



Walsall Council

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Walsall Children's Services

Report to: Schools Forum

Date: 28 September 2010

Subject: Proposed change to the Balance Control Mechanism and the final Balances Outturn Position as at 2010.

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Purpose of the report: To update the Schools Forum on the recommendations of the School Balances Working Group.

Recommendation: To support the recommendations of the School Balances Working Group and to note the draft consultation document attached to the report.

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 minimise 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 Principles

- 2.1 School finance officers should work with both school improvement and asset management colleagues and engage the Schools Forum and elected 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.

3. Guidance and Thresholds

- 3.1 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.
- 3.2 However, these **maximum levels** will be kept under review. Local authorities can amend these percentages with the agreement of the Schools Forum.
- 3.3 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.
- 3.4 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%.
- 3.5 Table 1 below summarises the closing balances of Walsall schools for the last five years. It clearly shows that there has been a significant reduction in balances over the last two years from £15.1m to £10.1m.

Table 1 – Summary of Walsall School Balances 2005-06 to 2009-10

Schools	2005-2006 £000's	2006- 2007 £000's	2007-2008 £000's	2008-2009 £000's	2009-2010 £000's
Nursery	466.5	478.7	338.6	434.9	478.3
Primary	8,147.8	7,856.9	7,838.5	6,978.4	5,929.8
Secondary	2,227.3	2,367.2	4,607.1	3,931.8	2,533.7
Special	827.3	1,595.7	2,272.7	2,372.6	1,177.8

Total balances	11,668.9	12,298.5	15,056.9	13,717.7	10,119.6
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- 3.6 The 33% reduction, value approximately £5m comprises of two components, approximately £3m is a structural reduction in balances and £2m is the impact of introducing accruals at the end of the 2009-10 financial year.
- 3.7 There is no benchmarking available at this point in time to compare Walsall's performance with other local authorities, but it is likely that the comparison will be favourable.
- 3.8 The significant reduction in balances in Walsall is excellent news, and the majority of schools are within the permitted balances percentage, therefore it has been recommended by the School Balances Working Group that the current, permitted surplus balance percentages, as detailed below should remain.

Maximum allowance:

Primary/ Special schools with annual resources less £1.399m	8%
Primary/ Special schools with annual resources £1.4m to £2m	7%
Primary/ Special schools with annual resources over £2m	6%
Secondary schools	5%

- 3.9 DfE guidance of the permitted, maximum percentage of uncommitted balances is that it should be applied to the in-year allocation of government funding and should not include balances brought forward and income generated in year (income can be carried forward as a receipt in advance where appropriate), although allowances will be made for funding already agreed as a Properly Assigned Sum, and yet to be spent. The current Walsall BCM includes all resources available to a school in a financial year including balances brought forward. Using this methodology a school with higher balances can carry forward a larger sum of uncommitted balances than a similar school with a very small balance. Schools Forum is asked to consider whether the Scheme is amended from 1 April 2011 to comply with current guidance, that is the BCM percentage applies only to annual budgets. With balances of approximately £10m the total amount permitted as uncommitted balances would reduce by approximately £600k to £700k.

4. Committed Balances

4.1 Monies should only be classed as committed if:

- * they have been set aside for a specific purpose;
- * will be spent within a defined timescale with a fixed end point; and
- * have been properly approved by governors.

4.2 Committed sums should be planned for, and not simply an explanation for a large balance. Schools will be required to provide evidence of planning through the Properly Assigned Sum process such as projects detailed in the Asset Management or School Development Plans, along with minutes of governors meetings.

4.3 Examples of what could be classed as committed balances:

- * planning for uncertainty over future rolls, staffing or funding, where this reasonable, and agreed with the local authority, as surplus balances cannot be used to defer difficult decisions;
- * reasonable sums for projects/ specific purposes as detailed in the School Development Plan and/ or approved by governors;
- * contribution towards the cost of a capital project where all other capital resources have been exhausted. Evidence will be required to demonstrate that works have been approved and are due to start in the next financial year, or are already underway;
- * prior year commitments for orders placed in the previous financial year where schools can provide evidence, such as copies of orders, delivery notes, invoices, as the invoice was received too late for the accruals deadline; and
- * one off costs relating to single status or job evaluation can be retained, but the ongoing costs of any such agreements must be affordable from within the schools recurrent revenue funding.

5. Standards Fund

5.1 With effect from 1 April 2010 it is recommended that all Standards Fund grants are treated as delegated funds to schools and be subject to the same balance control mechanism, unless the grant is either **ring-fenced, issued to schools part way through the financial year** or the grant relates to **an academic year. Ring fenced/late grants can be carried forward, if required .**

5.2 The current balance control mechanism allows for all unspent Standards Fund to be discounted when calculating the sum defined as the uncommitted balance. Schools will need to revisit their spending plans to check their

projected year end balance and bring forward some planned expenditure if required.

- 5.3 The new government has not taken final decisions on which grants will be transferred to the Dedicated Schools Grant from 1 April 2011, but it is expected that the School Development Grant and the School Standards Grants, as a minimum will be mainstreamed. This will have the same impact as this proposed change.

6. Converter Academies

- 6.1 New regulations have been made in respect of balance transfers for converter academies. Previously, any balances from schools becoming academies have reverted back to the local authority, whether the sum is positive or negative. The new regulations require any balance as at conversion date to be transferred to the academy.
- 6.2 The local authority has a period of three months from the conversion date to finalise the sum to be transferred to the academy, be this a positive or negative sum. As there are a number of banking and accounting arrangements in place across Walsall schools, there will need to be a corresponding number of procedures.

7. Revised Balance Control Mechanism

- 7.1 The Balance Control Mechanism is a section of the Scheme for Financing Schools, therefore, any change must be the subject of consultation with the Headteacher and governing body of every school before being formally approved by the Schools Forum.
- 7.2 Attached as Appendix 1 of the report is the draft consultation based upon discussions with the School Balances Working Group.
- 7.3 The results of this consultation will be brought to the next meeting of this Forum, with a recommended Balance Control Mechanism, to be formally adopted for the 2010-11 financial year.



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APPENDIX 1

Walsall Council
Balance Control Mechanism
1 April 2010

DRAFT
Consultation Document

Response date of ?

1. Introduction

- 1.1 Every local authority must have a Balance Control Mechanism to ensure that the funding delegated to its schools is spent on the children currently in school.
- 1.2 The Balance Control Mechanism recognises that all schools need to have reasonable balances to allow them to deal with in-year unforeseen problems, and this sum is known as an **uncommitted balance**. In addition a school may have a **committed balance** which is a sum held for specific purposes over an agreed timescale.

2. Proposed Changes

- 2.1 As there has been a significant reduction in the aggregated balances of all maintained schools in Walsall and the vast majority of schools are managing their budgets well within the prescribed limits for uncommitted balances, there is no proposal to change the maximum permitted balances percentages detailed below:

Primary/ Special schools with annual resources less £1.399m	8%
Primary/ Special schools with annual resources £1.4m to £2m	7%
Primary/ Special schools with annual resources over £2m	6%
Secondary schools	5%

- 2.2 However, it should be noted that these are maximum percentages as it is expected that most secondary schools need only 2-3% and most primary schools need to have 4-5% to ensure they can continue to run effectively within budget.

Consultation question 1

Do you agree with the proposal to maintain the maximum % of uncommitted balances included in the current balance control mechanism and detailed in paragraph 2.1 of this document?

Delete as appropriate

Maximum allowance: YES / NO

Comments

2.3 The latest guidance recommends that Standards Fund income is included within the Balance Control Mechanism as in reality the majority of the funding is for general use and no longer ring-fenced, therefore allowing schools to use the funds in the same manner as delegated budget shares. The seventeen month accounting period for Standards Fund has made it more difficult for local authorities and schools to manage balances effectively.

2.4 It is proposed that all non ring-fenced Standards Fund, issued on or before 1 April 10 is included in the Balance Control Mechanism. In future years it is expected that main grants will be transferred to the Dedicated Schools Grants, thereby formally consolidating this proposal. The Standards Fund Grants to be included in the BCM would be :

School Development Grant

School Standards Grant

School Standards Grant (personalisation)

Primary Strategy

Secondary Strategy

<p>Consultation question 2</p> <p><i>Do you agree with the proposal that the Walsall BCM should include the main standards fund grants as detailed above in 2.4, with effect from 1 April 2010?</i></p>		
Delete as appropriate	YES	NO
<p>Comments</p>		

2.5 The current Walsall BCM defines total resources as all income received during the financial year plus balances brought forward. The purpose of the BCM is to ensure that all government investment in schools is spent in the correct financial year, with exception of allowable uncommitted balances, or agreed Properly Assigned Sums.

2.6 It is proposed that to comply with the current guidance the definition of resources used to calculate the permitted maximum of uncommitted balances will be the sum of the following:

<u>Heading</u>	<u>CFR Income Code</u>
* Delegated Budget Share	I01, I02 & I03
* Schools Development Grant	element of I05
* Primary Strategy	element of I05
* Secondary Strategy	element of I05
* School Standards Grant	I14
* School Standards Grant – Personalisation	I14

2.7 The proposal differs from the existing scheme as it does not allow for balances brought forward and locally generated income as part of a schools' total resources. Where appropriate, income can be carried forward as a receipt in advance.

Consultation question 3	
<i>Do you agreed with the proposed definition of total annual resources to be applied to the Walsall Balance Control Mechanism with effect from 1 April 2011, as detailed in 2.6 above?</i>	
Delete as appropriate	YES / NO
Comments	

Consultation Response

Walsall Balance Control Mechanism – 1 April 2011

School name	
DfE number	

Consultation question 1	
<i>Do you agree with the proposal to maintain the maximum uncommitted balances included in the current balance control mechanism and detailed in paragraph 2.1 of this document?</i>	
Delete as appropriate	YES / NO
Comments	

Consultation question 2	
<i>Do you agree with the proposal that the Walsall BCM should include the main standards fund grants as detailed above in 2.4, with effect from 1 April 2010?</i>	
Delete as appropriate	YES / NO
Comments	

Consultation question 3	
<i>Do you agreed with the proposed definition of total annual resources to be applied to the Walsall Balance Control Mechanism with effect from 1 April 2011, as detailed in 2.6 above?</i>	
Delete as appropriate	YES / NO
Comments	

Signed: _____ (Headteacher)

Date:

Signed: _____ (Chair of Governors)

Date: