

Monitoring of School Balances

Schools Forum

Date: 18th October 2016

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. The LA must work with individual schools where balances are low or where there are strong indications that they will be low in the immediate future
- 1.2 To advise Schools Forum members of the final position on 31st March 2016 school revenue balances compared with the estimated position as forecast by schools in December 2015.
- 1.3 To advise Schools Forum members of the planned use of 2015/16 surplus balances during 2016/17 and the use of 2016/17 surplus balances in 2017/18 and beyond.
- 1.4 To advise Schools Forum members of the estimated school revenue balances expected to be held on 31st March 2017 as forecast by schools in June 2016.
- 1.5 To advise Schools Forum members of the estimated school revenue balances expected to be held on 31st March 2018 and 31st March 2019 as forecast by schools in June 2016.
- 1.6 These proposals contribute towards delivering the Council Vision Priority "Offer education opportunities that lead to the right skills and right jobs in the right places."

2. Recommendations

- 2.1 The Schools Forum is recommended to:
 - Note the final 31st March 2016 school revenue balances compared with the estimated position as forecast by schools in December 2015. (para. 3.6 – 3.11 and Table 1)
 - Note the planned use of schools' surplus balances brought forward at 1st April 2016 and the schools' committed use of these balances in 2016/17 (para 3.16 - 3.18 Table 2).

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- Note the schools projected 31st March 2017 surplus balances and the schools' committed use of these balances in 2017/18 (para. 3.16 – 3.18 Table 2).
- Note that based on the survey forms received nineteen schools plan to hold uncommitted balances on 31st March 2017 which exceed the target per pupil values agreed by the Schools Forum (para. 3.19 – 3.20).
- Note the analysis of schools' planned use of March 2016 surplus balances in 2016/17 (para 3.21 Table 3).
- Note the indicative future balances to be held by schools at 31st March 2018 and 31st March 2019, taken from the three year budget plans submitted by schools in June 2016 (para 3.22 – 3.24 Table 4).
- Note the number of schools forecasting number of schools forecasting low balances on 31st March 2017, 31st March 2018 and 31st March 2019 (para. 3.25 – 3.27 Table 5).
- Note the school balances claw back mechanism remains in place and the circumstances that need to apply for it to be implemented by the LA available (para 3.28 – 3.31).

3. Background

- 3.1 The LA fully supports the principle that schools should hold a reasonable level of balances, which may be built up over a number of years for strategic purposes as well as providing a degree of contingency funding for unexpected costs or funding reductions. At the same time the Forum has agreed that Schools should be challenged and held accountable for the level of balances they hold.
- 3.2 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 schools' estimated 2015/16 year-end balances compared to their actual 2015/16 year-end balances.

Control of Balances Scheme

- 3.3 The main focus of the LA's control of balances 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 Department for Education (DfE). It is also very important for schools with relatively low balances to undertake accurate forecasting to avoid them encountering a deficit position.
- 3.4 The balances control scheme is made up as follows:

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- Schools are asked to project their closing year-end balance in December and 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. 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. (This information has been included in today's report).
- 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 is the subject of today's report).

- 3.5 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

Detail

31st March 2016 actual revenue balances

- 3.6 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 2015 and estimates have been compared with final figures arising from the school close down process in April 2016.
- 3.7 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.
- 3.8 Based on the difference between March 2016 actuals and December 2015 forecasts the results are in Table 1:

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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	• School highly commended	13
	Within £50k	• OK – reasonable accuracy	7
	Above £50k	• 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	0
Large Primary i.e. ISB above £1.201m	Within £40k	• School highly commended	7
	Within £80k	• OK – reasonable accuracy	4
	Above £80k	• 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	2
Secondary	Within £50k	• School highly commended	0
	Within £100k	• OK reasonable accuracy	1
	Above £100k	• 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	0
Special and PRU	Within £40k	• School highly commended	6
	Within £80k	• OK reasonable accuracy	0
	Above £80k	• 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

- 3.9 Table 1 demonstrates that the majority (26 of 40 or 65%) of Swindon maintained schools were effective and are highly commended by the LA in forecasting their final 31st March 2016 positions when providing their projections in December. This is higher than the equivalent position reported to Schools Forum in July 2015 when 53% of schools were highly commended following closure of the 2014/15 accounts (adjusted from 55% to remove recent academy converters).

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- 3.10 The LA has contacted the two schools whose estimates proved inaccurate and is encouraged that, where closing balances were higher than anticipated, this mostly related to staff long term absence and delays in premises improvement schemes which resulted in payments falling after, rather than before, the year end.
- 3.11 A summary showing the position across all schools is attached at **Appendix A**. The level of each schools opening balances as at 1st April 2015 are also shown. One maintained school and one Special Resource Provision (SRP) were in deficit at the start and end of the 2015/16 financial year. Overall year end revenue balances of £4.7m are £0.945m (25%) higher than school forecasts provided in December. (These totals exclude two schools where conversion to academy status occurred during the previous financial year).

Members of the Schools Forum are now asked to:

- **Note the final 31st March 2016 school revenue balances compared with the estimated position as forecast by schools in December 2015**

Narrative explanations

- 3.12 The two schools with a “Red” forecasting rating were contacted and asked to provide Schools Forum with a narrative explanation and the explanations provided by the schools are below:
- 3.12.1 Even Swindon – Actual balance £381k (£204k above forecast)
- Due to long term sick absence of a senior member of staff, projects that had been planned were not able to take place during the financial year but have now been completed during summer 2016. The school received £40k more trigger funding than budgeted, this funding was received after the December return and could not be spent effectively before year end
- 3.12.2 Oaktree Primary – Actual balance £161k (£82k above forecast)
- Planned projects were delayed and not completed before year-end but have been completed over the summer holidays, hence the outstanding Purchase Order total carried forward. There were also savings in TA costs since the original forecast form was submitted.
- 3.13 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 is provided later in the report.
- 3.14 Devolved Formula Capital (DFC) balances held by maintained schools can be accumulated by schools for up to 3 years to support capital expenditure on defined

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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.

- 3.15 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.

Analysis of 2016/17 Estimated Year End Balances Returns

- 3.16 The LA is pleased to report that the balance returns were included within the budget workbooks and therefore forms have been received from all schools. A summary of the planned usage of surplus balances from 2015/16 and the projected year end position and planned usage of surplus balances for 2016/17 is provided in table 2 below:

Table 2 – Summary of balances and value of usage					
Total opening balances brought forward 1 st April 2016	Value committed for use in 2016/17	Sector	Total estimated 31 st March 2017 balances	Value committed for use in 2017/18	Value uncommitted school balances expected at 31 st March
£3,568,528	£1,137,638	Primary	£2,116,183	£533,070	£1,583,113
£470,880	£0	Secondary	£383,900	£381,889	£2,011
£529,069	£173,532	Special	£512,744	£178,762	£333,982
£169,097	£40,000	PRU	£141,897	£118,000	£23,897
£4,737,574	£1,351,170	Totals	£3,154,724	£1,211,721	£1,943,003
100%	28.52%	%	100%	38.41%	61.59%

- 3.17 The above table is based entirely on submissions from schools that have been reviewed by the LA as part of its statutory role. A summary of the schools' returns is attached at **Appendix B**. There is a strong indication that overall balances are expected to continue to fall for the next three years from the value carried forward at the end of 2015/16.
- 3.18 It is relevant to note that the school balances information refer only to maintained schools and exclude Academies.

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Members of the Schools Forum are now asked to:

- **Note the planned use of schools' surplus balances brought forward at 1st April 2016 and the schools' committed use of these balances in 2016/17**
- **Note the schools projected 31st March 2017 surplus balances and the schools' committed use of these balances in 2017/18**

3.19 Based on the survey forms received 19 schools plan to hold uncommitted balances on 31st March 2017 which exceed the target per pupil values previously agreed by the Forum of:

- Primary settings £120 per pupil (minimum of £20,000)
- Secondary settings £100 per pupil (minimum of £60,000)
- Special/PRU £800 per pupil (minimum of £40,000)

Five schools provided a narrative explanation on their balances return regarding the exceptional circumstances for holding higher levels of uncommitted balances per pupil.

3.20 Other general observations from balance returns received are:

3.20.1 Nine primary schools anticipate carrying forward uncommitted balances of less than £20,000 by 31st March 2017 which, if realistic, would imply that the LA will need to work very closely with these schools to reduce their spending. The LA has sent a letter to all of these schools.

3.20.2 Two schools plan to use brought forward balances to support their 2016/17 budget and the LA finance manager will contact these schools to arrange visits during the autumn term.

3.20.3 Four schools provided a narrative to explain the variance between the school's estimated balance in December and the actual balance to carry forward in March.

Members of the Schools Forum are now asked to:

- **Note that based on the balance returns received nineteen schools plan to hold uncommitted balances on 31st March 2017 which exceed the target per pupil values agreed by the Schools Forum**

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- 3.21 Analysis of the schools' planned use of surplus balances during 2016/17 is shown in table 3 below:

Table 3 – Planned use of March 2016 surplus balances during 2016/17		
Reason	Number of incidences	Total planned expenditure
Specific Premises Improvement	13	£384,900
Provision for unplanned responsive premises maintenance works	4	£80,270
ICT Investment	11	£164,300
Workforce restructuring one off costs	2	£56,000
Commercial / Traded Activities	2	£4,166
Funds on behalf of other clusters	0	£0
Other specific projects	14	£297,310
Staff Absence Reserve	7	£130,500
Purchase orders for goods ordered but not received by year end	14	£193,089
Setting the new year budget	2	£40,635
Total	26 schools	£1,351,170

Members of the Schools Forum are now asked to:

- **Note the analysis of schools' planned use of March 2016 surplus balances in 2016/17**

Indicative school revenue balances from three year budget plans

- 3.22 All maintained schools submitted budget workbooks showing their planned income and expenditure over the three financial years 2016/17, 2017/18 and 2018/19.
- 3.23 Table 4 below shows the actual revenue balances brought forward from 2014/15 and 2015/16 and the indicative revenue balances for 2016/17, 2017/18 and 2018/19 and the number of schools predicting a deficit balance in any of the financial years. The deficit calculation includes the balance of the school plus any SRP or commissioned service but excludes community funds held.
- 3.24 The table shows that the revenue balances held by schools are expected to fall significantly over the next three years.

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Table 4 – Indicative school revenue balances					
Sector	31/03/15 Actual	31/03/16 Actual	31/03/17 Indicative	31/03/18 Indicative	31/03/19 Indicative
Primary	£3,521,928	£3,568,528	£2,116,183	£1,442,407	£566,957
Secondary	£480,324	£470,880	£383,900	£2,010	(£601,413)
Special / PRU	£627,136	£698,166	£654,641	£580,360	£510,384
Total	£4,629,388	£4,737,574	£3,154,724	£2,024,777	£475,928
Change £		£108,186	(£1,582,850)	(£1,129,947)	(£1,548,849)
Change %		2.34%	(33.41%)	(35.82%)	(76.49%)
<i>Schools predicting a deficit balance</i>	1	1	2	1	6

3.25 Table 5 below shows the number of schools forecasting excess uncommitted balances on 31st March 2017. It also shows the number of schools forecasting low balances on 31st March 2017, 31st March 2018 and 31st March 2019.

Table 5 - Forecast revenue balances 2016/17 to 2018/19						
Sector	Target per pupil values	Forecast excess uncommitted balances at 31st March 2017	Minimum balance expected to be held	Forecasting low/deficit balances at		
				31st March 2017	31st March 2018	31st March 2019
Primary	£120	16	£20,000	9	9	21
Secondary	£100	0	£60,000	0	1	1
Special / EOTAS	£800	3	£40,000	1	2	3
Total	-	19	-	10	12	25

3.26 **Appendix B** shows the estimated balances to be held by schools at 31st March 2017, 31st March 2018 and 31st March 2019, taken from the three year budget plans submitted by schools in June 2016.

3.27 General observations on the budget plans submitted by schools are:

- Two schools expect to carry forward a deficit at the end of financial year 2016/17, one deficit is related to the SRP unit. The other school is being supported by the LA finance team.
- One school submitted plans showing a deficit balance at the end of financial year 2017/18 and six by the end of 2018/19. If the plans are realistic then the LA may need to work closely with a number of schools over the next two years to help them to reduce their expenditure. Where schools operate an SRP or

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run a commissioned service, the combined balance is taken into account in determining whether a deficit balance is predicted.

- The LA finance manager has already visited a number of schools predicting low or deficit balances and plans to continue to arrange visits during the autumn term.
- A large proportion of School's have submitted budget templates showing in year structural deficits that are unsustainable as they lead to low or very low balances at the end of 2018/19. An in year structural deficit is where in year expenditure (excluding committed expenditure funded by brought forward balances) exceeds in year income, the in year income does not include any balances brought forward.

Members of the Schools Forum are now asked to:

- **Note the indicative future balances to be held by schools at 31st March 2018 and 31st March 2019, taken from the three year budget plans submitted by schools in June 2016**
- **Note the number of schools forecasting number of schools forecasting low balances on 31st March 2017, 31st March 2018 and 31st March 2019**

School balances claw back mechanism

- 3.28 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 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.
- 3.29 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.

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- 3.30 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.
- 3.31 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.

Members of the Schools Forum are now asked to:

- **Note the school balances claw back mechanism remains in place and the circumstances that need to apply for it to be implemented by the LA**

4. Alternative Options

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

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 LA's 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

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

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

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

Diversity Impact Assessment

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

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Risk Management

- 5.5 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.

6. Consultees

- 6.1 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.

7. Background Papers

- 7.1 None

8. Appendices

- 8.1 Appendix A - December projected compared to March 2016 actual balances.
- 8.2 Appendix B - Summary of School Balance Returns.