

The Scottish Government

Empowering Teachers, Parents and Communities to Achieve Excellence and Equity in Education: A Governance Review

A Submission by:

**The Chartered Institute of Public
Finance and Accountancy**

January 2017

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

Any questions arising from this submission should be directed to:

Don Peebles

Head of CIPFA Devolved Government
CIPFA in Scotland
Level 3 Suite D
160 Dundee Street
Edinburgh
EH11 1DQ
Tel: +44 (0)131 221 8653
Email: don.peebles@cipfa.org

Alan Bermingham

Policy and Technical Manager
CIPFA Devolved Government Faculty
3rd Floor Arthur House
41 Arthur Street
Belfast
BT1 4GB
Tel: +44 (0)28 9044 6410
Email: alan.bermingham@cipfa.org

1. Executive Summary

- 1.1 CIPFA has undertaken a detailed review of the Scottish Government proposals to reform the provision of education in Scotland. In this submission, CIPFA places its principal focus upon the financial management risks associated with the proposed reform and on the specific governance issues.

Governance

- 1.2 There is no one enabling model or structure that can drive school-led improvement in excellence and equity. A comparison with educational reform in England revealed no material performance improvements for Academies when compared to local authority maintained schools.
- 1.3 We have concluded that structural change alone will not deliver improvements to educational outcomes.
- 1.4 CIPFA is the joint author of the CIPFA/IFAC International Framework: Good Governance in the Public Sector. We tested the proposed governance arrangements, in particular the creation of educational regions, against the international code. Any new structures put in place, such as regional bodies, and changes through transfer of responsibilities to schools will require new or strengthened governance arrangements to be put in place and codified at the earliest opportunity.

Financial Management

- 1.5 The scale of the reforms will result in around 2,500 schools potentially becoming individual business entities which will be outwith local authority control. The matters to be addressed include:
- Ownership of the school estate including PFI/NPD assets - clarity will be required over the proposed treatment, including transfer and/or ownership of £4bn of PFI/NPD financed assets, unitary payments of £17bn over the asset lives and the associated long-term debt. Evidence indicates that complications associated with PFI is an impediment to further reform in England;

- VAT - the VAT status of individual schools will have to be addressed;
- Capital investment - how future capital investment in schools will be financed will have to be set out. Only limited borrowing powers in the Scottish public sector exist outwith local authorities;
- transitional arrangements will be necessary to implement new regional bodies, including a shadow period, clarification of access to reserves and the model of resource allocation directly to schools;
- Funding - spending on education is funded by both the Scottish Government and the council tax payer. That future relationship will be distorted; and finally
- Public Financial Management skills and capacity – the requirement for head teachers to directly manage resources will require upskilling in financial management expertise at the school level. CIPFA has supported education reform in England by development of a suite of tools and materials to support the changing nature of the role of head teacher.

2. Introduction and background

- 2.1 Within the consultation paper,¹ the Scottish Government states its commitment to extending to schools responsibilities that currently sit with local authorities and to allocating more resources directly to head teachers. This change would therefore enable head teachers to take decisions based on local circumstances in order to give all children and young people the best chance of success.
- 2.2 Evidence gathered by the Scottish Government points to the conclusion that while deprivation and poverty do have an impact on attainment levels, there are a number of other factors that have a significant influence on the variation found in attainment levels between councils.² These factors include the quality of teaching and how school leadership has a material impact on a child's outcomes.
- 2.3 This evidence supports the Scottish Government's view that reviewing governance arrangements to empower teachers and extending resources and responsibilities away from local authorities, directly to head teachers, is essential to success in delivering excellence and equity in education.
- 2.4 This change represents not only a change in legal responsibilities for local authorities in Scotland, but also a fundamental shift in how public finances invested in education are managed and controlled. CIPFA's objective contribution to this review will be as follows:
- review of the available evidence within the UK and internationally which underpins the core assumptions; and;
 - an examination of the key financial management considerations associated with public service reform of this scale.

¹ Empowering teachers, parents and communities to achieve excellence and equity in education: A Governance Review by the Scottish Government, section 4 – September 2016

² Improving Schools in Scotland: An OECD Perspective – OECD 2015; and Audit Commission report: School Education, prepared by Audit Scotland, June 2014

3. Governance of Scotland's Education System

- 3.1 The Consultation paper identifies the multi-level nature of the system of education in Scotland. This involves the Scottish Government, Local Government and a range of government agencies and other bodies involved in the delivery of education services.³
- 3.2 This multi-level structure does mean that while there are common principles of good governance throughout the delivery system, there are also some differences in the frameworks that are applied. Within Central Government bodies the governance framework and core principles are set out in the Scottish Government's guide for board members of public bodies.⁴ In Local Government, the governance framework and core principles are set out in the CIPFA/SOLACE publication on delivering good governance in local government.⁵
- 3.3 The consultation document notes that the OECD found that there are five key components to good governance in education systems. The consultation also recognises that the financial context in recent years has been challenging, not just in education, but for the public sector as a whole.
- 3.4 CIPFA also recognises this challenging context and advocates that there is a far greater need for collaboration and alignment of service deliver to achieve outcomes for citizens within a stricter financial regime. In support of such changes, CIPFA and the International Federation of Accountants (IFAC) developed a new International Governance Framework in 2014, which is adopted within Local Government practice in Scotland.
- 3.5 In order to make an assessment of the current strengths of the governance arrangements for Scottish Education, *Figure 1* below compares the core principles applied in the Scottish Government and Local Government frameworks alongside the core components identified by the OECD for good governance in education systems.

³ Section 2. Empowering teachers, parents and communities to achieve excellence and equity in education: A Governance Review by the Scottish Government - September 2016

⁴ Scottish Government: On Board - A guide for Board Members of Public Bodies in Scotland (April 2015)

⁵ CIPFA/SOLACE: Delivering Good Governance in Local Government: Framework (2016 Edition)

Figure 1. Core governance principles across frameworks

Scottish Government	Local Government	OECD
Focus on the organisation's purpose and on outcomes for citizens and service users.	Defining outcomes in terms of sustainable economic, social, and environmental benefits.	Effective governance focuses on processes and not structures.
Perform effectively in clearly defined functions.	Determining the interventions necessary to optimise the achievement of the intended outcomes.	It is flexible and can adapt to change and unexpected events.
Promote values for the whole organisation and demonstrate the values of good governance through behaviour.	Developing the entity's capacity, including the capability of its leadership and the individuals within it.	It works through building capacity, stakeholder involvement and open dialogue.
Take informed, transparent decisions and manage risk.	Managing risks and performance through robust internal control and strong public financial management.	It requires a whole system approach, aligning roles and balancing tensions.
Develop the capacity and capability of the governing body to be effective.	Implementing good practices in transparency, reporting, and audit, to deliver effective accountability	Effective governance harnesses evidence and research to inform policy and reform.
Engage stakeholders and make accountability real.		

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
--

Ensuring openness and comprehensive stakeholder engagement.
--

3.6 Fundamental to the Local Government framework and principles above is to ensure that entities achieve their intended outcomes and act in the public interest at all times. The final two statements directly above outline the requirements of acting in the public interest.

3.7 The CIPFA/IFAC framework positions the attainment of sustainable economic, societal and environmental outcomes as a key focus of governance processes and structures. It also puts a focus on sustainability and the links between governance and public financial management. CIPFA believes that it is consistent with the five key components of effective governance in education identified by the OECD in the table above in that:

- The OECD components include harnessing evidence and research to inform policy and reform.
- The CIPFA/IFAC International Framework includes the principles of defining outcomes and determining interventions. This is underpinned by rigorous analysis of a variety of options and assessment of risks to determine how to best achieve outcomes.
- The OECD components identify the need to build capacity and stakeholder involvement for effective governance.
- The CIPFA/IFAC framework includes the principles of developing an entity's capacity including the capability of its leadership as well as ensuring outcomes and comprehensive stakeholder involvement.
- The OECD components identify the requirement for a whole systems approach, aligning roles and balancing tensions.

- Although most governance codes focus on delivering good governance practices at an organisational level, the CIPFA/IFAC framework notes that the fundamentals of good governance remain the same for both an individual entity and the funding/service delivery system of which it is a part. The Framework, therefore, aims to be relevant not only to the individual entity, but also for the whole delivery system, which may be sub-national, national, or international.

3.8 CIPFA advocates that the current Scottish Government governance framework be updated to remove the focus on an individual organisations purpose towards a focus on outcomes and acting in the public interest. This would further underpin the objective of achieving outcomes in the National Performance Framework as well as supporting delivery of equity and excellence across education.

3.9 The Scottish Government should also recognise that with increased responsibilities for resources at school level, further work will need to be undertaken to anticipate the need to strengthen governance arrangements in schools that take on more direct resource management responsibilities. Schools will need to consider if they have the necessary governance skills and expertise to take over responsibilities that currently sit with Local Government bodies.

Conclusions and recommendations:

- **CIPFA’s comparison of the current governance frameworks demonstrates consistency with the OECD findings on the five key components of good governance of education systems;**
- **The modernised Governance Principles within the CIPFA/IFAC International Framework would provide the basis for a new governance framework in full support of the Scottish Government’s outcomes for education;**
- **Within the Scottish Governments framework, the focus on an individual organisations purpose should be replaced with a focus on outcomes and acting in the public interest. This would support the objectives of the National**

Performance Framework as well as equity and excellence across education; and

- **Implementation of a new governance framework, will be required.**

4. School Improvement Models

4.1 The Scottish Government's consultation paper proposes a range of structural changes that aim to improve excellence and equity in Scottish Education. These include:

- Extension of responsibilities to individual schools which are currently administered and managed by local authorities;
- allocation of resources directly to head teachers and;
- introduction of a series of new bodies described as 'educational regions'

4.2 The proposal to move schools from the control of local authorities means that the appropriate enabling model will require to be developed. This model would need to ensure:

- the appropriate level of accountability;
- satisfy the (existing) legal duties of the local authorities; and
- that educational improvements are possible.

4.3 The OECD report⁶ does not prescribe a model to be followed. It does however make recommendations in support of helping to move the Curriculum for Excellence and the Scottish system to be among those leading the world. It should be noted that the report recommendations provide a focus on outcomes rather than the structure of the school system itself.

4.4 We have reviewed education reform within the UK. In England the improvement model that has been widely supported is the development of academies.⁷ Academies are schools that receive public funding through the Department of Education, but operate independent from local authority control. The terms of these arrangements are set out in the individual academies funding agreement.

⁶ OECD Report Improving Schools in Scotland: An OECD Perspective, 2015

⁷ Academies were originally created under the Learning and Skills Act 2000 (referred to as 'City Academies'). The term 'Academies' was brought about in the Education Act 2002 and the increase in the ability of schools to convert to academy status was enabled in the Academies Act 2010.

- 4.5 We have assessed what evidence is available to demonstrate the extent to which the Academy model has delivered improvements in educational attainment. A review of the available evidence from Ofsted inspections completed up to February 2016⁸ in England shows that 86% of Local Authority maintained schools were rated good or outstanding, compared to 82% of Academies.
- 4.6 We did note that the data was affected by a number of factors that can distort results as follows:
- modifications to the Ofsted inspection framework since September 2012;
 - Schools that move from local Authority status to academy status will affect that data as Ofsted retain the data of converter academies. Note, the academy figures above include converter and sponsored academies;
 - a reduction in the frequency of inspection on good or outstanding schools which may have the impact of inflating good or outstanding schools in aggregated figures.
- 4.7 Taking account of the factors noted above, the inspection data can be presented to include only inspections under the September 2012 framework and exclude predecessor grades of converter academies. Presenting the data this way actually increases that gap between Local Authority maintained schools and Academies. The schools rated good or outstanding being 81% and 73% respectively. CIPFA has concluded that there is no evidence of improvements.
- 4.8 In the Consultation paper, the Scottish Government state its commitment to introducing new educational regions to ensure best practice is shared and to ensure improvement is driven collaboratively.⁹ The OECD report also called for more effective partnership amongst partners at a local and regional levels in what it refers to as a 'strengthened middle'.¹⁰ The 'middle' is expressed as

⁸ Data is taken from the analysis of [Ofsted](#) 2015 published statistics and [Watchsted](#) data presented in [Angel Solutions Report](#): Inspection Statistics for LA Maintained Schools and Academies 2016.

⁹ Section on Educational Regions in the Governance Review by the Scottish Government, September 2016 – 'Empowering teachers, parents and communities to achieve excellence and equity in education'.

¹⁰ Executive Summary - OECD Report Improving Schools in Scotland: An OECD Perspective, 2015

those bodies that operate between central government and the Schools.

4.9 There is however some evidence from a range of local authorities on models adopted¹¹ within this middle tier which enables school improvement. Some of these models involve the local authorities setting up specific bodies or vehicles that:

- develop a long-term vision and strategy for teaching and learning to which all partners are formally committed;
- develop a framework for school-to-school support; and
- embed evaluation and challenge as part of the process.

4.10 Such models provide a mechanism to support primary responsibility for improvement resting with the schools. The wider middle tier provides the enablers to support the schools and school leaders to take greater responsibility. This is irrespective of the type of school involved. This model also provides for the role of the local authority in accountability and in discharging its legal responsibilities for education through its involvement and representation on these bodies.

Conclusions and recommendations:

- **evidence from school inspections in England indicates no material performance improvements for Academies when compared to local authority maintained schools;**
- **there is evidence that a strengthened middle tier, (whether as part of a local authority or through separate regional bodies) can drive improvement;**
- **any strengthened middle tier will require robust governance arrangements to ensure improved collaboration and cooperation across the delivery system.**

¹¹ National Foundation for Educational Research (nfer) Summary Report: What works in enabling school improvement? The role of the middle tier, April 2013

5. International School Improvement Models

- 5.1 Evidence internationally points to a conclusion that there is no one uniform method of enabling school-driven system leadership. The National Foundation for Educational Research (nfer) reviewed a range of approaches including local authorities, school networks and federations and national organisations that fulfil the role of the middle between schools and central government.¹²
- 5.2 Nfer found that in each case, the structures used in successful systems internationally share a number of common characteristics and behaviours. These characteristics and behaviours are consistent with a school-led model of support in which systems, leaders and the work force contribute to a self-improving culture.
- 5.3 In these systems school improvement activity is focused on the work taking place in schools. The middle tier successfully harnesses the capacity and professional expertise on the ground for the benefit of the education system as a whole. This is characterised by the following key features:
- there is a clear and shared understanding of the challenges and opportunities confronting schools, based on thorough monitoring and a rich evidence base;
 - there is strong leadership that respects practitioners professionalism and motivates their enthusiasm, that is provided by school leaders and the middle tier;
 - schools take responsibility for the education system as a whole and do not confine their attention to their own specific institution; and
 - all staff contribute to the process of school improvement through distributed leadership.

Conclusions and recommendations:

¹² National Foundation for Educational Research (nfer), 'Enabling school-driven system leadership', October 2012. Reviewed international arrangements for governance in Canada, Australia, Finland and the United States covering middle tier structures. <https://www.nfer.ac.uk/publications/MTSL01>

- **Research suggests that there is no one enabling model or structure that can drive school-led improvement in excellence and equity; and**
- **A reformatted and strengthened middle tier can drive improvement.**

6. Public Financial Management

- 6.1 School based education in Scotland currently consumes around £5 Billion annually. At the core of the proposed reform is allocation of resources directly to head teachers. Consequently, financial management responsibilities which are currently undertaken by local authorities will be undertaken by head teachers.
- 6.2 This section of CIPFA's response identifies the key issues to be addressed for this scale of reform. The need for careful planning ahead for these changes in order to minimise any financial management risks is also described.
- 6.3 Additional skills will be required to financially manage schools on an operational basis. It is feasible that a chief financial officer or chief operating officer role will be required to effectively manage increased financial resources across education regions or collaborating sites.¹³
- 6.4 In CIPFA's role as the professional body for finance professionals in the public sector, it is our strong professional view that as part of finalising any plans or policies resulting from this consultation, the Scottish Government will need to provide for detailed planning for any implementation of new arrangements with the assistance of stakeholders.
- 6.5 Planning for implementation of what will be a new system of public financial management will have to include:
- Financial governance and leadership arrangements – accountability and budget arrangements for head teachers and/or education regions;
 - Financial planning – requirement for longer term planning and alignment of the financial planning period;
 - Finance for decision making – information requirements required locally (at school level) at education region level and at government level;

¹³ National Governors Association (nga) What makes a headteacher “executive”? The role and responsibilities of executive headteachers in England, Jan 2016

- Financial monitoring and forecasting – periodic reporting internally and externally of financial performance; and
 - Financial reporting – financial reporting and auditing requirements at school level and for education regions
- 6.6 Implementation planning to ensure smooth transition can be categorised into three identifiable periods:
- the period prior to any reforms – typically one to two years prior to formal introduction;
 - a shadow period – a period typically one year where both new and old systems operate concurrently; and
 - a post reform period – a period to enable objective assessment of success.
- 6.7 Within the period prior to reform, any new regional bodies, the schools and local authorities must have an opportunity to assess the risks involved in transfer of responsibilities and financial resources. This will be vital to ensure a sound financial control environment and put in place the processes and procedures to take over management of those responsibilities. This will include, but not limited to, the management of assets, transfer of staff if required, borrowing and investments, information technology and contractual and procurement arrangements.
- 6.8 The consultation document does not set out any detail on potential transition arrangements. CIPFA would recommend that a shadow period commensurate with the scale of the change should form part of the transition arrangements. The shadow period would enable local authorities, schools and new regional bodies to design and develop:
- A detailed plan of implementation with clear timescales and milestones;
 - The appropriate control environment within schools and newly created regional bodies;

- Negotiation over availability of resources such as reserves
- Clarity on the extent to which financial management will be delegated; and
- Development of internal new financial policies and procedures including financial regulations.

6.9 Post any period of reform, CIPFA would recommend that attention is given to how the outcomes of the reform have been delivered. This must also include consideration of the regulation and inspection that supports education governance arrangements and the administrative burden that this can create.

6.10 The consultation paper itself identifies a range of bodies that are involved in the support, delivery and regulation of education in Scotland. In CIPFA's joint submission with the Directors of Finance section to the Commission for the Future Delivery of Public Services (the Christie Commission), CIPFA advocated that a single scrutiny body should be introduced.¹⁴ The spirit of that comment was that the burden of scrutiny should be proportionate. CIPFA would reaffirm that any proposed reforms should have regard to the burden of scrutiny and regulation faced by schools and education bodies...

6.11 CIPFA supports the need for development of the appropriate financial skills. CIPFA and the National Association of School Business Management (NASBM) have worked in partnership to develop and provide high quality training for school business management professionals. CIPFA in association with NASBM has developed an accredited certificate in School Financial and Operational Leadership¹⁵ specifically to develop the necessary skills for this enhanced role.

6.12 Resources for schools not only include staff costs and financing day to day running costs, but also control of the budgets and resources for the school estate and upkeep. A key area to be addressed will be the transfer of school property estate including the associated

¹⁴ Submission to the Commission for Future Delivery of Public Services, CIPFA, Local Government Directors of Finance (March 2011)

¹⁵ CIPFA NASBM Level 7 Certificate in School Financial and Operational Leadership
<http://www.nasbm.co.uk/Event-Details.aspx?ID=a03b000000yLl1HAAS>

outstanding debt. This includes assets and liabilities associated with the Scottish schools PFI/NPD estate which we now examine in more detail.

6.13 In Scotland, as at 31 March 2015, data shows there were 57 school PFI/NPD projects.¹⁶ These schools have a capital value of £4bn with unitary payments of £17bn over the life of the contracts. These payments are expected to reach a peak of £600m per annum in the period 2020/21 to 2029/30. Per capita, Scotland has the highest number of PFI schools anywhere in the UK, 40% of PFI schools with 8.5% of the population.¹⁷

6.14 To enable changes in control of these arrangements either through direct funding arrangements with schools or through new regional bodies, there would need to be arrangements in place to:

- enable rebalancing of the funding between the Scottish Government and Local Government to account for the on-going commitments for PFI/NPD arrangements; and
- identify the level of debts to be held on school/education region or Scottish Government Balance Sheet. In the case of the Scottish Government overall capacity for debt and borrowing would have to be managed.

6.15 The figures above would also suggest that Scotland's position in relation to legacy funding of these projects is sensitive to financial viability risk. Transfer to either a regional body or directly to schools will require careful consideration of future viability. Conversely, if liabilities remained with of local authorities, in practical terms it would mean that a part of the funding for the future liabilities would continue to be borne by council taxpayers¹⁸ even though the local authority no longer controlled the assets.

¹⁶ Scottish Government: Statistical information relating to NPD and PPP/PFI projects in Scotland.

<http://www.gov.scot/Topics/Government/Finance/18232/12308>

¹⁷ The Guardian: Private finance initiative Opinion

<https://www.theguardian.com/commentisfree/2016/apr/12/edinburgh-schools-pfi-racket-crumbling-scotland-tax-avoiding-governing-class>

¹⁸ Accounts Commission: An overview of local government in Scotland 2016 – reports that 60% of council funding is from the Scottish Government. The balance being raised locally by councils in the form of Council Tax, Service Income Fees and Charges and Housing Rents.

6.16 Evidence into how academies are dealing with this level of future liabilities in England does suggest that there are significant concerns associated with the long-term commitments to PFI deals. Academies are facing static or reduced budgets and, in many cases, rising PFI payments which are indexed within the contracts.¹⁹ An investigation by Schools Week into PFI school projects and costs indicates that practical concerns over the levels of future commitments are impeding transfer of some schools from the state sector to academy status.²⁰

Conclusions and recommendations:

- **detailed planning for implementation of new arrangements will be central to the success of reform;**
- **Planning must consider the system of financial management as well as planning implementation prior to reform, during a shadow period and regulation post reform;**
- **improving to the skills and financial expertise of head teachers will be required. The CIPFA accredited certificate will enable demonstration of professionalism;**
- **responsibilities for school estate and future PFI/NPD commitments will require to be clarified. If any transfer requires recognition on the Scottish Government balance sheet, statutory restrictions on the level of debt will have to be;**
- **evidence in England indicates that concerns over the costs of PFI commitments are an impeding factor to planned further academy projects.**

¹⁹ Schools Week News: [Largest academy chain AET joins criticism of PFI costs](#) – Dec 2015

²⁰ Schools Week Investigation: [Who will pick up the tab for PFI?](#) – Nov 2016

7. Financial Reporting and VAT status of schools

- 7.1 Management of resources at school level (outside of local authority control) means that each school will likely have to undertake a range of financially management responsibilities and local record keeping. An increased administrative and regulatory burden will emerge. A burden which has not been the responsibility of the school previously. Additionally, and similar to any other business, schools will need to determine if they should register for VAT purposes. There are approximately 2,500 schools in Scotland²¹ and this represents an increased spread of the financial risks that need to be managed.
- 7.2 Education services provided by local authority schools, self-governing schools or academies are outside the scope of VAT. However, the school would still need to consider any other activities that can be considered business activities. This would include for example minor activities such as sales of uniforms, sports tuition for payment and sales of sports equipment.
- 7.3 From April 2011, legislation was introduced²² which enabled academies to obtain a refund of VAT incurred in their non-business activities. This is an amendment to the existing section 33b vat refund scheme that applies to local authorities. These rules are applied across the UK.

Conclusions and recommendations:

- **Schools with a greater degree of independence need to consider the financial management capacity, skills and risks of managing their resources and keeping financial records. This would include VAT registration and accounting;**
- **There is likely to be an increased administrative burden associated with this level of financial management with an associated cost implication.**

²¹ Data from the Scottish Government in 2013 shows 2,056 primary schools, 364 secondary and 149 special schools; a total of 2,569, December 2013

²² Clause 75 of the Finance Bill 2011 inserted a new section 33B (section 33B) into the VAT Act 1994, which will refund the VAT incurred by proprietors of academies in certain circumstances.

8. Funding Education in Scotland

- 8.1 Education currently represents the single biggest service spend in local authorities in Scotland and is of the order of £5bn. CIPFA supports the principles of making funding for education fair and transparent and based on identified need. The structural changes proposed in the consultation will however give rise to consideration of a number of practical funding issues. We examine one headline issue in this submission, the changing funding position between local government and the Scottish Government.
- 8.2 Depending on the final model, resource allocation is likely to be modified to divert funds from local authorities to enable direct allocation to schools. Alternatively, funding could be channelled through new regional bodies which in turn could be accountable to the Scottish Government. Currently funding from the Scottish Government is provided to local authorities where the responsibility rests with the democratically elected local authority to determine how those resources are spent. Any such change would clearly have a significant impact on the accountability of locally elected councillors.
- 8.3 Our analysis of this funding demonstrates that local authorities currently fund education services not only from Scottish Government resources but also from council tax and other resources available to the Authority (*see figures 2 and 3 below*).
- 8.4 Figure 2²³ below demonstrates that Scottish Government resource (day to day) which was budgeted for local government in 2015/16 was £9,895.4m. Budgeted spending in local government however was £11,877.1m, requiring a balance of £1,981.7m to be financed by local authority raised resources. Within the Local Authority budgeted figure of £11,877.1m, a sum of £4,764.7m was allocated to fund education services.
- 8.5 Further analysis of local authority spending demonstrated that in 2015/16, actual spending by authorities on education was £5.4bn.²⁴

²³ Data taken from the Scottish Government draft budget for 2016-17, Dec 2015

<http://www.gov.scot/Publications/2015/12/9056>

²⁴ Data taken from the Accounts Commission report: Local Government in Scotland, Financial Overview 2015/16, November 2016. The data source in this report is the audited financial statements for Scottish Councils

- 8.6 The funding issue this data presents is to identify that additional resources would be required to fully fund education directly. Future funding could continue to be sourced from local authorities. This would present an accountability issue where taxation is raised but there is no or limited influence over policy. Conversely, if the shortfall is sourced from the Scottish Government there is likely to be local pressure to lower council tax bills as a result. Whatever decision is made the current funding arrangement between local authorities and the Scottish Government will be disrupted.
- 8.7 A further funding issue to consider is the financing of future capital spending on the existing or on new school estate. *Figure 3²⁵* below shows that the Scottish Government budgeted for £861.3m of capital spending support in 2015/16 for local authorities. Councils themselves budgeted to spend £2,385.9m on capital expenditure plans in 2015/16. Of this figure, £785.9m related to education alone.
- 8.8 The additional capital financing by Local Authorities is raised through their ability to borrow or self-finance projects up to an affordable limit set locally. The Scottish Government however has a limited ability to borrow. The Scottish Government's borrowing powers are mainly related to smoothing the volatility in devolved tax raising powers rather than aimed at major capital investment. The source of any future capital financing funding stream will have to be a key consideration as part of the proposed reform.

Conclusions and recommendations:

- **spending on education is funded by both the Scottish Government and local government. Any new funding arrangement will require a rebalancing of the present funding relationship;**
- **there could be an adverse impact on future capital investment in the school estate with only limited Scottish Government borrowing.**

Figure 2:**2015/16 Scottish Government****Budget funding for Local Government**

	£m
General Resource Grant	7,004.0
Non-Domestic Rates	2,799.5
Specific Resource Grants	91.9
Total Resource	9,895.4
Support for Capital	716.2
Specific Capital Grants	145.1
Total Capital	861.3
Total Local Government Funding	10,756.7
<i>of which:</i>	
DEL Resource	7,095.9
DEL Capital	861.3
AME	2,799.5
	10,756.7
Total Local Government budgeted spend from Scottish Government Resources (excluding Capital)	11,877.1
<i>of which:</i>	
Education	4,764.7
Local Authority Financed Spending (£11,877.1 - £9,895.4)	1,981.7
Local Government Spending per Audit Scotland in 2015/16*	£18.3bn
<i>of which:</i>	
Education	£5.4bn

* Includes Interest Costs and Accounting Adjustments

Figure 3:

2015/16 Scottish Government

Budget funding for Local Government

	<u>£m</u>
Capital Resources to Support Local Government	861.3
Local Government Budgeted Capital Spend *	2,385.90
Local Authority Financed Capital Spending	<u><u>1,524.6</u></u>

* of which £785.9m relates to Education