



**Walsall Children's Services**

**Report to:** Schools Forum

**Date:** 16 June 2009

**Subject:** School Balances

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**Purpose of the report:** To review the school balances control mechanism and the balances as at 31 March 2009.

## 1. Introduction

- 1.1 The level of school balances in Walsall and across the Country has increased significantly over the past few years. The DCSF requires all local authorities to reduce the level of surplus balances during the current multi-year budget period. Detailed in the table below are the total balance figures for Walsall schools from 2004-05 to 2008-09. The **good news** for Walsall is that there has been a **18% reduction** in school balances during the last year, resulting from improved financial management in schools.

2004-05	£11,216,922
2005-06	£11,765,666
2006-07	£11,981,901
2007-08	£15,056,097
2008-09 (est)	£12,721,852

- 1.2 The DCSF remain concerned at the national level of school balances, as are the Audit Commission. All Local Authorities (LAs) have been asked to supply their estimated balances figures to the DCSF by 5 June as the National Audit office wish to include the level of school balances in the notes to the DCSF accounts. Given the current economic climate, the DCSF will be under even greater pressure to ensure effective use of resources and value for money at local authority level.
- 1.3 At the last Schools Forum, it was agreed that the level of school balances and the balance control mechanism be reviewed during the Summer Term with a view to recommending changes to the current balance control mechanism.

## 2. Current Balance Control Mechanism

- 2.1 In brief the current control mechanism operates as follows:

- the year end balance includes all unspent allocations of delegated budget share, standards fund and all other sources of income
- this balance is converted into a percentage of total resources defined as delegated budget share, Standards Fund and all other sources of grant
- from the balance figure the following sums are deducted
  - \* unspent Standards Fund
  - \* prior year commitments
  - \* Properly Assigned Sums (PAS)
- if the balance remaining at school level once all deductions have been made, is greater than the percentages detailed below, then the surplus is recovered, and re-invested in the Schools Budget during the next financial year

	Total resources (%)
Secondary schools	5
Primary & Special schools with resources <£1.399m	8
Primary & Special schools with resources £1.4m - £2m	7
Primary & Special schools with resources > £2m	6

### **3. Issues arising from the current Balance Control Mechanism**

- 3.1 The current balance control mechanism is difficult for schools to manage effectively:
- as resources filter into schools during this year schools do not know a definitive sum against which surplus balances will be calculated, until the later stages of the year;
  - schools are, therefore, submitting PAS requests unnecessarily, creating additional work in school and at the centre;
  - the formally reported balances of schools are technically inflated at year end as no creditor provisions are made for goods and services received by 31 March, but for which invoices are outstanding, as these are dealt with in the PAS process. Also, no accounting adjustments are made for monies received prior to 31 March which relate to activity due to take place in the following financial year;
  - the prior year commitment returns require an additional process in May and there can be problems in ensuring that all schools submit their returns in a timely and accurate manner;
  - approval of PAS cannot be completed until all year end information is received and the final balance figure has been calculated for every school;
  - schools perceive that the PAS process hinders the budget setting process for the following year; and
  - there are issues around PAS being carried over year on year as some schools do not include such commitments on their new PAS submission.
- 3.2 In summary, the current process is lengthy, bureaucratic and can be difficult for schools and officers to understand and administer.

### **4. Proposed amendments to the Balance Control Mechanism**

- 4.1 The current percentages applied to surplus balances allow schools to retain approximately £14.2m at the end of each year, which is a significant sum. If LAs do not manage to control school balances effectively at a local level, then the government intend to regulate. This could mean the removal of all local discretion and a broad brush approach being introduced which could create problems for some schools. The downward trend in school balances this year has demonstrated that the current balance control mechanism is having an impact. However, the system needs to be improved to respond to the government's agenda.
- 4.2 The purpose of the balance control mechanism is to ensure that as much of the available school resources are spent in year on the pupils currently being educated. As there are two parts to the control mechanism, the permitted balances sum and agreed PAS, an effective mechanism should limit the amount of uncommitted school resources and require effective financial planning in respect of PAS, which can relate

to more than a single financial year.

4.3 Alternative approaches to identify a sum which is reasonable for schools to hold in reserve, prior to PAS being agreed, could be:

1. a cash figure, dependent on the sector and the size of the school budget. An example has been worked up using the sums detailed below:

Nursery Schools £35,000 permitted balances  
Primary & Special Schools with less than £1m, £60,000 permitted balances  
Primary and Special Schools with over £1m, £80,000 permitted balances  
Secondary Schools with less than £4m, £180,000 permitted balances  
Secondary Schools with £4m to £6.5m, £235,000 permitted balances  
Secondary Schools with over £6.5m, £290,000 permitted balances

This example would allow a total permitted balances sum of £11.5m

2. apply the current range of percentage figures, based on the delegated budget share and School Standards Grant only. Standards Fund grants would be ignored, as unspent Standard Fund is discounted when calculating surplus balances, along with any in year budget adjustments. This permitted balance would be fixed and provided for every school on their annual budget statement. This methodology would reduce the total permitted balances sum to £13.3m
3. a reduction to the percentages currently included in the balance control mechanism. An example has been worked through which applied a 1% abatement to the current range of percentages. The result of the exercises to reduce the total permitted balances sum to £12m. Once again this option would need to be based upon initial allocations made to schools in April if schools are to be provided with a definitive figure

Options 2 and 3 would for example calculate the permitted balances sum for 2010-11 using the 2010-11 budget allocations.

4.4 It is proposed that a revised balance control mechanism should not include prior year commitments as this method of late accruals inflates the balances sum reported to DCSF via the Section 52 outturn statement and Consistent Financial Reports. For 2008-09 the reported balances would have been up to £3m lower adopting this approach. It is recommended that an accruals process is agreed with the Council to facilitate the processing of year end creditor provisions in April, in accordance with the Council's year end timetable. Schools would be trained in new year-end financial processes in preparation for the end of the financial year.

4.5 In addition to the above, any income that is held by schools for activity that can legitimately take place in the new year, according to the conditions attached to the funding, should be treated as a receipt in advance and carried forward. An example of this would be Black Country Challenge funding relating to an academic year programme.

4.6 It is recommended that the School Forum give their view on the proposed changes to the balance control mechanism, in advance of full consultation to:

- remove the prior year commitment process and use the proper accounting procedure;
- provide schools with a balance control permitted sum at the beginning of each year; and
- amend the current method of calculating the uncommitted balances sum with a view to reducing the total sum, to ensure that a greater proportion of the available resources are invested in the current pupils.

The cash sum option is the simplest method and would provide schools with a clear target. The cash sum could be reviewed at the beginning of each multi-year budget period to ensure that it remains relevant.

## **5 Recovery of School Balances**

- 5.1 55 schools submitted PAS requests in respect of their 2008-09 balances. Of these, 55% proved to be unnecessary as their balances were below the permitted threshold, once their prior year commitments were identified.
- 5.2 The current balance control mechanism is generous and just 8 schools have exceeded their permitted balances limit following the application of prior year commitments and PAS. Of these 8 schools 3 had their PAS requests rejected in full or in part. Where PAS have been rejected the Panel took into consideration the residual balances held by schools over the past three years, the ability to accumulate balances and access to other potential sources of funding.
- 5.3 The PAS requests submitted by Sneyd secondary school were rejected by the Panel. This action results in a sum of £175,000 being deducted from the school's balances. The decision was taken as the school has included a significant sum in its curriculum resources budget for 2009-10. It is essential that the school has some contingency to deal with extraordinary costs that may arise as a result of the proposed closure. It is impossible to predict the impact of pupil losses or staff turnover at this stage of the process, both of which could be costly. A project team will be working closely with the school during this period of uncertainty.

School Forum is requested to increase the school specific contingency by £175,000 and to ringfence this sum for Sneyd school. Without a contingency any potential overspend by the school, would be charged to future year's DSG.

- 5.4 The total sum to be recovered via the balance control mechanism is £348,044. After the deducting the ringfenced sum for the Sneyd contingency of £175,000, a sum of £173,044 is available for reinvestment in the Schools Budget. It is recommended that first call on this funding be used to address final pupil number adjustments should they be required and further recommended that this sum is utilised to reduce the 2010-11 BSF/PCP contributions for all schools.

## **6. School Specific Contingency**

- 6.1 An issue has arisen regarding the funding of additional provision in the primary resourced units. As a result there may be a request for a contribution from the school specific contingency. There are a number of aspects of the provision to consider which remain unresolved at the time of writing this report.

- 6.2 The Forum is requested to provide delegated powers to the Chair to review and make a decision regarding the release of school specific contingency, if required. Details of the decision will be provided at the next meeting of the Forum.

## **7. Summary**

- 7.1 The report request the views of the School Forum on the proposed ways of improving the current balance control mechanism.
- 7.2 The Forum is requested to agree an increase in the school specific contingency, to allow a ringfenced sum of £175,000 to be added, to help Sneyd school deal with extraordinary costs that may arise during the current period of uncertainty.
- 7.3 Forum is requested to give the Chair delegated powers to release school specific contingency to two of the primary resourced units, if required, prior to the next full meeting of the group.