

Actual 2014-15 Year End School Balances

Schools Forum

Date: 7th July 2015

Author:	Finance Manager – Education
Wards:	All
Locality Affected:	All
Parishes Affected:	All

1. Purpose and Reasons

- 1.1 The LA is required to monitor the level of school balances held by schools to provide assurance to the LA's Chief Financial Officer, Director of Children Services and Cabinet Member for Children Services regarding the financial sustainability of individual schools.
- 1.2 To advise Schools Forum members of the final position on 31st March 2015 school revenue balances compared with the estimated position as forecast by schools in December 2014.

Recommendations

- 1.4 The Schools Forum is recommended to note that:
 - Just over half, 23 of 42 (55%) of schools final year end reported balances were close to the estimates provided in December as measured by the thresholds agreed by Schools Forum.
 - 15 of 42 (36%) of schools were reasonably accurate in forecasting their year end balances
 - Only 4 of 42 (10%) schools have reported significant variances between their final and December estimates of their projected year end balances – commentaries on these schools are provided.
 - Final school balances (adjusted to exclude in-year Academy conversions) are forecast to be £4.6m which is 30% higher, than the December estimates of £3.6million.
 - The SRP until for one maintained school started the year in a deficit position and one maintained school and two SRP units were in deficit at the 31st March 2015. The maintained school is being supported by the LA as it works to balance its budget over the next three years.
 - The LA will present further information on the planned use of school balances to the October 2015 Schools Forum.

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2. Background

- 2.1 As part of the LAs control of balances scheme, schools are encouraged to embed effective financial management procedures so that their forecasting of year end balances is accurate and they have a clear understanding of the resources available to them. Schools are measured on how effective they are and this report provides a summary of the differences between the estimates provided in December and final year-end reported figures.
- 2.2 The January 2012 Schools Forum agreed the criteria for a revised scheme to monitor and manage Swindon schools balances. The main focus of the revised scheme is to improve forecasting and encourage schools with surplus balances to utilise them effectively for the benefit of pupils already in school as is expected by DfE. It is also very important for schools with relatively low balances to undertake accurate forecasting to avoid them encountering a deficit position.
- 2.3 The balances control scheme is made up as follows:
- Schools are asked to project their closing year-end balance in December – these estimates are compared to the initial estimates submitted when annual budgets were set in June. (This information is reported to Schools Forum in March).
 - After the year end when final school balances are quantified these values are compared to schools December estimates (this is the subject of today's report). Explanations have been sought from those schools whose estimates proved to be inaccurate as measured against the parameters agreed by the Forum which are proportionate to school budgets.
 - After setting their new year budget each June schools are asked to provide a summary of how and when they are planning to utilise their brought forward balances via a balances return. The LA reviews these plans to ensure funds are being committed against the areas which were approved by the Schools Forum and whether resulting uncommitted balances are in line with agreed target levels per pupil. (This information will be reported to Schools Forum in October).
 - The LA finance and internal audit teams also assess whether committed balances are actually being spent in accordance with school plans on an on-going basis, targeting specific schools which are exhibiting signs of poor financial health and/or are being audited and/or are of concern to the schools improvement team.
- 2.4 Given the uncertainty of medium term school funding and the need to implement substantial changes arising from the DfE school funding reform programme, the LA has not been overly concerned with the level of school balances over the last year. The focus of the LA balances control scheme is still essentially to
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encourage effective financial planning so that all schools have an accurate understanding of whatever levels of balances they hold. In line with DfE expectations the local scheme has scope for the LA to claw back excessive balances which would then be made available for distribution across other schools in the following years funding allocations.

- 2.5 The LA therefore retains the right to implement claw backs but only in circumstances where a school
- Is consistently inaccurate (Red rated) in forecasting their year end balances for 2 consecutive years and does not provide adequate explanations
 - And holds relatively high balances .i.e. above 8%, 5% or 2% of ISB depending on the size of the school budget.
- 2.6 Where the LA believes that clawbacks may be applicable schools will be given an opportunity to defend their positions prior to any claw backs being proposed to the Schools Forum. No school has been inaccurate over each of the last two years. Forum Members are advised that proposing claw backs is not the LAs preferred course of action but it would be inappropriate and unfair if any school had high balances which were not being adequately managed when funds could be used to raise standards in that school or re-distributed to other schools where they could be spent on current pupils.
- 2.7 Letters reminding schools of the requirements of the scheme was issued with the balances return earlier this month and responses will be reviewed during the summer period and reported to the October 2015 Schools Forum meeting.

3. Detail

- 3.1 The initial part of the balances control scheme measures the effectiveness of schools in forecasting their year end balances. This exercise was completed by all maintained schools in December 2014 and estimates have now been compared with final figures arising from the school close down process in April 2015. The local scheme has a range of actions for the LA to follow depending upon the significance of the variance between final and forecast balances. Based on the difference between March 2015 actuals and December 2014 forecasts the results are as follows:

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Table 1 – Monitoring the accuracy of School financial forecasting			
Sector	Outturn compared to December Estimate	LA Assessment / Action	No.
Small / Medium Primary i.e. ISB up to £1.200m	Within £25k	<ul style="list-style-type: none"> School highly commended 	11
	Within £50k	<ul style="list-style-type: none"> OK – reasonable accuracy 	8
	Above £50k	<ul style="list-style-type: none"> Review required understanding reasons – commentary provided to Schools Forum. Supportive intervention by Finance/Audit team to help improve forecasting process. Potential Claw back after 2nd breach - where overall balances exceed 8% of annual funding	2
Large Primary i.e. ISB above £1.201m	Within £40k	<ul style="list-style-type: none"> School highly commended 	8
	Within £80k	<ul style="list-style-type: none"> OK – reasonable accuracy 	5
	Above £80k	<ul style="list-style-type: none"> Review required understanding reasons – commentary provided to Schools Forum. Supportive intervention by Finance/Audit team to help improve forecasting process. Potential Claw back after 2nd breach - where overall balances exceed 5% of annual funding	1
Secondary	Within £50k	<ul style="list-style-type: none"> School highly commended 	0
	Within £100k	<ul style="list-style-type: none"> OK reasonable accuracy 	0
	Above £100k	<ul style="list-style-type: none"> Review required understanding reasons – commentary provided to Schools Forum. Supportive intervention by Finance/Audit team to help improve forecasting process. Potential Claw back after 2nd breach - where overall balances exceed 2% of annual funding	1
Special	Within £40k	<ul style="list-style-type: none"> School highly commended 	4
	Within £80k	<ul style="list-style-type: none"> OK reasonable accuracy 	2
	Above £80k	<ul style="list-style-type: none"> Review required understanding reasons – commentary provided to Schools Forum. Supportive intervention by Finance/Audit team to help improve forecasting process Potential Claw back after 2nd breach - where overall balances exceed 5% of annual funding	0

The above table demonstrates that just over half (23 of 42 or 55%) of Swindon maintained schools were effective and are highly commended by the LA in forecasting their final 31st March 2015 positions when providing their projections in December. This is higher lower than the equivalent position reported to Schools Forum in July 2014 when 51% of schools were highly commended following closure of the 2013-14 accounts.

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- 3.2 When 2014-15 local formula funding allocations were issued to schools last February the LA also provided estimates of other funding that schools would receive (Nursery funding, SENRAP top ups, Set up Costs, Trigger Funding, Pupil Premium) and this information, should have enabled schools to become more accurate in projecting their year-end positions from the start of the year. The LA acknowledges that there is now less certainty on funding levels for specialist settings but occupancy projections should be reasonable by the end of December.
- 3.3 Over recent weeks the LA has contacted the 4 schools whose estimates proved inaccurate and is encouraged that, where closing balances were higher than anticipated, this mostly relates to staff restructuring and delays in premises improvement schemes which resulted in payments falling after, rather than before, the year end.
- 3.4 A summary showing the position across all schools is attached at Annex A. The level of each schools opening balances as at 1st April 2014 are also shown. Forum Members are asked to note that whilst the SRP unit at one maintained school opened the year with a deficit, one maintained school and two SRP units were in deficit at 31st March 2015. Overall year end balances of £4.6m are £1.1m (30%) higher than school forecasts provided in December. (These totals exclude 1 school where conversion to academy status occurred during the current financial year).

4. Narrative explanations

- 4.1 The four schools with a "Red" forecasting rating and significant variances between the revenue balances forecast in December 2014 and their actual year end balances as at 31st March 2015 were contacted and asked to provide Schools Forum with a narrative explanation and the explanations provided by the schools are at 4.2 below. The schools contacted are in Table 2 below:

Table 2 Schools with significant variances in their forecast balances			
School	Forecast Dec 14	Actual Mar 15	Variance
Grange Infant	£73,435	£171,146	£97,711
Oliver Tomkins CofE Junior	£26,390	£78,907	£52,517
Red Oaks Primary (school only)	(£41,812)	£90,841	£132,653
<i>Red Oaks incl. SRP</i>	<i>(£42,221)</i>	<i>£92,341</i>	<i>£134,562</i>
Isambard Community	£365,000	£480,324	£115,324

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- **Grange Infants - Actual balance was £171k (£98k above forecast)**

The premises projects planned for 2014/15 were delayed due to exceptional, unforeseen circumstances which arose in January.

- **Oliver Tomkins Church of England Juniors - Actual balance was £79k (£53k above forecast)**

The reasons for this variance were

i) Three members of support staff left in January due to taking retirement and family commitments. One of which was a HLTA, none of these posts were replaced.

ii) An additional teacher had been budgeted at Upper Scale to start in December 2014 however the teacher appointed was M3.

iii) A lottery grant of £10,000 for use of flourishing families project has only be partially invoiced as the project continues into September 2015 when the project costs will be invoiced June 2015.

iv) Money had been allocated for the refurbishment of the upper KS2 toilets. Due to LCVAP grant received in February from the Diocese for £40,000 only 10% needed to be met from the Junior School budget.

- **Red Oaks Primary - Actual balance was £92k (£135k above forecast)**

Funding from Access to Work for Interpreters for Deaf staff was being withheld and has now been resolved for one member of staff. Additional staff employed in KS2 for streaming pupils were withdrawn following the December balances survey to reduce costs. More income was raised than expected from absence insurance; high needs top up funding, notional SEN funding, pupil premium and extended hours clubs of £35K. Full on costs in the budget provision for all staff so the staffing budget was underspent.

- **Isambard Community - Actual balance was £480k (£115k above forecast)**

Even though our yearend balance was higher than anticipated in December and outside of the School Forum tolerance we do not feel our finances are out of control. As everybody knows Isambard has had a number of challenges over the past 12 months and we have been working hard to rectify these. As the accounts were closed a detailed breakdown of the variances was given to the LA Education Finance team.

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In summary some of the variance was due to the inexperience in education of our Business Manager (he has been in the job for less than 12 months), some due to changes in charges for the PFI from the LA and some down to the usual changes that affect any latest estimate. We are confident that next year we will be within the tolerances set.

- 4.2 It is important to acknowledge that forecasting is only one indication of how well schools are managing their balances and further information on school balances will be provided throughout the year to the Schools Forum as summarised at paragraph 2.3 above.
- 4.3 An additional schedule (Annex B) showing the opening and closing Devolved Formula Capital (DFC) balances held by all maintained schools is presented for the first time to give a full picture of year- end school balances. DFC year end balances totalled £0.728m and can be accumulated by schools for up to 3 years to support capital expenditure on defined areas such as premises improvements or ICT hardware, although the levels of DFC were substantially cut as part of the public sector austerity programme in 2010.
- 4.4 The level of DFC held doesn't form part of the LAs financial health assessment of schools but the LA would expect these balances to be held for specific purposes and not to be excessive.

5. Alternative Options

- 5.1 There are no alternative options presented in this report.

6. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 6.1 LAs and their Schools Forums are required to monitor the level of balances held by schools and to ensure local arrangements are in place which ensure excessive balances are not held

Legal and Human Rights Implications

- 6.2 There are no legal or human rights implications arising from this report.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 6.3 This report does not make any recommendations that affect these areas.

Links to One Swindon, Strategic Objectives, Plans and Policies

- 6.4 Utilisation of the DSG has a direct link to two of the Council's five priorities – "Right skills, right jobs in the right place" and "Make the best use of Swindon's resources inside and outside the Council".

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Diversity Impact Assessment

- 6.5 A Diversity Impact Assessment (DIA) has not been done as this report does not make any recommendations that affect services.

Risk Management

- 5.6 The key risks arising from this report are that ineffective monitoring by schools could lead to them encountering financial difficulties. Conversely the LA would not wish to see any individual school accruing excessive surplus balances which could have been used to improve standards and attainment for pupils currently in school.

7. Consultees

- 7.1 The Board Director Resources (Section 151 Officer), Director of Law and Democratic Services (Monitoring Officer) and Board Director Commissioning (Director of Children Services) are consulted in respect of all reports.

8. Background Papers

- 8.1 Annex A – Actual opening and closing 2014-15 school revenue balances compared to December 2014 forecasts
- 8.2 Annex B – Actual opening and closing 2014-15 Devolved Formula Capital balances