



# Walsall Council

## Walsall Children's Services

<b>Report to:</b>	Schools Forum
<b>Date:</b>	15 June 2010
<b>Subject:</b>	Revised Guidance on the Balance Control Mechanism and indicative Balances Outturn Position as at 2010
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<b>Purpose of the report:</b>	To update the Schools Forum on the latest guidance on School Balances and to report the 2009-10 indicative year end balances position for Walsall.
<b>Recommendation:</b>	<p>To note the content of the reports. As there is now a new government, the principles underpinning this guidance may be subject to change.</p> <p>To note that as at 31 March 2010, for the second successive year, there has been a significant reduction in the total level of school balances.</p>

## 1. Introduction

- 1.1 In March 2010, the then DCSF, issued further guidance on the management of school balances. The guidance is not statutory but is likely to represent the direction of any action backed by statutory powers in the future and as such there is a strong recommendation that it is followed.
- 1.2 The guidance allows local authorities flexibility in setting local balance systems which may include stricter requirements than those outlined in the guidance.
- 1.3 The guidance accepts that schools should hold a small surplus but reiterates that schools should be spending their money on children in school now, and therefore local authorities should take strong action where schools have excessive surpluses, except where they are very clearly and accurately justified.
- 1.4 Although there has been a change of government it is not expected that there will be any reduction in the pressure to reduce school balances. In fact all LAs had to provide the new Department for Education with a provisional balances figure at the end of May 2010.

## 2. Key Guidance Principles

- 2.1 School finance officers should work with both school improvement and asset management colleagues and engage the Schools Forum and elect members appropriately to ensure that the balance control mechanism is a key part of the multi-year budget planning and in year budget monitoring.
- 2.2 Local authorities and schools should take an active role in agreeing how the balance control mechanism works. **It is important that the 5% (secondary) and 8% (primary and special) thresholds are not seen as targets**, and that schools with balances over the threshold are challenged on their whole balance. **It is not the case that schools should only justify surpluses over the threshold.** Local authorities have the power to amend their thresholds in agreement with their Schools Forum, and those that have already done so should not see this guidance as advising a softer approach.
- 2.3 **Local authorities should clearly define what counts as a committed balance**, taking into account the guidance, but not restricting themselves to it where tighter local definitions are more appropriate. All committed balances, say for capital projects, planned falling rolls, reduced funding, accruals or committed orders or for single status payments should be based on sound planning and rigorous evidence. Ongoing costs should be funded on a sustainable basis.

- 2.4 Monies held for other schools, for example as part of a cluster or partnership agreement, and privately raised funds, should be accounted for separately.
- 2.5 Allowances should only be made for unspent Standards Fund where these are ring-fenced, specifically allocated for an academic year and/or allocated part way through the financial year. This will be easier to manage should a number of grants transfer to the Dedicated Schools Grant in April 2011.
- 2.6 It is advised that clawback funds could be spent on invest to save schemes such as the training of school business managers, energy efficiency measures or pump priming federations or partnership arrangements, rather than simply being re-allocated based on pupil numbers.

### 3. Processes

- 3.1 As local authorities may not have the capacity to devote significant resources to supporting the balance control mechanism, challenge should be targeted at those schools above (or forecast to be above) the threshold, with a lighter touch approach for others.
- 3.2 **Work on surplus balances is not a year-end issue**, it should be integrated with multi-year school budget planning and in-year monitoring. **Schools with surplus balances already above the threshold should be subject to ongoing monitoring.**
- 3.3 Schools and local authorities should start their financial planning as early as possible in the year, so that they know well before year end if a school is likely to be subject to clawback. Schools should also be encouraged to update their future plans in the autumn term as pupil numbers become clearer. Whatever process is agreed locally, timescales should be clearly defined and shared with schools.
- 3.4 The Schools Forum has decision making powers in that it has to approve the authority's Scheme for Financing School which includes the claw back mechanism. However, some authorities go beyond this and involve the Forum in challenging schools with excessive surpluses and making decisions about whether to clawback from individual schools. As a minimum, Schools Forum should receive regular reports.
- 3.5 The guidance also expects the local authority to ensure that the senior management of the Council and elected members are involved in agreeing the policy on surplus balances, and that they are kept up to date on the implication on the policy.

#### 4. Guidance and Thresholds

- 4.1 The new guidance maintains the current definition of excessive balances, that is, if a school's balance, after deducting locally defined commitments, is above 8% of annual budget for primary and special schools, is above 5% for secondary schools, or a cash sum of £10,000 as a minimum.
- 4.2 However, these **maximum levels** will be kept under review. Local authorities can amend these percentages with the agreement of the Schools Forum. Many local authorities, for example, have set their own minimum cash threshold in order to prevent too many schools being drawn in for small cash amounts, whilst others have set tighter local thresholds than 8% and 5% for their schools, with the agreement of their Schools Forum.
- 4.3 When challenging schools that are over the balances threshold, **the schools have a responsibility** to show that they have plans for their whole balance, not just the excess balances.
- 4.4 The guidance re-emphasises that the 8% and 5% **thresholds are not targets** and should not be seen as acceptable or allowable levels, **but the maximum percentage which might be retained to deal with exceptional circumstances** whether predicted or unforeseen. In practice, most primary schools should be able to manage with balances of, say, 4-5% and secondary schools 2-3%. Appendix 1 of this report exemplifies the impact of these reduced percentages on Walsall schools as at 31 March 2011.

#### 5. Definition of a 'Committed' Balance

- 5.1 The local authority has a responsibility to ensure that all schools are clear, what it considers to be valid reasons for classing a sum as committed. Local authorities with a longer list of allowable commitments **should have stricter rules on uncommitted balances**.
- 5.2 Monies should only be classed as committed if they:
- have been set aside for specific purpose;
  - will be spent within a defined timescale with a fixed end point, and
  - have been properly approved by governors
- 5.3 The guidance states that committed sums should be planned for and should not simply be used as an explanation for a large balance. Schools should provide evidence of planning, such as details of projects in the Asset Management or School Development Plans, along with minutes of governors meetings.

#### 5.4 Examples of what could be included as committed balances:

- Schools are not expected to use revenue balances for capital projects, but are able to do so. However, revenue funding should not be used for capital projects until all capital resources have been exhausted. Evidence should be provided to demonstrate that works have been approved and are due to start in the next financial year or are already underway.
- Planning for uncertainty over future rolls, staffing or funding. However, if a school's financial year end balance is higher than expected, then the guidance expects that the difference should be regarded as uncommitted. This process would require clear instructions for schools when their budgets are submitted to the local authority for checking. Surplus balances should not be used to defer difficult decisions.
- Reasonable contingencies based on proper planning and related to specific purposes may be allowable.
- Prior year payments, accruals and committed orders are permissible where schools provide evidence such as copies of orders, quotes, delivery notes or invoices. Schools must comply with their local authority's instructions on the closure of accounts and financial regulations, including the specified limit on the grounds of materiality for year end accruals.
- One off costs relating to single status can be accounted for. However, schools need to demonstrate that they can find the ongoing costs on a sustainable basis and not from balances

### 6. Treatment of other funds held by schools

- 6.1 Monies held for other schools should be accounted for separately and are excluded from the calculation of a school's balance. However, there needs to be clear lines of accountability to ensure that these funds are monitored and not seen as a means of accumulating balances for other purposes.
- 6.2 Privately raised school funds should not be included in the calculation of a school's balance because these are separate from public funds. However, private funds can be used to fund items through the main school budget, but the contribution should equal the actual expenditure incurred.

### 7. Standards Fund

- 7.1 The current arrangements allowing for Standards Fund over a period of seventeen months has complicated the calculation of school balances. The new guidance intends to remove the complication by including all Standards Fund notified to schools at the start of the financial year as part of the annual resources available to schools with the intention that this should be spent in year or included within the balances calculation.
- 7.2 The only exceptions to allow Standards Fund to be carried forward will be for grants that are ring-fenced, or where funding is issued to schools part way through the financial year, or if the grant relates specifically to an academic year.
- 7.3 As the number of grants to local authorities and schools are being streamlined with effect from April 2011, many of the existing grants such as the School Development Grant and School Standards Grant, there will be fewer additional funding streams for schools to manage thereby simplifying the balances calculations.

## **8. Use of clawed back funds**

- 8.1 The guidance encourages local authorities, in consultation with their Schools Forum to ensure that any funds clawed back are spent productively to meet local and national priorities, such as the standards agenda and narrowing the attainment gap.

Simply redistributing relatively small sums to all schools has little benefit, so invest to save schemes are suggested such as:

- Energy efficiency measures;
  - Supporting the training and introduction of school business managers;
  - Pump priming federation and partnership arrangements;
  - Adaptation to schools to enable accessibility for pupils with special educational needs and thereby avoiding expensive out of borough placements.
- 8.2 For information, the balances clawed back at the end of the 2008-09 financial year were used to reduce the BSF/PCP contributions for 2010-11.

## **9. Walsall School Balances as at 31 March 2010**

9.1 Walsall school balances have been relatively high when benchmarked against other LAs using the published figures taken from the Section 251 (formerly Section 52) Outturn Statement. However, as at 31 March 2009, there was a reduction of £1.3m to the published figure for the first time in five years. This was excellent news for Walsall Council at a time when the government was increasing the pressure on LAs to reverse the trend of increasing school balances.

9.2 A number of changes were made to the year-end accounting processes for 2009-10, which has made the balances figures reported by Walsall schools more comparable to those in other LAs. This has had the effect of further reducing the balances by £2.2m. Overall balances have reduced by an estimated £3.6m, to £10.1m. At this time the school balances figures are still indicative, but no significant changes are anticipated.

In addition schools are holding a further £933k of balances in respect of extended school activities. This figure is similar to the £984k held for extended school purposes a year ago.

9.3 The reduction in balances for a second year now needs to be factored into a revised balance control mechanism for the next three year accounting period, 2011-14. An initial meeting of the School Balances Working Group took place in February and some initial work looking at a revised process has been completed, see Appendix 1, which exemplifies the impact of a number of reduced balance thresholds on the current year's resources delegated to schools

9.4 Another meeting of the group will be convened before the end of this term to firm up proposals to be discussed at the next School Forum meeting in September 2010. By this time we may have a clearer idea of the new government's view on the retention of school balances. The two key issues for agreement before going out to consultation are

- the proposed thresholds and;
- the definition of committed sums to be excluded from the balances calculation.

## **10. Properly Assigned Sum Process 2009-10**

10.1 The Panel has met to consider the Properly Assigned Sums submitted by schools at the end of the 2009-10 financial year.

Primary	25 bids were submitted, of which 10 were below the permitted threshold, 12 were agreed in full and two were agreed in part, 1 not agreed.
Secondary	4 bids were submitted and agreed.
Nursery	6 bids were received and all were agreed.
Special	4 bids were submitted of which 3 were agreed and 1 was agreed in part.

- 10.2 There were fewer bids submitted this year due to the introduction of the year-end accruals process. However, the claw back mechanism is still incomplete as schools will now be invited to submit evidence to support any prior year commitments in accordance with the current balance control mechanism.

## **11. Recommendations**

- 11.1 School Forum members are asked to note the content of the report and the proposed future action.
- 11.2 School Forum is also asked to note, that for the second year running, there has been a significant reduction in the level of total school balances.