

# **New Scheme to Monitor and Manage School Balances**

**Schools Forum**

**17 January 2012**

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**Parish / Wards Affected:** All

## **Purpose**

- To advise Forum Members on how the principles of a revised scheme for monitoring and managing school balances which were agreed at the 11<sup>th</sup> October 2011 Schools Forum Meeting have been developed by the LA following meetings of the Sub Group.

## **Recommendations**

- The Schools Forum is requested to approve the revised scheme to monitor and manage school balances, which maintains a focus on the parameters of acceptable levels of committed and uncommitted balances and the assessment of the effectiveness of schools' forecasting of end of year balances.

## **1. Reasons**

- 1.1 The Local Authority (LA) is required to monitor the level of school balances held by schools and, until recently, was required to operate a local claw back scheme agreed with their Schools Forum to ensure any excessive funds were redistributed. The previous Government was concerned at the level of balances held across the country and expected that annual revenue funding allocated to schools each year was used to support the education and well-being of pupils in school at that time and not to accumulate funds which could/should have been used to raise standards further. Conversely the LA needs to ensure all maintained schools remain financially sustainable and 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 The LA has a responsibility to ensure the local fair funding formula is as equitable as possible and, although there are many reasons why some schools are able to accumulate relatively high balances this could be partially due to the local formula being overly generous in some areas. The LA cannot however readily see any correlation between local formulas funding factors/rates and those schools which have accumulated relatively high balances. In general, primary sector balances are higher than secondary balances although a recent benchmarking exercise of AWPU rates indicated that Swindon's secondary rates were, if anything, a little higher than regional neighbours.
- 1.3 It is therefore important for the LA and the Schools Forum to gain an understanding of the financial position of each school where balances appear to be excessive or are too low. The LA presented a report to the 11<sup>th</sup> October 2011 Schools Forum meeting which, in addition to providing an analysis of each school's 31<sup>st</sup> March 2011 balances, outlined proposals on how a revised scheme to monitor and

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manage school balances would operate. The principles of this scheme were agreed subject to details being developed in consultation with the Schools Forum Sub Group.

- 1.4 The Sub Group met during November and December and mid-year balance surveys with covering letters were issued to schools by the LA on 7<sup>th</sup> December 2011 based on feedback and suggestions received from the Sub Group.

### **2. Sub Group Review of Swindon Balances**

- 2.1 The Schools Forum Sub Group reviewed various extracts and Annexes from previous Schools Forum reports and identified four specific issues that they felt were likely to explain differences between school balances:

#### **1) Premises:**

- Some school premises are inherently more costly to maintain than the average school and in addition, due to their age, design, layout, complexity or construction are likely to require unexpected maintenance works. In these circumstances it was felt that schools generally need to set aside additional funding for maintenance works and are less able to plan the future use of balances with high degrees of certainty.
- The LA acknowledged this and amended the survey form to invite schools who feel they are in this position to identify commitments in the following category "Provision to meet unplanned responsive premises maintenance works".
- Schools which commit such funds will be monitored to ensure they are not overly excessive and the LA would support the advance of loans to enable schools to more proactively address premises issues via planned investment rather than responsive spending on repairs.
- Conversely the Sub Group felt that the contractual arrangements relating to maintenance in PFI schools should reduce their need for funds to be held for unplanned maintenance.

#### **2) Commercial / Traded Activities**

- For various reasons some schools have the capacity (either within their staff and/or premises) to be more entrepreneurial in the generation of funding.
- The LA acknowledged this and amended the survey form to invite schools to identify "Commercial / traded activity surpluses". However, all such income is being generated from a base of public sector funding and schools still need to be clear on how and when these funds are to be reinvested for the benefit of the school or local community.

#### **3) Commissioned Services**

- Where schools are commissioned by the LA or other organisations to provide services it is possible that funding will be received in advance of service delivery and may therefore be reflected in year-end surplus balances
- The LA acknowledged this and amended the survey form to invite schools to identify "Balances held relating to Commissioned Services". Schools will still be required to provide brief details on these balances and their spending plans.

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### **4) Funds held on behalf of clusters**

- Where schools are fund holders for their cluster they may hold balances at the year-end which collectively are more significant than they would be for individual schools.
- The LA acknowledged this and amended the survey form to invite schools to identify "Balances held as cluster leads". Schools will still be required to provide brief details on these balances and their spending plans.

- 2.2 It is relevant to note that, although Swindon has operated a scheme which included a statutory claw back scheme, the level of balances has remained constant and no funding has ever been clawed back despite some schools continuing to hold high balances year on year. This could well be justified but schools have a responsibility to their pupils, parents, the LA, DfE and the Schools Forum to ensure that, where they have stated that funds have been committed for specific purposes, these funds are actually spent.
- 2.3 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 schools should be challenged and held accountable for the level of balances they hold and the LA believes that the provision of a local claw back scheme should be retained.
- 2.4 There are two aspects to schools' accountability with regard to the management of their balances. They need to provide clear information to the LA (which can be shared with the Schools Forum) on how and why high balances have arisen and secondly have clear transparent plans on how and when funds are planned to be reinvested for the benefits of their pupils.

### **3. Details of the Revised Scheme**

- 3.1 As reported to the July 2011 and October 2011 Forum meetings, the LA wishes to introduce a scheme which ensures all schools are able to;
- Carry specific (committed) funds for clearly defined purposes within parameters agreed by the Schools Forum.
  - Carry a "reasonable" amount of funds for general uncommitted purposes also within parameters agreed by the Schools Forum
- 3.2 The main focus of the revised scheme is to improve forecasting and encourage those schools which have excess balances to utilise them by for example investing in premises or curriculum enhancements at an earlier date so that their pupils benefit as much as possible from the limited funds available.
- 3.3 There are 3 parts to the LA's scheme which the Sub Group was asked to develop and commentaries on each area are provided below;

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- A) Committed balances – criteria and parameters
- B) Uncommitted balances – target limits per pupil per sector
- C) Measuring the effectiveness of individual schools in their Autumn forecasting of year end balances

### **A) Committed Balances**

- The Schools Forum agreed the principle of there being a defined range of categories against which schools should be permitted to earmark their unspent balances against.
- The Sub Group identified 10 categories which were included in the mid-year surveys issued to schools and developed guidance on the level of evidence that should be in place to enable spending plans to be monitored and/or audited.
- All items of “committed” expenditure which are being funded from carried forward balances should be included within the annual budgets set by schools and signed by their chair of governors. There should therefore be a clear link between the balance survey from the previous year and the spending plan for the new year.
- Monitoring of actual spending against committed items should therefore be included in routine budget monitoring undertaken by schools. Evidence of this should be verifiable through minutes of Finance Governing Body meetings and be available for both Internal Audit and the LAs finance team in fulfilling their statutory role of monitoring the financial health of schools.

### **B) Uncommitted / General Balances**

- The Schools Forum agreed in principle that schools should work towards “per pupil” targets for uncommitted / general balances. The LA acknowledged that smaller schools with low pupil numbers will need to hold higher per pupil balances than larger schools and “minimum” cash values have been included per sector.
- The LA also acknowledged that Special Schools can face very significant cost changes where for example high need pupils join schools in year. Relatively high “minimum” cash values are therefore included for these schools.
- The Sub Group supported the figures in Table 1 below as being appropriate targets for schools to hold relating to uncommitted balances:

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**Table 1 – Target Limits for Uncommitted balances**

Sector	Average Pupil numbers	Target Uncommitted balance per pupil	Target Average School Uncommitted balance	Minimum Uncommitted balance
Primary	265	<b>£120</b>	£31,800	£20,000
Secondary	1,100	<b>£100</b>	£110,000	£60,000
Special	69	<b>£800</b>	£55,200	£40,000

- Where schools feel they have exceptional circumstances which justify them having to hold higher or lower levels of uncommitted balances per pupil a commentary must be provided to enable the LA and Schools Forum to review/check this.

### **C) Monitoring the Effectiveness of Schools' Forecasting**

- The LA strongly believes that the key to tackling excess balances (and to avoid dangerously low balances) is to improve financial planning and in year monitoring by schools. The LA also believes that the cessation of Standards Fund grants and greater levels of LA delegation should have simplified in year forecasting for schools.
- The Schools Forum agreed in principle that schools should be measured in their effectiveness at forecasting the value of year end balances between their Autumn surveys (estimates) and April surveys (final figures) and be asked to provide explanations to the LA and Schools Forum where differences are significant.
- The Sub Group supported the actions as shown in Table 2 below:

**Table 2 – Monitoring the accuracy of School financial forecasting**

Sector	Outturn compared to November Estimate	LA Action	No as at March 2011
Small / Medium	Within £25k	• School highly commended	35
	Within £50k	• OK	8

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Primary i.e. ISB up to £1.200m	Above £50k	<ul style="list-style-type: none"> <li>Review required to understand reasons – commentary provided to Schools Forum.</li> <li>Supportive intervention by Finance/Audit team to help improve forecasting process.</li> <li><b>Claw back after 2<sup>nd</sup> breach - where overall balances held exceed 8% of annual funding</b></li> </ul>	4
Large Primary i.e. ISB above £1.201m	Within £40k	<ul style="list-style-type: none"> <li>School highly commended</li> </ul>	8
	Within £80k	<ul style="list-style-type: none"> <li>OK</li> </ul>	1
	Above £80k	<ul style="list-style-type: none"> <li>Review required to understand reasons – commentary provided to Schools Forum.</li> <li>Supportive intervention by Finance/Audit team to help improve forecasting process.</li> <li><b>Claw back after 2<sup>nd</sup> breach - where overall balances held exceed 5% of annual funding</b></li> </ul>	4
Secondary	Within £50k	<ul style="list-style-type: none"> <li>School highly commended</li> </ul>	6
	Within £100k	<ul style="list-style-type: none"> <li>OK</li> </ul>	3
	Above £100k	<ul style="list-style-type: none"> <li>Review required to understand reasons – commentary provided to Schools Forum.</li> <li>Supportive intervention by Finance/Audit team to help improve forecasting process.</li> <li><b>Claw back after 2<sup>nd</sup> breach - where overall balances held exceed 2% of annual funding</b></li> </ul>	1
Special	Within £40k	<ul style="list-style-type: none"> <li>School highly commended</li> </ul>	2
	Within £80k	<ul style="list-style-type: none"> <li>OK</li> </ul>	2
	Above £80k	<ul style="list-style-type: none"> <li>Review required to understand reasons – commentary provided to Schools Forum.</li> <li>Supportive intervention by Finance/Audit team to help improve forecasting process</li> <li><b>Claw back after 2<sup>nd</sup> breach - where overall balances held exceed 5% of annual funding</b></li> </ul>	2

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- The end column in the above table demonstrates that the vast majority of Swindon schools were effective in forecasting their 31<sup>st</sup> March 2011 balances. If the above scheme had been applied to last year's balances only 11 schools (from all sectors) would have been required to account for why their final balances were significantly different to their own estimates.

### **4. Implementation of the Revised Scheme**

- 4.1 Final details of the revised scheme, wording of the LA's covering letter and the format of the estimated balances proforma were agreed at the Sub Group meeting on 29<sup>th</sup> November 2011. A copy of the letter, schedule of permitted areas and the proforma are attached at Annexes A, B and C to this report.
- 4.2 The revised scheme is being implemented on a trial basis and refinements may be required in order to ensure full transparency is achieved which enables the LA to monitor school balances and be able to report the position to the Schools Forum with as little additional administration for schools as possible. The accurate completion of these surveys (during December and May/June) and subsequent delivery of committed spending plans, present an opportunity for all schools to demonstrate sound financial management and effective stewardship of public funds by transparently reporting why funds are being held and how and when they are to be reinvested for the benefit of their pupils.
- 4.3 Forum Members are specifically asked to note that, although the revised scheme retains scope to claw back excessive balances, this would only arise if a school holds relatively high balances and is consistently ineffective in forecasting their year-end position. The focus of the scheme is, as was originally stated, to improve forecasting, monitoring and reporting of balances and not to penalise any school that is managing their delegated budget effectively.
- 4.4 The timetable for future reports to the Forum is as follows:

<u>Forum Meeting</u>	<u>LA Reporting</u>
8 <sup>th</sup> March 2012	<ul style="list-style-type: none"><li>• LA will report the estimated 31<sup>st</sup> March 2012 year end balances position based on the estimates provided by Schools in their December 2011 survey proformas</li></ul>
July 2012	<ul style="list-style-type: none"><li>• LA will report each school's;<ul style="list-style-type: none"><li>○ Actual 31<sup>st</sup> March 2012 balances compared to their December estimates</li><li>○ Planned usage of their 31<sup>st</sup> March 2012 balances against permitted areas based on the information provided in their May/June survey proformas</li><li>○ Value of uncommitted funding held in total and per pupil as at 31<sup>st</sup> March 2012</li></ul></li></ul>

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October 2012	<ul style="list-style-type: none"><li>LA will report any proposed changes to the scheme prior to the issue of Autumn 2012 surveys</li></ul>
January 2013	<ul style="list-style-type: none"><li>LA will report overall balances for the previous financial/academic year across all settings – subject to the provision of information by Academies</li></ul>

- 4.5 One of the anomalies of the Government's school funding scheme is that whilst Academies will, quite rightly continue to be proportionately represented on the Schools Forum (as the local formula will dictate their funding allocations), there is no requirement for their year-end balances to be reported to the LA. Given that one of the LAs principal roles regarding school funding is to ensure the local formula is fair, this is partially measured by assessing each sectors overall financial health.
- 4.6 At the 11<sup>th</sup> October 2011 Schools Forum meeting, members supported the LAs request that, on a voluntary basis, Academies are asked to provide information on their balances. This was discussed and endorsed by the Sub Group. It is acknowledged that Academy budgets operate from 1<sup>st</sup> September rather than 1<sup>st</sup> April and the timing of their information would be different but, if provided, this would enable a holistic view to be taken on the overall fairness of the local formula across all publicly funded Swindon school settings. The LA will therefore issue surveys to Academies as follows:
- Mid-Year forecast position – surveys issued March 2012 for completion by end of April 2012
  - Year End position – surveys issued October 2012 for completion by end of December 2012
- 4.7 Provision of this information would enable the LA to pull together an overall summary of balances across the Borough each January, which would provide a brief opportunity to review the following year's formula before the early March Forum meeting at which the budget and formula for the following year are set.

### Alternative Options

There are no alternative options presented in this report.

#### **Risk Management**

##### *Financial and Procurement Implications*

- Various financial implications are included in this report relating to the monitoring and management of school balances

##### *Legal / Human Rights Implications*

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

##### *Links to Corporate Plans and Policies*

- Scheme for Financing Swindon Schools

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### **Diversity Impact Assessments**

- As there are no proposals in this report, DIA's have not been completed.

### **Consultees**

The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

### **Background Papers and Appendices**

Annex A – Letter to Swindon schools dated 6<sup>th</sup> December 2011 regarding notification of estimated revenue balances at the end of 2011/12.

Annex B – Schedule of permitted areas against which school balances can be committed as issued to schools.

Annex C – Example of notification of estimated balances survey as issued to school.