view, outweighs the disadvantage of the small time lag. Ultimately, what we are trying to do is create information on academy spending that is useful.

Q28 Lucy Frazer: Coming to that very point, I want to go to the fourth point about the year end not aligning. It sounds like you have done it because it is practical and helpful for the academies, but I would like to raise with you two, I think, indirect consequences for academies of that. I would like you tell me whether these are concerns for the academies or not. That is, first, when we got our additional funding, we got our top up from the £390 million in Cambridgeshire for our schools. The academies did not get it for a significant period after the maintained schools, we were told because of their year-end issue. So because the academies had a different year end and a different system, they didn't get the money at the same time as the maintained schools.

The second point is that we are currently looking at the fairer funding formula and one of those factors is going to be growth, so how many pupils do you have? Are the academies going to be prejudiced by the fact that their accounts are looked at eight months after their growth figures—I assume they might be looked at eight months afterwards—and therefore there will be a lag in their funding because their figures haven't yet been taken into account? Am I right on that, that they will be prejudiced—

Chris Wormald: No.

Lucy Frazer: —because their accounts and their systems and all their information is in arrears, rather than in advance?

Peter Lauener: The basic system of funding, both for local authorities and for individual academies, is based on pupils as a reference point, so on a lagged basis. But we also have arrangements for exceptional growth to consider outside that timescale and local authorities have similar arrangements within their local funding arrangements for maintained schools.

Q29 Lucy Frazer: I wouldn't want to rely on exceptional growth. I just want to put it to you that perhaps the practical solution of when you prepare your accounts might not be the right solution in terms of funding for the academies. I do not know what the answer is, but it is worth thinking about.

Chris Wormald: We will certainly go away and check. This is not an issue that has been raised with us before. We gave academies the choice of whether to use the financial and academic year and—

Q30 Lucy Frazer: How many chose?

Chris Wormald: I think one is the—

Peter Lauener: I am aware of one convertor academy that originally decided that they would stick with an April/March year and all the others went for—

Chris Wormald: Clearly, academies across the piece see it as beneficial to them to do it on an academic year rather than a financial year basis. Our funding of schools does not rely on the accounts; that is how we account for the expenditure afterwards. Our data on pupil numbers and how that will work into the national funding formula doesn't rely on this accounting system. But as you have raised it and—

Lucy Frazer: I would be very grateful if you could look at that.

Chris Wormald: The Cambridge-specific points, I do not think we have heard of—

Q31 Lucy Frazer: It is not Cambridge specific, but the academies told me they got their money at a different point. I presume that was around the country.

Chris Wormald: That is not an issue that has been raised with us before, so we will go away and look at that.

Lucy Frazer: It is an important one. I would appreciate it if you took that into account when you consider which year end you should be looking at.

Q32 Catherine McKinnell: Just to follow on from what Lucy is saying and to understand why the Department give so much freedom to the academies in terms of the year end that they use and the way in which they present accounts, when in fact it might make it easier for the Department to present information in a more transparent and correct way if that was more prescribed.

Chris Wormald: We start from a principle of school autonomy and we start from the principle that schools should do what they think is in the best interests of their education, as opposed to what makes mine and Peter's and Richard's life easiest when we are preparing accounts. That is a specific decision that we took, that we would take the pain at a national level. I think everyone has now moved to an academic year basis, so they do that and we do issue quite a lot of guidance on how to prepare accounts and we work with the independent auditors that work with academies. We think it is important that we have the same accounting requirements for academies as we have for any other autonomous

bodies and we have the same expectations of accounts that a charity, a business or a further education college has. We think that is an important part of the system.

Q33 Ian Mearns: Will convertor academies have a choice in the future, because you have said that they are now all consolidated as the academic year, so has that choice now been removed for new schools?

Peter Lauener: It has become an academic issue because it just suits them to plan on an academic year basis. It is an enormous advantage, in my view, to academies that they get their budget by the end of March for the following academic year. Indeed, as I said earlier, in many cases we were able to issue the allocations for 2016-17 by the end of February, so you then have seven months to plan.

Q34 Ian Mearns: With hindsight, was the choice a mistake in that case?

Chris Wormald: It does raise the important question. We haven't addressed that because it is not happening. There is a theoretical question about somebody coming along and saying they wished to do it on a financial year. That probably would not be compatible with our new system, so we might want to look at that. As I say, it is a theoretical question because nobody does it, but I do think you are on to a point there.

Q35 Marion Fellows: In your letter to our Chair in March you talked about some of the delays, referring to documentation issues, complex documents. Can I ask you why precisely did the documentation supporting your capital programme take more time than expected to get into a clear and organised state?

Peter Lauener: Okay, let me pick that up. It has been quite a significant challenge for the Education Funding Agency over the last few years developing the systems for funding the large scale academy programme. When I started in this role, or the organisation before the Education Funding Agency, there were 203 academies, there are now 5,500 academies. The sheer logistics of putting in place the proper systems to manage the allocations and manage the payments and seek assurance on the payments has been a major task. But we have invested in new systems to improve all our processes and accounting systems and we are in a much stronger place than we were.

To come to your point about the capital programme, in addition to the complexities of funding and managing the finances of 5,500 academies, the Education Funding Agency has also taken responsibility for direct delivery of significant capital programmes, both the Priority School Building Programme, which is rebuilding 260 schools in the worst condition under the first phase of that, and there is a second phase that has been announced as well, and secondly, building free schools. That adds up to a very significant direct role that we did not previously have. In the same way as I have described for academies, we have had to put in place the systems to manage all the reporting of that and we were implementing new systems to get much better information over the last year. Each year the programme has increased and we reached the point we needed to put in place new systems. The putting in place of the new systems lagged a little bit behind where ideally we should have been. They were not late. It was just a properly-phased programme and that meant that we did not have all the information when the National Audit Office were looking at particular cases. We were then able to produce the information, a bit later than

we would have liked, and the National Audit Office were content that the correct judgments had been made and the correct processes followed.

Chris Wormald: As with all of this, it is not do we know exactly how much was spent on any individual project, it is allocating that cost between the two financial years in a way where the National Audit Office could follow exactly how we had done it. So this is not a question about the cost control of individual projects; the financial year in which we account is our biggest challenge.

Peter Lauener: That is correct. There is also a very considerable problem of eliminations that you get in any consolidation. When we consolidate the balance sheets up from academies and a new asset has been created that goes on to the academy balance sheet, we then to need eliminate it from our spend and manage the transfer from capital spend on to the balance sheet, so there are a lot of very complicated accounting transactions.

There are also issues that the National Audit Office raised about some detailed issues on particular projects, but again we were able to satisfy the National Audit Office on all these points.

Chris Wormald: I do want to come back to my very first answer, that although we can explain why that was complicated and why it was difficult, that does not make it all right. This is something that we ought to have had right by January and it was clearly not good that we had to delay it. As I say, we can explain why it was difficult and complicated, but this was something that did not go as we planned it.

Q36 Marion Fellows: Can I just recap and try to filter this? 203 academies originally and you had a system in place, but of course it was not really to do with the consolidation of accounts in those days. Am I right?

Chris Wormald: Yes.

Q37 Marion Fellows: Okay. I just have a comment then: complicated or complex documents are not exactly the best way to move forward in terms of transparency, because if the documents that are trying to get you to a transparent state are extremely complex then it is almost a self-denying ordinance. That is just an observation.

Chris Wormald: Yes, but could I comment on that? It is an important point because conceptually the system we are aiming for is not very complicated. Every academy trust accounts for itself on an academic year basis. We then add all those up to create a full account for the whole academy sector on an academic year basis. So what we will have is a single document that gives you a snapshot of the financial health of the academy sector in that academic year, which we can then begin to benchmark against all our other data, which is on an academic year basis. We will be able to see, for example, what the level of academy balances are in an academic year and we will be able to start relating types of expenditure in that academic year to performance and so on. What we are aiming for, exactly on your point, is something that is first, simpler, and secondly allows us to do a lot more interesting and value-added things with the account produced. That is certainly our objective.

Q38 Marion Fellows: When did you first become aware that you were not going to meet the statutory guidelines?

Chris Wormald: The story of this was basically in December 2015, we considered whether at that point we ought to seek a delay and we had a discussion about it. The view we took at that time was that the accounts we would produce would not be any better if they were produced later than if we produced them by the statutory deadline. That situation changed in January 2016 and it became clear that there were a number of specific issues where a small amount of extra time would allow us to produce a better and fairer account. I took the decision—and it is my personal decision—that it was better to have clearer accounts later than it was to have less clear accounts earlier. That is obviously a judgment call, but that was the decision we took and I took a view that if the Department had not done this well enough, it ought to keep going at it until it had. So I took the decision in January 2016 reversing what we had decided at the end of the previous year to go for the delay so that we could have—

Q39 Ian Mearns: Was it about clarity or accuracy?

Chris Wormald: Sorry, the specific issues—and Richard may like to say a bit more about this because he has been doing the work with them at the National Audit Office—are less about the numbers that were in the account and much more about our ability to prove to the National Audit Office that they were correct, ie the audit trail that Peter was describing earlier. That is the bit we have specifically been working on improving so that the National Audit Office could give an opinion about whether our numbers are correct. Richard, do you want to say a bit about the work we have been doing?

Richard Calvert: I think it is worth saying that all these discussions were taken with the NAO as well. In December, we realised that there was a risk of not having done the work that needed to be done by the end of January. We agreed in early December some further work. The NAO continued with their audit work through December and into early January. I think essentially that did not make the progress that we hoped it would make and particularly we were not able to demonstrate the clarity of audit trail that they required in order to enable the C&AG to reach an opinion.

The work that we have done since January has largely been about, as Chris says, clarifying that audit trail. We have made a very small number of adjustments to the underlying accounts, but they were relatively small. The bigger piece of work has been around demonstrating the audit trail and particularly demonstrating the audit trail around the capital work and some of the eliminations particularly that Peter has referred to.

Q40 Marion Fellows: I just find it interesting: I presume you started working on these accounts possibly even before 1 April, in general. It is over eight months before you finally made the decision that this was not really going to happen and allow enough of an audit trail for the NAO to audit the case.

Peter Lauener: It does come together at a very late stage because of the process I described earlier, where we take one set of returns from the accounts from the previous August, which comes in in December and January, and then the second set of accounts from new starter academy trusts, which is a March return, which comes in over the summer. The process of validating that return starts in September, so that is last September

for the 2014-15 accounts, and it all comes together very late in the process because of the complexity of the process.

Chris Wormald: This is a very intensive process and it is not simply a case of us producing the accounts and the National Audit Office going and having a look at them. The NAO does visits to individual schools to check that we have done all this properly. It does sound like a long time, but it is a very high bar and intensive process, which is not just looking at the pieces of paper.

Q41 Marion Fellows: What are the new systems that you are introducing to improve management information and what caused the delay in the implementation of them?

Chair: A quick answer, please.

Peter Lauener: The new systems are very basic. They are business systems, so there is the customer relationship management system, as any business would have, for managing all our contacts with academy trusts. There is an information exchange system to allow data to be sent out and uploaded back and there is a very robust database to allow the allocations to be calculated in an auditable way. Then there is a fourth system, which is a robust payment system with built-in checks, because we are paying out an average of £1 billion plus a week.

They were not late. Sorry, I just must make that point. They were introduced in good time, but the system that caused the delays in pulling together the capital data, we had always planned to implement it at that point, but then when the National Audit Office looked at it, we did not have that system in, but it was put in as planned and then generated the data we need.

Q42 Lucy Frazer: Could I just have 10 seconds on my question? Could you write to us and tell us whether there is any impact on funding as a result of the accounts so that we know on the question I asked?

Chris Wormald: Yes.

Q43 Stephen Timms: The solution you have come up with is audit. I do not think there is any other part of Government that is producing part of its accounts on a different financial year to the normal one. You said at the beginning that the task you have is different from local authorities because academies publish their own audited annual accounts and maintained schools do not do that, but I do not quite understand why that means you cannot have access to the same information in respect of academy accounts that local authorities have in respect of maintained schools accounts. Why is that?

Chris Wormald: No, we can. That is the March forecast that Peter was describing, but we cannot produce our accounts on that basis and this is accountancy technicals of how consolidation works. We have to work off the published independently audited accounts in order to do that consolidation. The reason we are the only place that has to do this is because of—I am not quite sure how to describe it—a sort of quirk. It is not really a quirk because it is explicable, but, of the education institutions that work on a different year, academies are the only ones that are classified in the public sector and therefore we have to consolidate. So as Peter mentioned earlier, with a further education college, which is

classified to the independent sector, the Government only has to account for the money that it gives to that college, not how it is spent, so we do not consolidate. We are in the rather curious position that if you are a 17 year-old going to a further education college, expenditure on that pupil is consolidated if they are in an academy and not consolidated if they are in a further education college. So it is a bit of a curious situation.

Q44 Stephen Timms: Just to come back to what you said at the beginning of your answer, there is some technical or legal reason, is there?

Chris Wormald: Yes. Once you have an independently audited consolidated account, that is the account that we have to work with in our consolidation.

Q45 Stephen Timms: You are not allowed to talk to the academies otherwise?

Peter Lauener: We could oblige the academy to operate on an April to March year, but as Chris explained earlier, we took the decision that it was right for academies to—

Chris Wormald: I do not want to make that sound like it is a quirk. The National Audit Office rightly wishes to work off independently—properly independently—audited accounts that meet the normal standards, and those are the ones done on the academic year.

Q46 Stephen Timms: So you think the NAO will not allow you to do it differently?

Chris Wormald: I do not think it would be satisfactory to us or anyone. That would not meet normal accountancy standards, would it, Richard?

Richard Calvert: I think what we come back to is the decision that the August year end is the one that makes most sense for academies. It would be possible in accounting terms to ask an academy to do a full accounting return at the end of March as well as doing a full set of accounts at the end of August, but I do not think anyone thinks that is a sensible thing for an academy to do or a good use of its time or resource.

Q47 Stephen Timms: How realistic is it that this solution will avoid future qualification? Are you hopeful that it will avoid qualification in 2016-17?

Chris Wormald: Our objective is to get to a point where we have clean accounts. The change we are making undoubtedly makes that considerably easier; it does not solve every single problem. As I said right from the beginning, we have three types of challenge in our consolidation. One is the sheer size. The second is that people convert in year and the third is the end year question. The third is by a long way the biggest and that is the issue that the new consolidated accounts closes down for us. We still have the challenges of the first two, so we will still have a lot of work to do and a lot of improvements to make to get to clean accounts, but it undoubtedly makes it considerably easier.

Q48 Stephen Timms: How hopeful would you be that you will avoid qualification on the 2016-17 accounts as a result of the—

Chris Wormald: What is our level of confidence, Richard?

Richard Calvert: I think in terms of avoiding the issues around estimation, we are very confident. I think the issue that we need to do further work on is a specific issue where we have had a qualification around the recognition of land and buildings. Essentially this is not primarily about the year-end issue; it is about the fact that we make an accounting judgment that the land and buildings of academies should be recognised on our accounts, essentially that they are assets in public use. There are a number of academies operating on sites where clarity about the precise historical ownership of the site is not clear. It is a particular issue often with Church schools and the NAO has not felt that we have had the evidence base to underpin that assumption. That is one of the reasons why we have had a qualification.

We have been aware of this for a number of years. To fully work through all the ownership questions involved is very complex, it would cost a lot of public money. We have judged that spending that money, which we think would probably be as much as £20 million to £40 million, to resolve all the ownership questions has not been a good use of money over the last two to three years. This is something that we want to work towards resolving. It certainly does not apply to all academies, far from it. I think Peter and his team are going to work with us in the central departmental team to put together a programme of clarifying this, because clearly we want to move to clean accounts. As a Department we—

Q49 Stephen Timms: I think we will come back to this specific point in a minute. Last question from me: what is the first major milestone on the way to delivering the solution that you are proposing?

Richard Calvert: We will essentially do a dummy run internally of the sector account based on the end August 2016 numbers. We will make sure that we are set up so that when we come to the first full sector account we are in a position to be confident that we will have that. Essentially—

Q50 Stephen Timms: What is the timing of the milestone? That is what I am trying to get.

Richard Calvert: There will be a series of milestones.

Q51 Stephen Timms: The timing of the first one?

Peter Lauener: We are looking to produce the first mock-up this summer based on the—

Richard Calvert: Yes, it will be the accounts that we have now received, so for the end of August 2015, we will do a dummy run of those accounts. We will be working on that. Once we are through the 2014-15 process and alongside the 2015-16 process, then we will be producing that dummy run. I think we could report—

Q52 Stephen Timms: Sorry, you have the academic year 2014-15 and you will be producing the dummy accounts in the summer or July of 2016. Is that right?

Richard Calvert: Yes.

Q53 Stephen Timms: So that will be the first major one milestone?

Richard Calvert: Yes. I think—

Chris Wormald: Why don't we send you the full milestones and we will share with the Committee when? Because, as I said, we want the transition year to be one in which we take views from a number of people about what would be useful. Why don't we just send you the outline?

Stephen Timms: That would be helpful.

Q54 Chair: One milestone you would want to not pass is another qualification via the NAO. What would be the consequences of that, if the NAO qualified you again in terms of accounts?

Richard Calvert: What, in 2016-17?

Chair: Yes. What would be the consequences?

Richard Calvert: The 2015-16 accounts are going to be produced essentially on the same basis that we have been doing for the last three years. Although we are looking to make the process simpler by removing the comparison study and we expect to be more on top of the capital data and we would like to have those accounts tabled by December at the latest, we cannot expect an opinion that is significantly different from the one we have had for the last two or three years. So for that set of accounts we expect that we will have qualifications for lots of the reasons that we have been talking about.

For the 2016-17 account, as we move to the new system, both the sector account and the group accounts, the key issue where we still are not confident we will avoid qualification in that year is the issue around land and buildings recognition. We would be very disappointed if we still had a qualification around the issues of the core consolidation, but the land and buildings issue we just do not, at the moment, know how much work it will take to resolve all the ownership issues to the satisfaction of the NAO.

Chris Wormald: As I said earlier, some of that is choice. It is possible that, as we have done previously on that specific issue, we look at the cash cost to the taxpayer resolving that issue and conclude that having a qualification is better than spending £20 million to £40 million to resolve that question and that is a choice we make. So there are circumstances, rather strangely, where we choose to have a qualification because that is the better outcome.

Q55 Lucy Allan: I understand the need to separate out academy accounts from the DfE accounts and I think you have given us a thorough overview of that. What about providing information on academies for Whole of Government Accounts and National Accounts? Is there some way that we can improve how that is done?

Richard Calvert: There is still a tension. There is still a tension in the new arrangements, because fundamentally Whole of Government Accounts are produced in line with the principles of Clear Line of Sight and they are produced on a financial year basis. So the

translation of the spending in the sector account into the Whole of Government Accounts from 2016-17 onwards will still require a degree of estimation. We cannot get around that.

We think that, with the new reporting framework, we are significantly improving the quality of information on academy spending and its timeliness, improving the departmental accounts, but there will still be an element of estimation in taking the sector account expenditure into the Whole of Government Accounts. Obviously at the level of Whole of Government Accounts it is a much less material number than it is in the departmental accounts and we are working with the Treasury at the moment on how best to do that estimation in a way that is not going to create disproportionate work or effort. It is important to highlight that, although an estimated number will be within the Whole of Government Accounts, sitting behind that will be a very clear sector account with good quality information on the spending.

Chris Wormald: Our intention would be to do that on a mathematical basis, as opposed to trying to do the kind of conversion studies. We think—but we have some more discussions to have—that that is an acceptable level of materiality for the Whole of Government Accounts, but as Richard says, there was a tension there.

Q56 Lucy Allan: Is there an argument for taking academy accounts off the public sector balance sheet altogether? Is that something you looked at?

Chris Wormald: There is a long history for this, about the classification of institutions and whether they were in the public sector or the private sector. I believe grant maintained schools were, for a short period, classified through the private sector in the same way that further education colleges and universities are. The way that system works is the Office of National Statistics takes a judgment based on a set of statistical principles about whether this institution is really part of the public sector. The view on schools, because they are exclusively publicly funded, even though they are autonomous, is that basically they are and that therefore we should account for them as we would a non-departmental public body, which is what we do.

It does create this slight curiosity that we account for further education in a completely different way from the way we account for schools, even if it is the same pupil, or a very similar pupil, funding from the same place going to one rather than another. It is a slightly odd position, but I think the basis of it is that further education colleges and universities earn more of their money in the market through contracts and so on, whereas schools, as Mr Mearns was saying, are exclusively publicly funded.

Q57 Lucy Allan: So is that a no?

Chris Wormald: I do not think it is going to change and I think it would be slightly curious to have something exclusively publicly funded that we said was not part of the public sector. It would of course make life considerably easier if we only accounted for the amount the Government gives to an institution rather than trying to account for how it is spent, but there is a value in accountability and particularly local accountability in that second stage as well. So I do not envisage it changing even though it has this curiosity within it.

Q58 Lucy Allan: Given what you have said throughout this morning, would you ever anticipate returning to consolidated accounts? I would suggest that you have made that quite clear, but just to—

Chris Wormald: No. What we want to do, and we think it is better from all perspectives, is to create a sector account that gives us genuinely useful information about the financial health of the academy's system that fits with Government accounting and fulfils that side, but also creates information that is genuinely more useful to Parliament, because you will be able to say, "In that academic year the total level of balances in an individual academy is X and that relates to their academic performance in the following way". So once we are there, I think that will be a much more useful tool for both accountability and scrutiny.

Peter Lauener: It will be more timely as well.

Chair: We are going to move on to the capital programme, starting off with Suella.

Q59 Suella Fernandes: I have a couple of questions. The NAO concluded that you had over-valued the assets and liabilities of the academies. You have concluded that you are going to just live with that mistake rather than spend the money to remedy it?

Chris Wormald: There are two different questions there, sorry, just to clarify.

Suella Fernandes: How are you going to remedy that over-estimation?

Chris Wormald: The one that we have so far concluded would take too much public money to solve—and this does get down to some very technical questions—is areas where, for entirely historical reasons, ownership is unclear. It is frequently Church schools, where the ownership goes back hundreds of years, which is something the local government accounting system simply lives with. It is the point of transition that a spotlight is shone on that issue and we have to decide whether to resolve it.

Richard Calvert: It is not necessarily a valuation question, it is a recognition question.

Chris Wormald: Yes. The question of revaluation is a separate one that we do expect solve. Peter, do you want to explain the circumstances around it?

Peter Lauener: So there would be a revaluation issue that will come up in the accounts, but as we have changed the specifications of buildings and building bulletins that have gone out setting out the principles, it reduces the average size of a building, so on a replacement value that will reduce the cost of every building in the school estate. Again, it is a very technical accounting decision that does not affect what happens in a school anywhere.

Q60 Suella Fernandes: Is that the £31 billion figure?

Peter Lauener: That would be quite a significant adjustment in the accounts this time.

Chris Wormald: To be clear what it is, that is not a change in the valuation of the estate, how much it is worth, it is the replacement value. Because we have introduced considerable efficiencies into how we build schools and therefore what it costs to replace them, that replacement value goes down considerably as a result of being more efficient.

Q61 Suella Fernandes: In May 2014 the Public Accounts Committee scrutinised your accounting practices and the capitalisation of assets and liabilities and highlighted that there were problems then in terms of the valuation and estimates and recognition of buildings and liabilities. Was any action taken then to remedy that problem?

Chris Wormald: It is different between those issues. As I said, on the ownership questions we took a positive decision that we would not spend large amounts of public money to fix that at that time and we are proceeding, as Richard described earlier, on, “Can we find a way of fixing that over time at a reasonable cost to the taxpayer?” We decided that because the information we produce is only useful if you are selling an asset. It is exactly like a bigger version of selling your own property, where it is only at the point of sale that someone discovers that there is an underlying trust deed or whatever and you rectify or you deal with that question at the point of sale. It does not affect you at all while you are simply occupying, so that issue is similar to that.

Then on the wider capital questions we have been doing a lot of work. Peter, do you want to describe that?

Peter Lauener: One other point, we are now looking at whether, over a period of time, we could bit by bit resolve some of these recognition issues. We are planning a new condition need study and we think that there might be occasion over the next few years gradually to pin down some of those issues. So that is a possible development over the next few years.

Q62 Suella Fernandes: The concern is that the capital costs of free schools and academies have been escalating and have exceeded estimates. For example, in the most recent round of free schools there was a greater proportion of the more expensive types, for example, secondary schools or special schools or those in more expensive areas, like London, the south-east and the south-west. The concern here is that there is a risk that the costs are going to exceed the available funding.

Chris Wormald: I will ask Peter to give you the detail in a moment. Our building costs are considerably down on previously, I think one third cheaper than—

Peter Lauener: It is 35% cheaper on the centrally managed building programmes than pre-2010, very significant.

Chris Wormald: The cost pressure—and this is not our building cost, it is land prices—there is a straight arbitrage, but of course the areas of the country where we are most in need of new school places also tend to be those with the highest land prices, so it is not a secret that we have considerable challenges both finding and procuring the right number of sites in London, because of course where there is high population pressure, you also get high land prices. That is a big issue for us. There are a number of things we are doing. Peter, do you want to describe our programme?

Peter Lauener: We have a very tight system for managing new investments in new schools. We are constantly comparing the average cost per pupil and of course it does vary for different kinds of school and obviously for different sizes of schools. Special schools, for example, will always be more expensive than other schools; London is more expensive because of land costs. We have a number of different criteria and when any new proposal comes up, we will always say, “Is this in line with averages and is it going to deliver value

for money?" I am very confident there is a pretty robust system in place for ensuring that we deliver good value for money for the taxpayer with those building programmes. I am very confident as well, on the basis of the research we have done, that we are delivering for the taxpayer 35% cheaper than pre-2010.

Chris Wormald: But the challenge of your question is a correct one, we are worried about the cost of land in those high-growth areas.

Q63 Catherine McKinnell: It is a bit of a continuation of Suella's questions and I am not convinced that you are comparing like with like with your 35% cost reduction claim. In terms of your ability to properly designate land and buildings within the capital programme, what proportion of those capital assets are in the difficult to designate category, because obviously the accounts said that there was little evidence of any of the £31 billion that has been allocated within the accounts, so it is just to what extent are they difficult to determine and to what extent has the work just not been undertaken to determine their ownership?

Peter Lauener: I can't give you an answer to that figure because we do not have that kind of detail, but the work I referred to that we are planning over the next few years will enable us to get to the bottom of that more clearly. But that is a separate issue, that is the recognition of the existing stock of school buildings and that is a separate issue from the cost of new buildings. We are very confident, first, what the costs are, secondly, on the comparison, and thirdly—to make an obvious point—on the ownership of new school buildings.

Q64 Catherine McKinnell: New school buildings, yes. No, I am talking about the current assets within the balance sheet that the National Audit Office have raised questions over, but also it is on the costs of establishing.

Peter Lauener: We will go away and see if we can put a number on it. I would have thought we can.

Q65 Catherine McKinnell: Obviously you have said already that you have made a positive determination that it is not a good use of taxpayers' money to invest the £20 million to £40 million initial cost of establishing ownership and then an ongoing cost of £5 million to £10 million thereafter, but you have said that you are going to be undertaking works. It is just to understand the extent of the issue and what you will be investing in trying to get as much of those capital assets properly designated in terms of ownership.

Peter Lauener: The work I referred to is at quite an early stage. It is something that we want to address because it has been raised by the National Audit Office. We think it is sensible to do it over a number of years as we manage the next condition survey of the school estate. Obviously there will be an extension to that and that would be a cheaper way of doing it than just doing it as an issue on its own. The work is at quite an early stage and I think it would be difficult for me to—

Q66 Catherine McKinnell: At the moment you do not know what the costs will be and you do not know the extent of the problem, or you are not able to tell the Committee?

Peter Lauener: We are at an early stage in saying, “What are the ways that we could address this issue?” It has been raised by the National Audit Office, and we think we ought to look at it to see if there is a sensible way of rectifying it over a number of years. Also, picking up your point, it is trying to establish what the true starting point is, because in a lot of cases it is a sort of unknown issue at the moment. So the first thing is to get to the bottom of the issue and we will probably find in a lot of cases it is not an issue.

Richard Calvert: It is not a question of saying we spend £20 million to £40 million or we spend nothing. I think the first thing we need to do is work out what proportion of schools genuinely have doubt about ownership. It may well be that the position we want to get to is not one where we have 100% clarity, it may be that 95% clarity is fine. The costs of establishing clarity in relation to a relatively small number of schools with complicated history is just not worth it for the school, for us or for the taxpayer. I think the first thing is pinning down what is the scale of uncertainty, because if this is the remaining issue that keeps us from clean accounts we want to understand what would be required to remove that now. That is not to say that we will automatically do so, because the cost will be important and if it is driven purely by accounting recognition rather than real-world benefit it may not be worth it. I think the first thing is just scoping out what it would take to reduce the uncertainty.

Chris Wormald: Why don’t we come back to the Committee when we have done some more work on that issue?

Q67 Catherine McKinnell: Yes, thank you. One more question, Chair, sorry. When the NAO said there was a lot of uncertainty, that is clearly the case, but presumably this is not a diminishing issue, it is a growing issue, and obviously the academisation transformation is happening on a continuous basis. Therefore the issue will be growing, not getting smaller.

Chris Wormald: Yes, growing for us. For the public sector as a whole, the issue is identical. These schools have been part of their local authority maintained system.

Q68 Catherine McKinnell: But in terms of your accounting.

Chris Wormald: Yes. In terms of our accounting it is a growing issue, but it is an issue where the process of conversion shines a spotlight on a question that no one has been interested in previously. As I say, for not bad reasons, if you have been a local authority school for 40 years and no one has worried about exactly which trust fund goes where, you probably wouldn’t ask yourself the question, “Shall we resolve that this year?” It is a historic issue that we inherit, the spotlight has been shone on it and we need to decide what we do with that.

Q69 Catherine McKinnell: In terms of public accountability, I think that is where the issue arises and therefore it is incumbent upon you to meet that challenge.

Chris Wormald: Yes, exactly. We agree with you, which is why we are looking at the question.

Peter Lauener: It may become more of an issue for local authorities, because the guidance for local authorities on this issue has just recently been changed.

Q70 Marion Fellows: If it a question of what academies own, buildings or lease, why wouldn't the independently audited accounts of each academy tell you what they have in terms of assets, in other words, what buildings they own?

Chris Wormald: In the vast majority of cases, they do. The issues are with very, very complicated arrangements, normally around Church land, where it was bequeathed several hundred years ago, frequently, and the ownership can be genuinely in doubt. No one has worried about it because the school occupies the site for the purposes of the school and continues, as I said, in exactly the same way as we sometimes find with domestic properties. You only get to the bottom of that, bluntly, by hiring a lot of surveyors and lawyers to look at the specific question in the way that you do when you sell an asset.

Q71 Chair: I have one question. Richard, you have been with the Department since September, I think, so you will probably be pleased to have arrived now. I was just wondering what your impressions are of the relationship between strategy, policy and financial management, given that has been central to this whole session?

Richard Calvert: I am delighted to arrive and to have inherited the new reporting framework. At least it is something within sight, so that is one thing to say about this session. It is a complicated organisation. My role is a new role in the organisation and I think we have created this role partly to give a stronger leadership around some of the central and corporate functions. My impression of the Department, coming into it, is that we have lots of people involved in strategic and financial management, quite reasonably, quite rightly. At the end of the day, we are largely a funding institution both on the revenue side and on the capital side and that those people have generally worked well together. But I think we can bring more coherence to some of the work that we are undertaking.

It is a good time to arrive in the sense that we have just had a Spending Review settlement that sees us through this Parliament. We have an ambitious programme to deliver; we have quite a lot of pressures. I think the Department is well-placed, but my priorities for the period ahead are that we have a good grip of the financial pressures, the risks, the priorities, that we are on top of our forecasting and our financial management and that we can anticipate both pressures before they arise, but also opportunities, so that if we find we are underspending in one area we can use the money well in another.

Q72 Chair: What would your principal goal be, if in two or three years' time you came before us again, happily and cheerfully, to say you had achieved that goal?

Richard Calvert: Fundamentally, if you are looking after the resources of the organisation, it is about whether we are using those resources to deliver the Minister's priorities and the Government's programme. That is, at the end of the day, what we are about. Financial Management, and I say this quite consciously, I do not think it is a goal in itself for me. Why we want to manage resources well is so that public money is spent well to deliver what the Government is setting out to deliver. I would like to be in a position where, yes, we are reporting more accurately and reporting better through our accounts, but we are confident that the money we are spending is representing best value for money for the taxpayer.

Q73 Catherine McKinnell: The Department has a director general, a director and a deputy director, all of whom are responsible for strategy. Could you just explain how those roles work, because it does seem with an outside eye to be a little top heavy?

Richard Calvert: In my area, there is a director of strategy, as you correctly say, who has been responsible for thinking about long-term direction and the future planning of resources. We have a finance director who has been responsible for the in-year management of resources and then we have a deputy director structure below that. Since my arrival, we have brought those two functions side by side in my area. We are consolidating two of the deputy director roles into a single role that will bring together both forward planning of resources and the in-year management of resources, which I think makes good sense in terms of how we approach the next three to four years. We are doing further work at the moment to look at the wider finance operating model across the organisation and to make sure that we have the links working as well as possible, and also that we have the links working as well as possible between Peter's teams in the Education Funding Agency, which obviously are responsible for the delivery of most of our spend, and the central teams. I think there is a little bit of simplification of the structure that is important, that is underway. I would be happy to provide more detail over time on exactly how that plays out.

Q74 Catherine McKinnell: As it is highly topical, because we had International Women's Day yesterday, I thought it would be helpful if you could just update the Committee on how many of the senior Civil Service positions within the Department for Education—perhaps this is one for Chris—are held by women in terms of numbers and percentage.

Chris Wormald: Yes, I will, once I find the right note. I brought this information with me because I thought you might ask, but if you will give me a moment.

Catherine McKinnell: You should know this.

Chris Wormald: I want to give you exactly the right numbers. Of the senior Civil Service in January 2016, 48% were women, so we are approaching 50%. For top posts, that is director levels and above, it is 46%, and the percentage of women for the Department as a whole is 58%. So we are still—and this explains some of our remaining gender pay gap—not representative at the top of the entire organisation, but we are ahead of the Civil Service average. Yes, I thought somebody might make that point.

Q75 Chair: In contrast to the Education Select Committee, Mr Wormald?

Chris Wormald: Yes, indeed.

Q76 Catherine McKinnell: Just looking at the board numbers as well, because obviously the Government has a target of having one-third of all members on boards by 2020 being women. I think your—

Chris Wormald: Yes, at 26% we are at 5 out of 19. Two of our last reappointments as non-executive directors have been women, but we do have more to do.

Q77 Catherine McKinnell: Can I ask what you are doing to address that, to make sure that you do reach—

Chris Wormald: We are across diversity, and I will not say we are doing this just for gender, because the numbers I have read out suggest that we have a very good story on gender. We are also worried about—and more concerned, if I am honest—ethnic minority representation at the top of the Civil Service and representation of disabled staff at the top of the Civil Service. I did not bring them with me, but those numbers are not as good as our numbers around women, so we wish to improve diversity on all counts. We published a new diversity plan in September to address a number of these issues, and as I am sure you know, there were no magic bullets to these issues. They are partly about how we develop talent and support talent from under-represented groups lower down the organisation and they are also about how we are changing our procedures and policies to try to eliminate bias. So we have trained all our staff in how to avoid subconscious bias.

The other big thing we are doing and we are trialling at the moment to see if it has a positive impact, alongside what the Civil Service generally is doing, is having name blind recruitment. We are trialling within the Department name blind promotion panels and we have just done the first of these to see if that improves our ability to get talented people from under-represented groups in front of promotion panels and then through promotion. We will see if that works. As I am sure you know, there is some evidence that those sorts of approaches can work very well and others that they do not, so we thought we would try that out. We will have to keep at it, as we have over time with those other under-represented groups within the Department.

Q78 Marion Fellows: Very quickly. How long is the short, medium and long-term from the Department's perspective and is that the same across Government? So short, medium and long term, how do you define it in the Education Department?

Chris Wormald: That is an interesting question. I am not sure I have a stock answer to that. Education is of course a very long-term game indeed, so the long term would be, at its shortest, the length of a child's educational career, so our long term we have measured over two decades. I am not sure we have ever defined short and medium term. It is a good question.

Q79 Marion Fellows: Interesting. Does anyone know how long that is across Government then?

Chris Wormald: I suspect we have one of the longer lead times within Government. Of course Departments such as the DWP have to think across entire lifetimes and where I am headed to at the Department of Health would also have very, very long lead times for some issues and very short for others. I doubt if there is a consistent picture across Government. I expect it is very contextual.

Q80 Marion Fellows: Interesting. Could I sneak in just one more, very quickly? Going back, we talked about the management systems and how you had brought in new software and so on. Can I ask, like CMRS, the four things you brought in, are they bespoke systems or are they off the peg?

Peter Lauener: They are off the peg.

Marion Fellows: Glad to hear.

Peter Lauener: The IT people we brought in had a lot of business commercial experience in business systems. I think that helped enormously in putting in really simple systems, because fundamentally, although we have talked about some very complex accounting issues, the fundamental business of calculating the allocation, issuing it and 12-monthly payments and getting assurance back is not that complicated.

Marion Fellows: Thank you, I am glad to hear that.

Q81 Chair: Thank you, Marion. Chris, just before I ask you a few general questions, could you just clarify by letter perhaps how the NAO explained that they wanted you to work from academies' published accounts, because there is a bit of lack of clarity about that?

Chris Wormald: No, sorry, I was not saying it was a specific NAO decision. I think that is general standing accounting practice, that we wanted to work off—that is correct, isn't it, Richard?

Richard Calvert: Yes, we are trying to avoid academies having to produce essentially two sets of accounts, so alongside their published accounts at the end of August, we are trying to avoid their having to produce a full accounting return at the end of March, so it is not so much that it is impossible to do one or the other or both. Once we have agreed that end August is a date that makes most sense for the vast majority of academies, then it is about avoiding doing the same work twice, really.

Chris Wormald: I should make clear that throughout this, the NAO is not a decision-taker. The decisions are for us. NAO are the independent auditor of what we decide to do and it is very important in the—

Q82 Stephen Timms: This goes back to what you said at the beginning of the meeting, that the task you have is fundamentally different from the task that local authorities have. They have been doing this for decades, but it is fundamentally different because academies have published audited accounts. It is not quite clear to me still why that is different and why you cannot get from academies the information that at the moment local authorities get from maintained schools.

Chris Wormald: Sorry, we can get that information, but that is not good enough for us to create a consolidated account.

Q83 Stephen Timms: But it is good enough for local authorities to produce consolidated accounts?

Chris Wormald: I am not here to comment on how local authorities do accounts, but in terms of central government accounting rules, we have to work off independently audited accounts, because otherwise how would we have confidence? The key difference—

Q84 Stephen Timms: Are NAO rules requiring you to do that or some other bit of Government?

Richard Calvert: I think it comes back to there is an element of policy choice here. It would be possible to ask an academy to produce a full accounting return that we could then attempt to use to consolidate, but—

Q85 Stephen Timms: Would it need to be a full accounting return?

Richard Calvert: It would need a substantial level of detail. Now, a local authority first is dealing with a much smaller number of schools, but also gathers information. A maintained school is not producing a full set of accounts. A lot of this is about managing a reasonable level of workload on financial returns.

Q86 Chair: Chris, you have been with the Department for four years, unlike Richard, measuring in months, but you are heading off to a new perhaps even more interesting area.

Chris Wormald: Equally as interesting.

Chair: I was just wondering what you thought was your finest achievement, in your view.

Chris Wormald: I have been trying not to answer questions like that, because of course the question for an Education Department, or indeed any Government Department, is much less what you do within the organisation, but what is the system doing out there and is it improving. The statistic we are probably proudest of since 2010 is the 1.4 million more pupils being educated in good and outstanding schools than previously, that is the sort of real world impact, and it is those sorts of things that I think the Department should be most proud of. I am proud of my whole Department, I have loved working there and it is my home Department in that it is the one where I started, and I am extremely proud of the people for the work that they do. I am not sure I can pick out individual things beyond that.

Q87 Chair: Richard pointed out that there is a settlement for the Department that is confirmed in long term, for the rest of the Parliament. I suppose you could say—using the famous Liam Byrne comment about, “There is no money left”—there is some in the Department, but you are not quite sure where it is. That joke aside, what advice would you give to your successor? Not on that subject, any subject, just a sort of letter to your successor, “Welcome to the Department”.

Chris Wormald: I had not really thought about that yet. I do not have a date for going, because they need to recruit my successor, so I will think about that rather more. What I normally say to people—not particularly my successor—about education and what makes good education is to always remember that eventually it comes back to the interaction between a teacher and a pupil, and what we need to judge everything we do by is are we actually doing things that assist that interaction to get a better outcome? If you have that test in your head, a lot of policy decisions become easier. To give you an example, when I think of the academies programme and school autonomy, I try to think of it in terms of who is the most likely person to know it is the thing that is going to improve that school next, and it is most likely to be the local leadership of that school, rather than people, however clever they are, who sit at desks at Whitehall, or indeed at local government level, and therefore we should empower those people. That is how I think about school

autonomy. So that is my normal advice to people about how to think about education policy, is to think of it in those terms.

Chair: Thank you very much. I think all of us would agree with that. Chris, I just want to thank you very much for coming before the Committee, for doing so in the past and being so full and frank in your answers. It is great to welcome Richard, and thank you, Peter, thank you all for today's information and answers to our questions.