

Related Party Transactions

Best Practice Guidance

This document seeks to provide further guidance to schools in managing Related Party Transactions (RPT) and formally recording the associated decision-making, thus helping to lower the administrative time requirement for RPT reporting and help maintain record keeping for audit purposes.

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Background

Since the introduction of the DfE requirement to report all Related Party Transactions (RPT) through their School Financial Value Standard (SFVS) submission from 2021/22 onwards, the Local Authority have found some common themes in responses from schools as well as some frequently asked questions.

Unlike in the academy sector, schools do not need to seek authorisation from the Local Authority (LA) for RPTs. However, the DfE requires confirmation from LAs that there are adequate arrangements in place in schools to manage any RPT, and also request that a complete list of RPTs are submitted through a template. Schools are required to provide confirmation that an appropriate procurement process has been carried out, and that the governing body approved the RPT. LA maintained schools must ensure transparency is upheld at all times, with proper procedures in place that justify the appropriate use of public funds and evidence the achievement of effective value for money.

While in some circumstances, a RPT may provide the best value for money, it is important to consider how the transaction may be perceived from an outside party. Documenting the approval process and how it represents best value for the school will protect the school.

A themed LA schools audit on RPT's found several areas within RPT reporting that required attention, and the recommendations are summarised as follows:

- A related party transaction is a contract or other agreement between the school and a person or entity that has close links with the persons awarding or the potential ability to influence the decision on contract or other purchasing agreement. All related party transactions must be identified and declared as part of the termly Related Party transaction return.
- Best value exercises must be undertaken to compare best value between the related party and alternative suppliers.
- Where a school has made a decision not to undertake a best value exercise for low value items, the value must be formally agreed and documented with the Governing body. The school must ensure that cumulative spend does not breach this amount and if it does the school must complete a best value exercise and report to the Governing body.
- Where direct awards have been made to a related party, the best value form, supplied by the Council, must be completed sufficiently, with enough detail to support the decision in advance of the direct award. A school should not describe general items as "bespoke projects" as justification of direct award.
- Within Best Value forms, there was generally a lack of detail to support the process of a direct awards being granted to a related party, with forms generally being completed retrospectively rather than prior to the transaction taking place. General items were being described as "bespoke projects" on the forms as justification of direct award.

- There must be evidence of segregation in authorising RPTs, and the related party should not be the person authorising the transaction. Schools must seek proof of insurances from related parties, which is a standard requirement for any third party working on site.
- Governors should scrutinise and challenge related party transactions as appropriate.

USEFUL LINKS

DfE Guidance:	Checklist guidance - GOV.UK (www.gov.uk)
Procurement & Contract Procedure Rules (Chapter 2.3)	School Finance Manual CYPInfo (northyorks.gov.uk)
Best Value Form	Procurement & Best Value CYPInfo (northyorks.gov.uk)

Advice & Guidance

Approval from the Governing Body

The LA recommends that all related party transactions **should be approved by the governing body in advance of the transaction taking place**. If circumstances prevent this, for example the transaction relates to emergency (i.e. genuine and imminent risk to the health and safety of children and staff) works that must be carried out immediately, it should be reported and approved retrospectively at the next Governing Body meeting. On the template for recording related party transactions, schools may then select **Yes** to 'Did the governing body approve the RPT?' but should make a note of the surrounding circumstances in the comments section.

Governing Bodies may wish to formally delegate the authorisation of RPTs under a specified value (taking into account the cumulative value of any spend) to the Headteacher.

KEY POINTS: Governing Body delegating authorisation of RPT's to the Headteacher

- ✓ The decision to delegate authorisation of RPT's under a specified value must be recorded in Governing Body minutes, and reviewed on an annual basis
- ✓ The specified value must consider **the cumulative value of any spend**.
- ✓ If delegated, it's the responsibility of the Headteacher to track cumulative spend and seek prior approval from the Governing Body if the specified value is going to be reached.
- ✓ **A termly report must be provided including the schedule of the authorised transactions to Governing Body**
- ✓ **A headteacher should not approve any RPT's, irrespective of value, where they are the related party.** Where this is unavoidable, assessment against alternatives must be carried out to determine necessity of the RPT, then **pre-approval of the supplier must be granted by the Governing Body**, with a documented approval limit set for annual spend if the supplier is to be used more than once. The RPT should be reviewed by governors again once this limit is reached.

Any RPT's over the delegated value, require **pre-approval** from the Governing Body (or the Chair of Governors where urgent approval decision is required)

See [Appendix 1](#) for an outline of the **Governors Approval Flow Chart**, to help determine whether you should answer Yes or No to 'Did the governing body approve the RPT?'

Governors Approval template - a suggested template is appended that schools may wish to utilise to keep a record of RPTs approved by the Headteacher to report to Governors, to explain any decisions made and, where appropriate, receive approval retrospectively. [Appendix 2](#) shows an example of a completed Governors Approval form.

Governors Responsibilities:

- We would expect the Governing Body to review RPTs prior to the transaction going ahead, ensure the correct process was followed, and provide approval where appropriate. If not, there must be correct justification and follow through action.
- Governors must make the decision whether they will delegate authority to the Headteacher, and formally agree a cumulative threshold (documented within meeting minutes)
- Review the termly report from the Headteacher outlining delegated approvals of RPTs and give retrospective Governing Body approval.
- Provide challenge to RPTs to ensure best value is prioritised to ensure effective use of public funds

Appropriate Procurement Process

Schools should follow the Procurement and Contract Procedure Rules, which can be found in Chapter 2.3 at: [School Finance Manual | CYPInfo \(northyorks.gov.uk\)](#)

It is the expectation when considering a RPT that the school should undertake an appropriate procurement process. Where the estimated **cumulative** expenditure with a single supplier is less than **£30,000** (taking into account the whole life cost, including extensions and/or variations and excluding VAT) **a minimum of three quotes should be sought**. If this is not possible, for example the product or service is very niche and no other providers can give a quote, then this must be noted and a **Best Value form** should be completed.

Of the three quotes; a minimum of one quote must be from a Small and Medium Enterprise (SME), Voluntary, Community or Social Enterprise (VCSE) or local supplier based within North Yorkshire, unless this is not possible due to the nature of the market.

The **Best Value form** can be found at:

[Procurement & Best Value | CYPInfo \(northyorks.gov.uk\)](#)

Best value forms must be completed with enough detail to support the process, justify the reason that quotes could not be given, and should be completed in advance. This has been highlighted as an area of weakness within the RPT audit. It is important these forms are kept within the school's records and must be available for review. An example of a completed best value form can be found appended to this guidance ([Appendix 3](#)).

If this process detailed above is followed then on the template for recording related party transactions schools may then select **Yes** to 'Was an appropriate procurement process followed in accordance with your local authority's procurement rules?'

While for very low value items (the value of which should be documented and agreed by the Governing body) a competitive tendering process may not be deemed necessary, a school should always seek to achieve and demonstrate best value. In respect of low value RPTs, schools should be able to demonstrate the measures implemented to evidence effective and appropriate use of public funds.

FAQ's & Examples

1. *Should a Related Party transaction never happen?*

The principle is not that related party transactions should never happen, but that effective procedures should be in place to ensure that open and transparent procurement procedures are followed, and any potential conflicts of interest are declared and then adequately and appropriately managed. School leadership and Governors need to consider the potential for greater scrutiny and public interest in related party transactions.

2. *What related party transactions might arise in schools and need to be declared?*

A related party transaction is a contract or other agreement between the school and a person or entity that has close links with the persons awarding or the potential ability to influence the decision on contract or other agreement.

A member of the governing body, or a member of staff, or a close relative of such a person, might have a stake in a company or organisation that was bidding for a contract to be awarded by the school. The governor or member of staff concerned must declare this interest as it arises and take no part in the procurement procedure.

Related Party Transactions apply to anyone within the school who has the potential ability to influence a purchasing decision, not just governors. For example, an art teacher buys art supplies from a company owned by their partner. Or the headteacher purchases computers from a company, where his wife is a manager within the company.

The company may provide the best value for money, but in order to ensure propriety, including perception by others, the connection should be declared, and a record should be kept of how the school came to the decision to use the company.

All related party transactions must be declared.

3. *Is it only written contracts with a start and end date, or are those supplied on a one-off or fairly regular basis for small amounts but without a contract need to be included?*

No, it is all transactions. Related Party Transactions cover any agreement between the school and a person or entity with close links with the person awarding the work. While individual transactions may be small, over time these can build up to larger amounts, and so such transactions should be declared as they occur.

Even if the Local Authority ultimately decides the transaction is not concerning, schools are advised to err on the side of caution, protecting both themselves and the authority.

Example: A local coach company owned by a governor is used for school trips. There is no contract in place, but the company is booked on an ad hoc basis each time with no procurement process being undertaken due to the existing relationship between the school and the company, and a

general satisfaction with the service received. The appropriate procedure in this case would be to seek three quotes from alternative companies each time school trip transport is needed, with governor approval to use the service. The related party should take no part in either process.

In the above case, it could be that the governors approve the use of the company under certain conditions, for example if quotes are sought at each time of booking, or under assurance that it is the only coach company in the area and that a market assessment is undertaken twice yearly.

4. Does the requirement to record related party transactions apply to the recruitment of staff?

The recruitment of directly employed staff does not need to be declared as a related party transaction. However, the expectation would be that the governor or member of staff concerned must declare this interest as it arises and take no part in the recruitment and selection process e.g. if a relative is applying for a post at the school

However, where staff are employed via a company or organisation with a related party this would still fall under the requirement to be recorded as a related party transaction.

Examples: A teacher's wife is a director of a sports company that provides PPA and lunch time cover at a school, this should be included as a RPT and the related party (the teacher) should take no part in the procurement process.

A governor's husband is the director of a company used for the provision of supply teachers/cover staff. These transactions will need to be included as a RPT and the related party (the governor) should take no part in the procurement process.

5. What if an existing related party transaction is not properly documented?

The DfE advises that steps should be taken immediately to document the procurement process. If this raises concerns of impropriety, it may be considered whether the school ought to extract itself from the agreement. In some cases, appropriate legal advice may need to be sought.

Example: A 24-month contract for a cleaning service run by a teacher's brother has been in place for 12 months. This contract was approved by the governors, but no competitive tendering process took place and three quotes were not sought. When the contract is up for renewal, the school should undertake the proper procedures to remove all appearance of impropriety, even if they are confident they are already receiving the best value for money.

It is most important that the school documents the decision that was made and the reasoning behind it.

6. What if the transaction is for niche goods and services, and alternative quotes cannot be sourced?

Schools must ensure that the product is truly niche/bespoke and there is justification for needing this rather than a general product, an example would include specialist health and safety equipment as recommended by Health and Safety.

Where a competitive tendering exercise cannot be completed or three quotes cannot be sought, schools must complete a Best Value form, in order to fully document all details of why the transaction is taking place and how the school has arrived at the decision. The form can be found at: [Procurement & Best Value | CYPInfo \(northyorks.gov.uk\)](https://www.northyorks.gov.uk/cypsinfo).

Best value forms must be completed with enough detail to support the process, justify the reason that quotes could not be given, and should be completed in advance. This has been highlighted as an area of weakness within the Related Party Transaction audit. It is important these forms are kept within the school's records and must be available for review.

7. What if the amount of the transaction is below the school's threshold for undertaking a procurement process?

Where a transaction is below the school's agreed threshold for undertaking a procurement process, the school should consider how the transaction may be perceived. For example, if a school were to buy sandwiches from a local shop for an amount below the threshold, it is probably no further action would need to be taken. However, if the shop was owned by a governor's spouse, the school may wish to source and record alternative quotes or complete a best value form. Being able to provide evidence a fair and open process when completing the purchase will protect the school from any perception or allegations of impropriety.

This threshold may have been agreed because transaction is deemed at such a low level that it would be impractical to complete an appropriate procurement process e.g. three quotes. This amount is at the discretion of the Governing body and must be formally agreed and documented, although smaller multiple transactions should be monitored in case these mount up to a more significant amount. An assessment of best value will need to be put in place if the cumulative annual spend breaches the school threshold.

8. Is it only family members who count as a related party?

While family members would most likely be included, the definition of a related party extends to anyone who could be seen to influence the purchasing decision. For example, your partners parents would be deemed a related party. It is ultimately at the discretion of the school which transactions to declare; however the Local Authority advises to err on the side of caution so as to protect themselves, and it is advised a record is kept of the school's reasoning.

9. Does a related party transaction always have to have governor approval?

Related Party Transactions **always** need Governor approval. However, for some smaller amounts if the Headteacher has delegated powers to authorise these transactions or in the event of an emergency, it may be acceptable to report these retrospectively in a termly report to governors. If this is the case, the school may tick 'Yes' to the appropriate column on the form.

10. Does the requirement to record related party transactions apply when a governor employed in a service purchased by the school? For example, a North Yorkshire County Council FMS officer is the Chair of Governors of a school that purchase our FMS services.

The DfE guidance [Checklist guidance - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/checklist-guidance) states:

Contracts or agreements with the school's maintaining local authority or with trustees of a voluntary school **are not to be treated as related party transactions**. Working through a school company set up by the school is also not a related party transaction: on school companies see [The School Companies Regulation 2002](#). In this scenario detailed, it would still be expected that a declaration of interest was made and that the Chair of Governors took no part in the decision making in respect the school's purchase of finance support services.

11. What if there is a situation which is not covered in this document?

If there are any questions about any circumstances not covered in this document, the school is advised to contact the Local Authority for further guidance. The school financial governance team can be contacted at: schoolfinancialgovernance@northyorks.gov.uk. If in doubt, it is recommended the school protect themselves by considering how any transaction could be perceived externally, and to maintain caution by formally recording the decision-making process.

12. What if a related party transactions falls below the expected standards or work is not completed?

Any contract which does not meet the expectations set out when the transaction was made should be treated in the same manner as any other, despite any familiarity.

13. Following on from the recent themed LA schools audit on RPT's, what are the key actions for a school to take away?

The audit findings presented several key focus areas for review within schools, to ensure best practice is maintained when recording and reporting on RPTs. The key findings outlined were:

- All RPTs must be declared
- Ensure that RPTs are monitored for their **cumulative spend throughout the year**, to ensure that if they are due to exceed the set threshold for delegated approval. If transactions exceed the delegated approval threshold, correct processes for approval must be followed.
- Ensure that where **Best Value forms** are necessary (when it is not possible to obtain three quotes), they **contain sufficient detail** to support the process of a direct award being granted to a related party.
- Best value forms should be completed **prior** to the transaction taking place.
- Ensure that Best Value forms are only used when it is not possible for 3 quotes to be gained. Take care to not describe General items were as "bespoke" on the forms as justification of direct award.
- Ensure there is **sufficient segregation of duties** when authorising RPTs. Ensure the related party is not the person authorising the transaction.

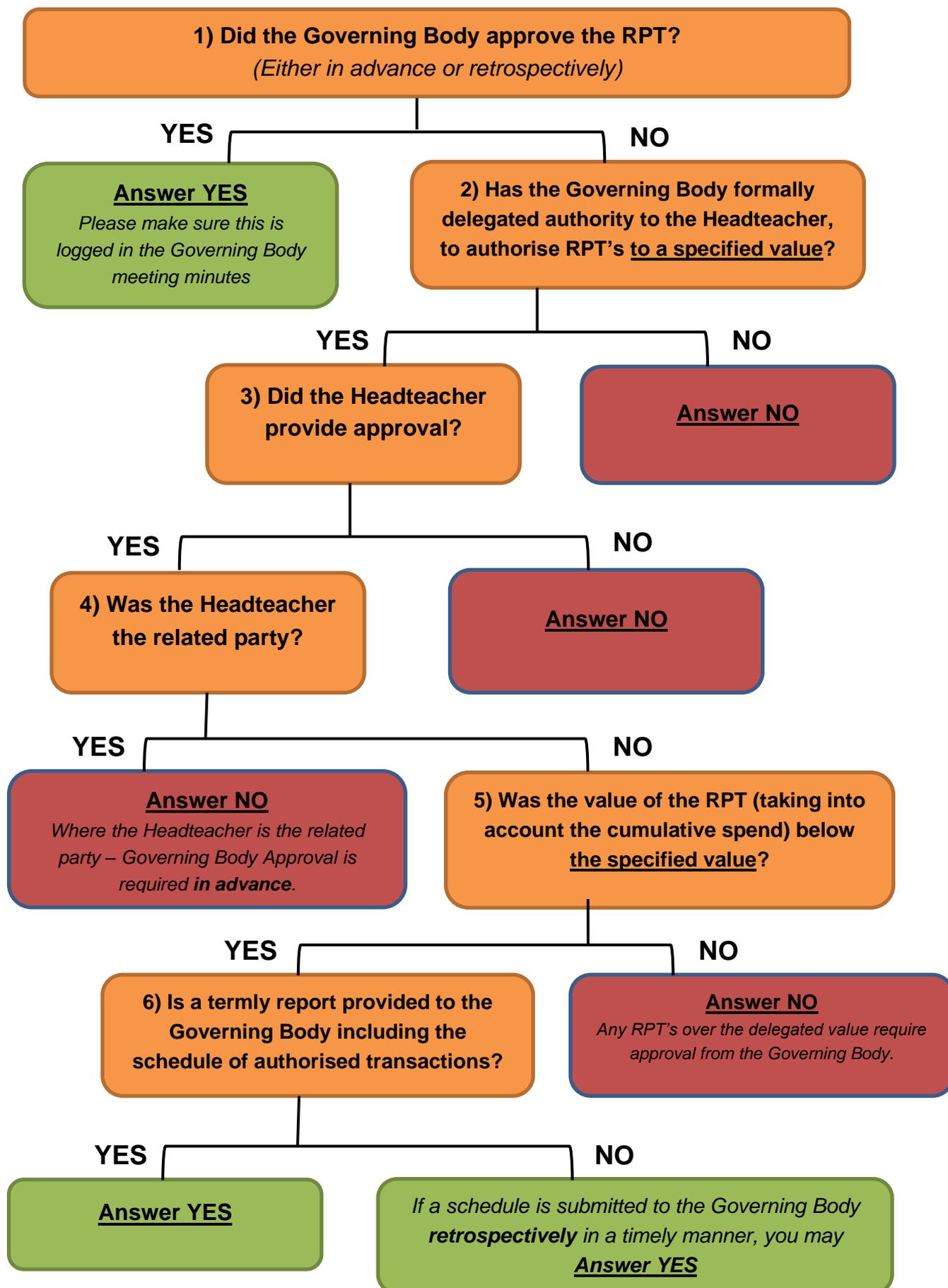
- Ensure that for services commissioned (whether through a related party, or not), **proof of insurances are obtained.**
- Ensure that Governing Bodies provides challenge around instances of RPTs.

Contact Information:

If you have any questions about the guidance, or specific circumstances not covered in this document, please get in touch:

School Finance Team: schoolsfinancialgovernance@northyorks.gov.uk

Appendix 1: Governors Approval – Flow Chart



Appendix 2: Retrospective Governors Approval Form (EXAMPLE)

KEY POINTS: *Governing Body delegating authorisation of RPT's to the Headteacher*

- ✓ The decision to delegate authorisation of RPT's under a specified value must be recorded in Governing Body minutes, and reviewed on an annual basis
- ✓ The specified value must consider **the cumulative value of any spend**.
- ✓ If delegated, it's the responsibility of the Headteacher to track cumulative spend and seek prior approval from the Governing Body if the specified value is going to be reached.
- ✓ **A termly report must be provided including the schedule of the authorised transactions to Governing Body**
- ✓ **A headteacher should not approve any RPT's, irrespective of value, where they are the related party.** Where this is unavoidable, assessment against alternatives must be carried out to determine necessity of the RPT, then **pre-approval of the supplier must be granted by the Governing Body**, with a documented approval limit set for annual spend if the supplier is to be used more than once. The RPT should be reviewed by governors again once this limit is reached.
- ✓ Any RPT's over the delegated value, require **pre-approval** from the Governing Body (or the Chair of Governors where urgent approval decision is required)

Total specified value of delegated authority to the Headteacher:

£500.00

Nature of contract/transaction	Date	Value	Position of related staff member / governor	Relationship with supplier organisation	Notes			
					Why is this company the best choice?	What evidence is available to show this choice represents the best value for money?	Was a tendering process or best value form competed? Details	Any further supporting information / comments.
A brief description of what the transaction is for								
Purchasing of sandwiches from local shop	10/11/22	£100.00	Business manager	Spouse of shop owner	This is the only shop within a 5-mile radius and has demonstrated good quality in the past.	Enquiries were made to other shops within a reasonable distance; however one was unable to deliver and two had high delivery charges meaning the local shop represented the best value for money.	Three quotes received (please see attached), this was the lowest.	

Related Party Transaction Best Practice Guidance

Plumbing repair work	19/01/23	£280.00	Governor	Brother	Emergency repair work to broken pipe causing substantial leak. Only company to be able to carry out the work immediately without callout fee.	Two other companies were phoned, one was unavailable and the other charged an £150 emergency callout fee which was waived by the company used.	Best value form completed (please see attached).	Transaction was for emergency works, other plumbers were phoned but no time for a formal tendering process.
Plumbing repair work	19/01/23	£200.00	Governor	Brother	Replacement of radiators as part of planned upgrade to heating within premises. This company were able to carry out the work in timely manner, without call out fee.	Enquiries were made to two other companies, the company chosen gave the best price, and held the necessary insurances.	Three quotes received (please see attached), this was the lowest.	It is noted that transactions with this supplier are reaching the delegated limit for approval, and we will ensure that Governing Body approval for future transactions is gained prior to any works taking place that will exceed the cumulative limit

Approval from Governing Body

NAME	Mr Smith
JOB TITLE	Chair of Governors
SIGNED	
DATE	30/01/2023

Appendix 3: Best Value Form (EXAMPLE)

[Procurement & Best Value | CYPInfo \(northyorks.gov.uk\)](#)



Best Value Procurement Form – Schools

Text highlighted in Blue is instructions to the Officer completing the form and should be deleted from the final document.

Text highlighted in Yellow is sections which need to be completed by the Officer. Highlighting and background text should be removed from the final document.

IMPORTANT NOTICE TO OFFICERS

It is the responsibility of the member of staff completing this form to ensure it complies with the LMS Contract Procedure Rule.

Please complete all sections in full

INFORMATION

In Accordance with the LMS procedure rules – Where the estimated value of a Contract is £30,000 or less the invitation of Bids is not mandatory, but written Bids should be invited where appropriate and best value should always be sought. If a School is not seeking three Bids then the Best Value Form must be completed to capture the rationale for this decision.

All procurement activity is subject to audit by Veritau. It is the responsibility of the School completing the Form to keep this record for Audit purposes. Please complete all sections in full.

Related Party Transaction Best Practice Guidance

DIRECTORATE	Children and Young People's Service
SERVICE AREA	Schools
CONTRACT OWNER/MANAGER	Headteacher
BUDGET MANAGER	Headteacher Yes
BUDGET MANAGER APPROVAL	Yes If the Budget Manager is different to the Officer completing this form you must seek their approval.

SCHOOL NAME	NYC Primary School
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SECTION 1: CONTRACT DETAILS	
Contract title	Materials for outdoor building
Type of supply	Goods
Contract start date	01/09/2023
Contract end date	08/09/2023
Possible extensions (<i>if applicable</i>)	N/A
Estimated total contract value (Excluding VAT):	£800.00
Estimated total contract value (Including VAT):	£800.00
VAT Rate	0.00%

SECTION 2: SUPPLIER DETAILS	
Supplier Name	Timber & Metal Supplies Ltd
Address	Supply House, Metal Lane, N. Yorks, WO01 2DD
Telephone	01000 888888
Email	Timber&metalsupplies@outlook.com

SECTION 3: COST BREAKDOWN	
Total contract cost (including VAT)	£800.00
Total annual cost (including VAT)	£0
Please detail below any specific one-off costs within the contract cost and a breakdown of on-going costs	
One-off contract cost	£800.00
On-going cost e.g. support/maintenance	£0
Budget which will pay for this provision	Maintenance

For further advice and guidance please contact the Procurement & Contract Management Service on 01609 533450 or procurement@northyorks.gov.uk.

SECTION 4 : JUSTIFICATION FOR DIRECT AWARD

(Please provide as much information as possible - remember this information is subject to audit/review and you are the accountable Officer)

Background to requirement (e.g. reference to business case / contract / need etc.)

Materials for outdoor building – Due to age of building, elements of the structure had become weak and further damage has been caused from the weather over the winter months making it unsafe for the children to use. As a school we use the building for a number of outdoor afterschool activities and during breaks and lunchtime as a seating area, it is therefore a vital school resource.

Please find attached photographs.

Reason for Direct Award (e.g. Compatible with existing equipment/available from only one supplier / no other equipment meets specification requirement etc.)

A number of companies were contacted and asked to quote for the job. Job costing varied in price, some including labour, others, materials only and one company was not able to offer us a quote. We chose to go with building company Timber & Metal Supplies Ltd, they are the relation of Mrs A Non, Deputy Head who was not involved in the decision process. They offered the best combination of the two and offered us the materials at cost price. We therefore felt this best encompassed value for money. The company has the correct insurance and has provided work for the school before which we have been happy with. This was on the agenda for Governor’s meeting (date) and they have approved, minutes are available which document this.

Arrangements will now be made between the school and the contractor to carry out the work.

Evidence of supporting reason (e.g. Market Testing undertaken / first price not accepted etc.)

Please see below/attached the quotes provided by other companies as evidence.

- Company 1: Email to state had no capacity this year to quote for the work
- Company 2: Email to state could provide materials at a cost of £900 but could not provide labour
- Company 3: Quote for £1,500 for both labour and materials
- Company 4: Quote for £800 for both labour and materials

As you can see Company 1, 2 and 3 could not price match what we got from Company 4 (Timber & Metal Supplier Ltd) therefore we feel we had just validation to go with our choice.

SECTION 5: COMMERCIAL ACCEPTANCE / VALUE FOR MONEY

I hereby confirm that, to the best of my knowledge, this procurement/award of grant monies is commercially reasonable and delivers best value.

NAME	Mr Smith
JOB TITLE	Chair of Governors
SIGNED	
DATE	01/09/2023