

Education Walsall

Schools Forum

5 December 2006

Revisions to the Scheme of Financing Schools

Introduction

The DfES has introduced some new expectations on Local Authorities with regard to their schemes of Financial Management. Members of the Forum will recall previous consultation on four main areas for change: reporting on multi-year budgets, introducing a Balance Control Mechanism, issuing a Note of concern, and a requirement for schools to achieve the Financial Management in Schools Standard.

This paper includes some proposed revisions to Walsall's *Scheme of Financing Schools*.

Multi Year Budgets

It is the Government's intention to provide multi-year budgets for schools, through the Dedicated Schools Grant. The production of a multi-year budget statement will provide the Authority with confirmation that schools are undertaking effective financial planning. The production of multi-year budget statements will also add to the evidence the Council's Section 151 officer requires, in order to declare that schools comply with the Financial Management in Schools Standard. The forecast will also help with the control of balances and deficits within Walsall. It is proposed that the scheme is amended as follows:

Education Walsall will require schools to submit a financial forecast covering each year of a multi-year period for which schools have been notified of budget shares beyond the current year. Forecasts to be revised annually.

Balance Control Mechanism

Walsall's scheme must include a provision that allows the Authority to place a control mechanism on uncommitted surplus balances. The Balance Control Mechanism (BCM) seeks to ensure that schools can build up reserves towards particular projects, through committing balances to those projects, but prevents schools from deferring implementation indefinitely. The BCM will take account of any funds paid into the school's budget share, except for funds relating to

community facilities provided by the school, in accordance with Section 27 of the Education Act (2002).

The DfES has recommended a maximum threshold Authorities may introduce to the scheme, but has indicated that the Department will accept lower or higher thresholds, where they can be justified by the Authority. Thresholds are discussed in greater detail below. It is proposed that the scheme is amended as follows:

- (a) The Authority shall calculate by 31 May each year the surplus balance, if any, held by each school as at the preceding 31 March. For this purpose the balance will be the recurrent balance as defined in the Consistent Financial reporting Framework;**
- (b) The Authority shall deduct from the balance any amounts for which the school has a prior year commitment to pay from the surplus balance and any unspent Standards Fund grant for the previous financial year.**
- (c) The Authority shall then deduct from the resulting sum any amounts which the Governing Body of the school has declared to be assigned for specific purposes permitted by the Authority, and which the Authority is satisfied are properly assigned. To count as properly assigned, amounts must not be retained beyond the period stipulated for the purpose in question, without the consent of the Authority. In considering whether any sums are properly assigned the Authority may also take into account any previously declared assignment of such sums but may not take any change in planned assignments to be the sole reason for considering that a sum is not properly assigned.**
- (d) If the result of steps a-c is a sum greater than 5% of the current year's budget for secondary schools, 8% for nursery, primary and special schools, or £10,000 (where that is greater than either percentage threshold), then the Authority shall deduct from the current year's budget share an amount equal to the excess.**

Members of the Forum may wish to consider the proposed thresholds. As the thresholds are based on a percentage of the school's budget share, care must be taken not to impose a figure that would preclude small schools from holding more than a minimal amount as a balance. Appendix 1 includes an illustration of threshold margins for typical primary and secondary schools.

Financial Management in Schools Standard

Local Authorities are now responsible for declaring that all of their schools adhere to the Financial Management in Schools Standard (FMSiS). Secondary schools must comply with the standard from 1 April 2007, other schools, on a

phased basis, must comply by 2010. It is for the Authority to determine how external accreditation of the standard is carried out and it has the power to require schools to achieve external accreditation of their compliance with the standard. The local authority's chief financial officer has discretion to determine whether the Council's Audit Officers should be nominated as the appropriate body to carry out assessments for FMSiS, or whether other independent companies are approved for the purpose. It is proposed that the scheme is amended as follows:

All maintained schools must demonstrate compliance with the DfES' Financial Management in Schools Standard, in line with the timetable determined by the authority, and at any time thereafter.

The authority may require schools to demonstrate compliance through the submission of evidence showing that the school has undergone an external assessment. External assessments will be carried out by the Internal Audit section of Walsall Metropolitan Borough Council. A reasonable charge will be levied by the Council for work connected with external assessment for FMSiS.

Notice of Concern

The scheme must include a provision that allows the authority to issue a notice of concern to any of its schools, where in the opinion of the Chief Finance Officer and Director of Children's Services (Managing Director, Education Walsall), the school has failed to comply with any provisions of the scheme, or where actions need to be taken to safeguard the financial position of the local authority or the school. It is proposed the scheme is amended as follows:

The Authority may issue a notice of concern to the Governing Body of any school it maintains where, in the opinion of the [*Chief Finance Officer and Managing Director, Education Walsall*] the school has failed to comply with the provisions of the scheme, or where actions need to be taken to safeguard the financial position of the local authority or the school.

The notice will set out the reasons and evidence for it being made and may place on the Governing Body restrictions, limitations or prohibitions in relation to the management of funds delegated to it. These may include:

- **Insisting that relevant staff undertake appropriate training to address any identified weaknesses in the financial management of the school;**
- **Insisting that an appropriately trained/qualified person chairs the finance committee of the Governing Body;**

- **Placing more stringent restrictions or conditions on the day to day financial management of a school than the scheme requires for all schools – such as the provision of monthly accounts to the authority;**
- **Insisting on regular financial monitoring meetings at the school attended by local authority [*Education Walsall*] officers;**
- **Requiring a Governing Body to buy into a local authority's financial management systems;**
- **Imposing restrictions or limitations on the manner in which a school manages extended school activity funded from within its delegated budget share – for example by requiring a school to submit income projections and/or financial monitoring reports on such activities.**

The notice will clearly state what these requirements are and the way in which and the time by which such requirements must be complied with in order for the notice to be withdrawn. It will also state the actions that the authority may take where the Governing Body does not comply with the notice.

Members of the Forum may wish to consider any other provisions which may be covered by a notice of concern. The DfES has indicated a willingness to consider revisions to the suggested text.

Recommendations

The schools Forum is recommended to:-

- Adopt a preferred option with regard to a Balance Control Mechanism, outlined in the Appendix
- Advise Education Walsall of any additional provisions to be included in the Notice of Concern
- Approve the suggested text for the additions to the *Scheme of Financing Schools* as shown in the bold type in the body of this report.