Education Walsall

Schools Forum

Scheme of Local Management of Schools

1. Purpose of the Report

The purpose of the report is to inform members of the Forum about changes the Department for Education and Skills (DfES) proposes to add to the scheme. The DfES is consulting widely on the proposed changes and invites responses by 30 June 2006.

2. Background

All Local Authorities are required to establish and maintain a Scheme of Local Management of Schools, the purpose of which is to set out the financial relationship between the local authority and the schools it maintains. Walsall's scheme was updated and approved by the Forum in October 2005.

The DfES proposes that four substantive revisions are made to the scheme, along with some minor amendments making general updates for changes in the law. The substantive changes are as follows:

(a) to give Local Authorities the ability to request a financial forecast from schools covering each year of the new multi-year budget period;

(b) to give local Authorities the ability to issue a *Notice of Concern* to a Governing Body where it feels it is appropriate to do so to safeguard the financial position of the school;

(c) to give Local Authorities the ability to make the achievement of the Financial Management Standard in Schools compulsory for certain phases and types of schools and declare external assessment of the standard compulsory;

(d) to require Local Authorities to include a Balance Control Mechanism in their scheme.

Further detail on each of these proposals is included in the document: *Scheme for Financing Schools –Consultation on Revision to Departmental Guidance*, which is attached to this paper as an appendix.

3. Comment

Perhaps the most controversial proposal relates to the introduction of a balance control mechanism. Currently, Education Walsall does not take any action to reduce the balances of primary schools when they exceed 8% of the budget, nor of secondary schools, when their balances exceed 5%.

The ability to serve a warning notice on the Governing Body of a school where there was concern about the management of finances is welcomed by Education Walsall as an alternative to the withdrawal of delegation. The requirements attached to a note of concern mirror some of the systems, checks and balances already used by Finance and Resource Advisory Staff when dealing with schools in difficulties.

The request for budget forecasts once again models procedures currently used by Education Walsall. Better forecasting should reduce the number of schools needing to request a licenced deficit.

Most schools will welcome the Financial Management Standard as it will assist when updating the school self evaluation form. Consideration needs to be given to whether or not compliance with the FMSiS standard needs to have external evaluation.

4. Recommendation

Forum Members are asked to comment and through debate advise the Chair on a suitable response to make to the DfES of the proposed changes to the Scheme.

SCHEME FOR FINANCING SCHOOLS – CONSULTATION ON REVISIONS TO DEPARTMENTAL GUIDANCE

Introduction

1. Under section 48 of the School Standards and Framework Act 1998 all local authorities are required to establish and maintain a scheme for financing schools setting out the relationship between the local authority and the schools it maintains.

2. Regulations[1] list the issues that schemes should address and the Department provides guidance to local authorities on the more detailed content of their schemes. This guidance is revised from time to time to reflect changes and amendments to legislation and policy. In the light of the new school funding arrangements the Department wishes to consult on a number of revisions to the existing scheme guidance.

Consultation

3. Consultation on the proposed changes will close on 30 June. Responses should be sent to:

John Hall
School and LEA Funding Division
Area 5A
Department for Education and Skills
Sanctuary Buildings
Great Smith Street
Westminster
London
SW1P 3BT

Or John.Hall@dfes.gsi.gov.uk

4. A complete copy of the scheme guidance showing the effects of the proposed revisions and additions is included at annex A. A response proforma is provided at annex B.

[1] See schedule 6 to The School Finance Regulations 2006.

Scheme revisions

5. The Department proposes to make four substantive revisions to its scheme guidance. These revisions would:

a. allow a local authority to request a financial forecast from schools covering each year of a multi-year budget period;

b. allow a local authority to issue a notice of concern to a governing body where it feels it is appropriate to do so to safeguard the financial position of the school;

c. allow a local authority to make the achievement of the Financial Management Standard in Schools compulsory for certain phases and types of schools and declare external assessment of the standard compulsory; and

d. require all local authorities to include a balance control mechanism in their scheme.

Financial Forecasts

6. Now that all schools will be in receipt of multi-year budget information schools should be using such information as part of their financial planning processes. It is proposed therefore that local authorities should be allowed to include a provision in their scheme that requires schools to submit a financial forecast for each year for which local authorities are in receipt of DSG information and have provided budget share information to schools, beyond the current year. It is proposed therefore to include at 2.3.1 of the existing scheme guidance the following additional text:

> The scheme may include a requirement for schools to submit to their LA a financial forecast covering each year of a multi-year period for which schools have been notified of budget shares beyond the current year. LAs must state the purposes for which they intend to use this forecast: such a forecast may be used in conjunction with a LA's balance control mechanism.
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> *In the light of multi-year budgets this provision provides LAs with a mechanism to ensure schools are undertaking financial planning. LAs should consider what they will use forecasts for: they could be used as evidence to support the LA's responsibility for declaring their schools' adherence to the Financial Management Standard in Schools and in support of the LA's balance control mechanism. However, this requirement should not place undue burdens on schools and should be proportionate to need.*

Consultation question 1: do you agree with the inclusion of provision to enable local authorities to require schools to submit a financial forecast covering each year of a multi-year budget beyond the current year. Do you have any comments on the proposed wording of the draft scheme guidance?

Notice of concern

7. From time to time there is need for local authorities to intervene in schools where they identify weaknesses in their financial management. Local authorities already have certain powers in this regard. For instance, they may:

a. require more frequent reports on income and expenditure than the normal 3 month intervals;

b. require audit access to the school's records, for both its internal audit and external auditors;

c. require local authority countersignatures for contracts exceeding a certain value per year;

d. require a deficit recovery plan which imposes certain reporting requirements;

e. require schools to submit financial or other information they deem necessary to enable them to satisfy themselves as to the management of the budget share;

f. exercise the right to allow the Chief Finance Officer to attend any meeting of the governing body with financial items on the agenda;

g. refuse bank accounts to schools in deficit.

8. These powers can be of limited use where a school's financial management is of significant concern: in such instances local authorities are often placed in the position of considering withdrawing financial delegation from a governing body where alternative strategies may provide amore effective way to support the school. We are, therefore, proposing to introduce an intermediate step that we think would better serve the interests of schools and local authorities.

9. Under our proposals local authorities would be permitted to issue a 'notice of concern' to a governing body where, in the opinion of the Chief Finance Officer and the Chief Education Officer/Director of Children's Services, it has failed to comply with any provisions within the scheme, or where action needs to be taken to safeguard the financial position of the authority or the school.

10. This notice would set out the concerns of the local authority and could impose a number of requirements on the governing body which would address the concerns identified. A draft text of the proposed guidance in respect of this is set out below:

Notice of concern

The scheme may include a provision that enables an authority to issue a notice of concern to the governing body of any school it maintains.

Such a notice may be issued where, in the opinion of the Chief Finance Officer and the Chief Education Officer/Director of Children's Services, 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.

Such a notice should set out the reasons and evidence for it being made.

Where an authority includes provision in its scheme to enable it to issue notices of concern, the scheme must make provision for the authority to impose requirements on a governing body in relation to the management of funds, including actions, restrictions, limitations or prohibitions it must comply with. These requirements 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 local authority;
- insisting on regular financial monitoring meetings at the school attended by local authority officers;
- requiring a governing body to buy into a local authority's financial management systems; and
- 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 must clearly state what these requirements are, the way in which and the time by which such requirements must be complied with in order for the notice to be withdrawn. It must also state the actions that the authority may take where the governing body does not comply with the notice.

The principal criterion for issuing a notice, and determining the requirements included within it, should be to safeguard the financial position of the local authority or school.

Where a local authority issues a notice of concern the scheme must provide for the notice to be withdrawn once the governing body has complied with the requirements it imposes.

The purpose of this provision is to enable local authorities to set out formally any concerns they have regarding the financial management of a school they maintain and require a governing body to comply with any requirements they deem necessary.

It should not be used in place of withdrawal of financial delegation where that is the appropriate action to take; however, it may provide a way of making a governing body aware of the authority's concerns short of withdrawing delegation and identifying the actions a governing body should take in order to improve their financial management to avoid withdrawal.

11. We wish to consult on the principle of allowing local authorities to issue such a notice and to seek views on what kinds of requirements a local authority could impose on a governing body. Some of the requirements that could be considered are outlined in the model scheme above.

12. Clearly the precise requirement that a local authority may wish to place on a governing body through a notice of concern will vary depending on the circumstances of each case – however any actions it does impose must form part of its scheme.

Consultation question 2a: do you agree with the proposal to allow a local authority to issue a notice of concern to a school identified as having weaknesses in its financial management? Do you have comments on the proposed working of the guidance?

Consultation question 2b: do you have any comments on kinds of requirements a local authority may impose on a governing body subject to a notice of concern set out in the draft text? Do you have suggestions as to any further requirements that may be included in a notice of concern?

Financial Management Standard in Schools

13. All secondary schools will be required to meet the Financial Management Standard in Schools (FMSiS) by 31 March 2007. Chief Finance Officers will be responsible for confirming that their schools are complying, or being made to comply with the standard where necessary. We propose, therefore, to assist local authorities to ensure compliance by making achievement of the Standard a requirement of the scheme, and also to allow a local authority to declare the external assessment of compliance to be compulsory for some or all of their secondary schools. Draft proposed scheme guidance is as follows:

> The scheme may include a provision that imposes a requirement on schools [or specific phases/types of schools] to demonstrate achievement of and maintain the Financial Management Standard in Schools (FMSiS) as published by the DfES, and to declare external assessment of the standard compulsory for their schools [or specific phases/types of schools].
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> Model text for such a provision is set out below. The Department will be willing to consider variants on this.
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> "The authority may require any secondary school to demonstrate its achievement of the Financial Management Standard in Schools, published by the DfES, by 31 March 2007 and at any time thereafter. Where the authority considers it necessary for the school to undergo an external assessment against the Standard, this will be funded from the school's delegated budget. The authority will provide an approved list of external assessors for the school to choose from."

The Financial Management Standard & Toolkit (FMS&T) was developed and released to schools as a self-management package in June 2004. The standard and toolkit is available at:

http://www.ipfbenchmarking.net/consultancy_dfes_update/

As local authorities will be responsible for declaring their schools' adherence to the Standard, it will be up to them to decide how that compliance is delivered. The evidence to support the declaration is a matter for the CFO's judgement - it need not rely on formal FMSiS assessment of every individual school.

This provision is designed to assist local authorities in getting compliance with FMSiS, by allowing them to impose a requirement on schools to demonstrate achievement of and maintain the FMSiS, and to declare external assessment of the standard compulsory for their schools.

If schools do not have an external assessment, a review of their self-assessment may provide the LA with the appropriate information to make a judgement. CFOs will of course also take account of relevant comments in the reports of auditors, advisers and inspectors, of budgetary and accounting performance, and of any other relevant information available.

Consultation question 3: do you agree with the proposal to allow local authorities to declare external assessment of the Financial Management Standard in Schools compulsory? Do you have any comments on the draft scheme guidance?

Balance Control Mechanism

14. At present, local authorities may include in their schemes a mechanism to remove excessive balances from schools where a school cannot demonstrate that it has properly assigned any surplus balance it holds above a certain threshold.

15. While many local authorities already have such a provision in their scheme, not all do. We propose, therefore, to make it a mandatory aspect of all local authority schemes. Under the new arrangements there should be less need for schools to hold surplus, uncommitted balances and therefore, while it remains a central principle of the funding system that schools are able to carry forward balances for legitimate purposes, we think that all local authorities should have a mechanism to remove uncommitted surpluses.

16. We also propose to tighten up the form of this provision so that it strikes the right balance between enabling schools to hold large balances for particular purposes or projects, and not allowing them to claim indefinitely that a balance is held legitimately. Essentially, schools will have to declare a purpose and timetable for the use of surplus balances, and can then be held to it. We propose therefore to amend the current guidance to make this explicit – see below (changes to the existing scheme guidance are indicated by underlined text):

Controls on surplus balances

The scheme must include a provision that allows a LA to place a control mechanism on surplus balances.

The purpose of such a provision is to give the LA the ability to remove excessive uncommitted balances from schools. There is no intention to introduce a provision allowing balances to be taken into account in calculating budget shares.

A model text for such a mechanism is provided below but the Secretary of State will be willing to consider variants.

Surplus balances held by schools as permitted under this scheme are subject to the following restrictions with effect from [1 April 2007]:

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 calculated 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 as listed at paragraph [x] of the scheme, 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.

The condition outlined here is intended to ensure schools can build up reserves towards particular projects but cannot defer implementation indefinitely. In deciding whether a sum is properly assigned a scheme may also make explicit that right of an Authority to take account of a school's previous plans for any surplus balances in the event that such plans have changed. However, an Authority may not take a change in the plans of a school as the only criterion by which it can consider a sum to be properly assigned or not.

d. if the result of steps a-c is a sum greater than whichever is the greater of 5% of the current year's budget share (secondary schools) or 8% (primary and special schools), then the Authority shall deduct from the current year's budget share an amount equal to the excess.

Funds deriving from sources other than the Authority will be taken into account in this calculation if paid into the budget share account of the school, whether under provisions in this scheme or otherwise.

Funds held in relation to a school's exercise of powers under s.27 of the Education Act 2002 (community facilities) will not be taken into account unless added to the budget share surplus by the school as permitted by the Authority.
The total of any amounts deducted from schools' budget shares by the Authority

under this provision are to be applied to the Schools Budget of the Authority.

[In submitting their own proposals for scheme revisions LAs may particularly wish to put forward variations relating to the size of the uncommitted reserve (but those with excessively low thresholds are unlikely to be approved) – (note;see consultation question 4b)] <u>*Local authorities will also wish to consider how this provision operates in practice to ensure that any judgement and consequential clawback made by the local authority is transparent and open to appropriate scrutiny from the governing bodies affected.*</u>

17. As well as proposing to make this provision mandatory within all local authority schemes, it has also been suggested that the thresholds of 5% and 8% for secondary schools and primary/special schools respectively should be mandatory thresholds and not open to local variation. We wish to consult on whether prescribing thresholds nationally is appropriate or whether local authorities should continue of have some degree of discretion in this respect to reflect local preferences.

Consultation question 4a: do you agree with the proposal to make the inclusion of a balance control mechanism compulsory in local authority schemes? Do you have any comments on the amendments to the model scheme?

Consultation 4b: do you agree with the proposal to make the thresholds in the model scheme of 5% and 8% for secondary schools and primary/special schools respectively a mandatory aspect of every local authority's scheme?

Miscellaneous revisions

18. In addition to the four substantive revisions outlined above the scheme guidance has also been revised in respect of relevant legislative changes since the last issue of the guidance.

Consultation question 5: **do you have any comments on these miscellaneous revisions or any other aspects of the scheme guidance?**

Department for Education and Skills
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