

WALSALL METROPOLITAN BOROUGH COUNCIL

From: CONSTITUTIONAL
SERVICES

To:

Copy . AUDIT COMMITTEE
Resolutions:

Date: 12TH APRIL, 2011

Grant Thornton - Review of School Balances

The report of the Assistant Director of Finance, together with the report from Grant Thornton was submitted:-

(see annexed)

Jon Roberts (Grant Thornton) enlarged upon the report and drew attention to the fact that Walsall's balances were relatively high compared with its comparator groups. However, since 2009, balances had been falling but at a slower rate than comparator Authorities. He added that schools needed to be challenged in a robust way to reduce their balances further.

Councillor Robertson asked if an Appendix could be added to the report naming schools and showing their balances so that Governors would be encouraged to act in reducing them.

Dan Mortiboys (Financial Services) explained that school balances had fallen by almost a third in the last year.

Councillor Douglas-Maul asked if there was any relationship between the quality of education provided and the size of balance retained. Dan Mortiboys replied that he was not aware of any such relationship.

After further discussion it was,

Resolved

That the reports be noted and referred to the Children and Young People Scrutiny and Performance Panel and the Schools Forum for consideration.

Audit Committee - 12 April 2011

Grant Thornton – Review of School Balances

Summary of report

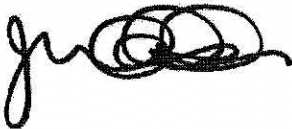
In Spring 2010 Grant Thornton performed a review of school balances held in Walsall. The review has resulted in the attached report, in which Grant Thornton have made a series of recommendations. Since a lot of the work for this was completed, there have been significant changes in the direction of education policy from central Government. As an example Walsall council will have no involvement with balances that are held by academies in the borough.

Further information has been produced since the report was initially drafted. This will be lower in both absolute and percentage terms since Audit Commission started reviewing the balances in 2006. From 31 March 2008 balances have reduced from £14.7m to £10.1m at 31 March 2010. It must also be noted that a further decrease in school balances is expected at 31 March 2011.

While school balances are a useful measure, the report notes that strong financial management in schools is essential to maintaining high quality education. Schools need to plan into the medium term, work towards good value for money and hold adequate balances to ensure education is not impacted by unexpected deficits. While school balances are a large number, within that there are a variety of schools with vastly different level of balances due to their individual circumstances.

Recommendations:

1. To note the report



James Walsh
Assistant Director of Finance (Chief Finance Officer)
1 April 2011

Governance

Responsibility for school finances not only sits with the council but also the governing bodies of schools and the Schools Forum.

Resource and Legal Considerations

Schools must work within Walsall's Scheme for Financing Schools which is in line with government legislation and was approved in March 2011 by Schools Forum. Schools must ensure good financial control, have medium term financial plans, look for value for money and have an appropriate level of balances to aid delivery of education.

Risk Management

Where schools fall into deficit because of poor budget management or insufficient reserves there can be an impact. Redundancies and their associated costs can impact both on education and costs can fall on the council. Schools need to ensure good financial control, financial planning into the medium term, good value for money and adequate balances to ensure that risk is managed.

Equality implications

There are no equality issues as a result of the report.

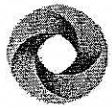
Consultation

Officers were consulted with as this report was produced.

Background Papers

Walsall Scheme for Financing Schools
Various DCSF guidance

Author: Dan Mortiboys, Service Accountancy and Financial Reporting Manager - ☎
01922 652982,
✉ mortiboysd@walsall.gov.uk



Grant Thornton

Review of Schools Balances at Walsall Metropolitan
Borough Council

January 2011 Final

Contents

	Page
Contents	0
Background	1
Walsall's Current Position	3
Walsall's Policy and Procedure for Monitoring Balances	5
Issues Arising from the current system	10
Proposed Changes	12
Conclusions and Recommendations	14

Background

The National Context

- 1 Schools in England are sitting on cash reserves totalling nearly £2 billion. Two out of five schools are holding balances above the recommended limits. The Audit Commission has been encouraging Councils to work with schools to reduce the amount of balances carried forward and prevent such balances building up. Its 'School Balances' tool was created to help schools improve their performance in this area by providing benchmarking information against relevant comparator groups. It covers all 150 local authorities in England and provides important information about how effectively school balances are being managed.
- 2 Overall during 2007/08 net balances held by schools increased in cash terms and in percentage terms from £1.618 billion (6.4%) to £1.859 billion (7.1%) by the end of that year (March 2008). Since the Audit Commission's School Balances tool began in 2004, figures have been rising generally and Walsall is no exception. However, balances have recently begun to reduce throughout England and at Walsall.
- 3 Notwithstanding the fact that balances have now begun to decrease since 2009, the issue is a nationally prominent one and there is the risk that the Department for Children Schools and Families (DCSF) will take action affecting all local authorities if balances have not fallen substantially enough by 2011. It is therefore important for the Council to keep it as a priority.
- 4 The DCSF states that schools should maintain maximum surplus balances equivalent to 5% of secondary school total budgets and 8% for primary, nursery and special schools, once all agreed commitments and earmarked funds have been taken into account. It stresses that these are limits and should not be seen as targets. In its guidance note published in March 2010, it states that the local authority should satisfy itself that the reasons for surpluses are sufficient and have policies and procedures to guard against a build up of balances in the first place. It is therefore important that strong financial management in schools is promoted by Walsall.
- 5 The reason for the focus on this issue is to ensure that revenue funding provided for schools is used to support the education of children at school now, rather than in the future. The DCSF stresses that reducing balances must not be to the detriment of education standards. Although it is prudent for schools to maintain a certain level of surplus to cover unexpected costs, the DCSF has stated that by schools carrying forward large balances, they are not using this funding for the current cohort. This potentially restricts schools' performance.

Use of this report

- 6 This report has been prepared to advise you of matters arising from our review and should not be used for any other purpose or be given to third parties without out prior written consent.

- 7 Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking your own specialist advice as appropriate.
- 8 We accept no responsibility in the event any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

Acknowledgements

- 9 We would like to record our appreciation for the assistance and co-operation provided to us during our review by the Council's staff.

Grant Thornton UK LLP

January 2011

Walsall's Current Position

Table 1: National and Local Context

Area	31 March 2006	31 March 2007	31 March 2008	31 March 2009
Walsall	£11.3 m (8.02%)	£11.1m (7.15%)	£14.7m (9.04%)	£13.2m (7.83%)
Statistical Neighbour Group	£71.7m (5.99%)	£75.3m (5.82%)	£91.8m (6.79%)	£75.3m (5.41%)
West Midlands Group	£198.2m (7.63%)	£209.9m (7.3%)	£243.4m (8.2%)	£222.5m (7.24%)
All England	£1.5 bn (6.64%)	£1.6 bn (6.34%)	£1.8 bn (7.05%)	£1.7 bn (6.26%)

Schools Benchmarking Data - Cash balances (percentage of total budget shown in brackets) Source: Audit Commission

- 1 The table shows Walsall's total balances held at the year end for the past four financial years compared with its comparator groups using The Audit Commission's School Balances benchmarking data. Balances rose between 2006 and 2008 in Walsall and all comparator groups. Since 2009, balances have been falling in general, both as an absolute amount and as a percentage of total budget (shown in brackets). Walsall has higher balances than comparators in all the benchmarking groups above. However, at Walsall, in 2008/09 school balances have reduced to £13.2m, in line with a general reduction across England. Whilst we have not verified the latest data, we understand that this downward trend has continued and that balances have reduced further to £10.1m at Walsall in 2010. This means that Walsall's balances have now fallen to their lowest levels since the Audit Commission began benchmarking in 2006. We are pleased to note this trend but draw the Council's attention to the risk of complacency, as these balances still represent significant sums.
- 2 Balances held are not equally distributed across all schools. There is a wide range of sums being held. A number of schools are holding large balances that are being retained year on year for capital projects which have not been completed. The DCSF's view is that school balances should only be used to fund capital projects if there are no capital resources remaining. Its guidance is not mandatory and consequently using surplus revenue balances to fund capital projects is commonplace both nationally and in Walsall. As a general rule, revenue funds are provided to cover recurrent expenses; being staff costs, operational costs and resources.

- 3 The DCSF recognises that sound financial management practice requires schools to hold a small balance year on year to cater for contingencies. In addition, it is important to note that if a school holds a smaller balance then there is a higher risk of it falling into deficit, which may have an adverse effect on pupils. Where pupil numbers are volatile, funding may change as it is driven by pupil numbers.
- 4 Balances are measured on the 31st March each year which is only mid way through the school year for the sake of consistency in measuring balances nationally. This means that we would expect that there should always be unmet commitments. However, surplus balances at Walsall remain higher than DCSF targets and therefore must continue to be an area of priority for the Council. Therefore, in our opinion, more stringent rules regarding the retaining of surplus balances by schools should be considered. This is because the DCSF has indicated that it intends to impose mandatory regulations on schools if balances do not reduce sufficiently and this will have the detrimental effect of removing the autonomy which currently exists.

Key Message

Balances have been increasing year-on-year with a reversal in this trend for 2008/09. We understand that surpluses have continued to decline in 2010. These balances comprise both committed and uncommitted funds. However, the DCSF has indicated that surplus balances must continue to be reduced and therefore the Council and schools together should continue to give this matter priority. The risk is that, if school balances generally throughout England do not fall sufficiently, the DCSF will impose mandatory regulations and remove the autonomy currently enjoyed.

Walsall's Policy and Procedure for Monitoring Balances

- 1 The Schools Finance Team and Schools Forum follow DCSF guidance by adopting the guideline upper acceptable limits of total budget allowable to be carried forward (of 5% for secondary schools and 8% for primary schools). However there is a slight adjustment in respect of primary schools according to their size: 6% is allowable for schools with budgets in excess of £2m; 7% for those in the range £1.4 to £2m and the full 8% for those whose budget is £1.3m or less.
- 2 Schools are allowed to carry forward from one financial year to the next any shortfall in expenditure relative to the school's budget share for the year plus/minus any balance brought forward from the previous year.
- 3 The 'Balance Control Mechanism' (BCM) is used by Walsall to control balances. The purpose of the BCM is ensure that as much as possible of the available school resources are spent on the current cohort, as intended by members.
- 4 The current BCM operates as follows:
 - the year end balance includes all unspent allocations of delegated budget share, standards fund and any other sources of income.
 - this balance is converted into a percentage of total resources, from this is deducted unspent standards fund, prior year commitments and Properly Assigned Sums (PAS). If the balance remaining (after all these allowances are taken into account) equates to a higher percentage than the defined limits, the Council automatically operates a clawback.
- 5 A PAS bid is made from a school in respect of projects which it has been saving for but are not yet completed. It is not possible to provide an exhaustive list of projects that may be deemed properly assigned, due to the wide range of possibilities accepted by the Council, which makes refusal on these grounds very difficult. The Council gives consideration to any proposal from a school that seeks to improve standards and provide greater opportunities for pupils and includes capital projects. DCSF guidance states that revenue funding should not be used for capital projects until all capital resources have been exhausted. Examples could include:
 - building projects
 - refurbishment of specialist rooms or general teaching areas
 - substantial replacement of library stock
 - purchasing new curriculum materials
 - employing a member of staff on a task specific basis, to improve standards in a particular area of the school, for a time limited period.

- 6 At the end of the year the Schools Finance Team now sends out to all schools a letter explaining exactly how much they can carry forward so there is absolute clarity and plans can be made more easily. Previously schools had to calculate the surplus themselves which led to inaccuracies. Any school wishing to reserve funds needs to apply for a PAS using the standard proforma provided and must give start and end dates for the project. They must also provide a costing and a statement of how the expenditure will improve standards and educational opportunities for children attending the school. Backing documentation to support the claim is requested and, in the examples reviewed, we found that such documentation was provided in the form of Governor meeting minutes, quotations and orders. This supports the DCSF guidance which states that schools must demonstrate firm plans with defined timescales for the whole of their surplus balances.
- 7 A panel considers these claims at a PAS meeting. All balances are reviewed and a decision is taken as to whether each is allowable or not. The panel comprises individuals across all areas relating to schools (not purely financial) therefore putting it in a good position to judge the merit of the projects being proposed by schools, including school improvement officers and asset management officers. Each request is appraised taking into consideration all aspects of the school's situation and whether the proposed project fits in with the general needs of the school e.g. whether a programme of window replacement is aligned to other scheduled works in the Asset Management Plan. Actions arising are documented in the minutes, such as the need for a follow up meeting with the school's headteacher or further investigation required to make an informed decision. However we found that the follow-up activity is not documented so there is no evidence regarding how this supports the robustness of the process. In 2008/09 the Schools Forum approved PAS requests for 51 schools out of a total of 59, which, in our opinion, represents a potentially limited value from a resource intensive process.
- 8 Schools with an agreed PAS are required to provide the Schools Finance Team with an update of the status of the commitment at the end of the financial year including explanations in relation to slippage on the projects. It provides a template for this (known as the Status report for PAS) which schools complete and return for consideration and approval or rejection by the panel. Schools complete these with varying levels of supporting documentation. In most cases the delays relate to building issues which are accepted as being beyond the control of the school and therefore approved by the panel.
- 9 The Schools Finance Team calculate the approved balances sums as a percentage of total resources for each school after the deduction of every PAS and prior year commitments. Any amount in excess of the permitted balance sums are subject to clawback. However, in 2008/09 only six schools had money clawed back totalling £170k. 51 schools were allowed to keep their unspent balances under the PAS approval system. The table below shows that £2.3 million of prior year commitments and £4 million of PAS were deducted prior to the clawbacks being invoked. The rationale for the projects utilising these balances should be carefully considered to ensure that they represent value for money. For example, the needs of pupils could be met in another way than the one proposed, which may in fact cost less.

Table 2: Walsall's School Balances 2008/09

	Actual Closing Balance	Prior Year Commitment	PAS	Clawback
Primary Schools	£6,978,409	£1,805,845	£1,346,035	£54,211
Secondary Schools	£3,931,762	£560,787	£1,112,466	£4,694
Special Schools	£2,372,631	£243,945	£1,437,827	£111,367
Nursery Schools	£434,924	£114,921	£150,545	-
Total	£13,717,726	£2,725,498	£4,046,873	£170,272

Source: Walsall Schools Finance

- 10 Each school was written to informing them of the clawback. Of these only two schools had PAS requests that had not been approved in full. Of the nine schools selected for clawback, six wrote to the Schools Forum to appeal. It reconsidered its decision in two cases where PAS had been rejected. In both cases, there had been significant changes that impacted on the schools financial positions and/or cost of the project. A third school had made an error in its submission and returned its full balance.

- 11 The Schools Finance Team acknowledges that the clawback process is long and bureaucratic. It takes three months for the majority of schools, from the submission of the first information to receiving notification of a possible clawback. Where a school has appealed this adds up to another six weeks to the timescale. The majority of time is taken by chasing schools who have not submitted their returns by the deadlines and then seeking further information to verify and support the bid process, at the request of the panel.
- 12 Evidence from the last balance control process demonstrates that not all schools fully understand committed and uncommitted balances. A number of schools did the following:
- submitted prior year commitments and PAS requests that were greater than their surplus balances;
 - submitted several updates to their prior year commitment figures; and
 - one school with a potential clawback requested permission to submit an increased prior year commitment figure.
- 13 Schools have difficulty in identifying which prior year commitments are the commitments against surplus balances. Some schools may think that all orders placed by 31 March should be identified as prior year commitments. Orders to be funded by unspent Standards Fund also complicate this process.
- 14 The Schools Finance Team acknowledges that the guidance provided to schools on the application of the BCM Mechanism does require clarification and to address this is re-issuing it in preparation for the 2009/10 year end. It particularly acknowledges that schools must be reminded of the critical importance of providing supporting evidence. The current lack of evidence from some schools makes a judgement even more difficult when trying to categorise balances. Part of any revised process would include asking schools to provide explanations on previous years commitments against balances where a large proportion of the funds do not appear to have been spent.
- 15 There is no formal appeals process relating to the recovery of schools balances. However, inevitably schools subject to clawback will be inclined to plea for the decision to be overturned. In some cases these are successful. This is usually granted where it is considered to be beyond the control of the school that works have not completed in the year (for example a discovery of asbestos in a building due to be refurbished) as the Schools Finance Team tries not to disturb the progress of planned works which will eventually lead to a reduction in balances in future years.

Managing and Monitoring Balances

- 16 There is wide variation in the amount of support requested by schools. A number of schools purchase financial support from the Council as a traded service. These schools receive information in respect of their projected balances and in-year spending as part of this service throughout the year and therefore there are no major surprises in terms of surplus balances at the year end. The Schools Finance Team is able to monitor other schools' balances through its general ledger on a monthly basis, but this is difficult to do without accurate commitment accounting. If it observes that a school is in difficulty, it can impose measures to assist and visits are arranged to attempt remedy the situation.

- 17 There are a number of foundation schools which use their own software packages and have external bank accounts. These schools do not purchase any financial support and operate at arms length. They fulfil their obligation to submit termly budget monitoring reports but the Schools Finance Team finds it difficult to question the contents of these or the frequency. Fortunately these schools do not pose risks in terms of surplus balances, possibly due to their history of managing resources autonomously.

Key Message

Procedures are in place to verify balances and manage them throughout the year. However, the Council recognises that these are onerous to administer and often have limited impact in terms of reducing balances.

Focus on controls and commitments is the key factor in addressing surplus balances. Scrutiny and challenge of commitments and the rationale behind them is essential to ensure that value for money is being achieved in all spending undertaken by schools.

Issues Arising from the current system

Current DCSF Rules

- 1 Walsall follows the DCSF guidance on school balances. Under these rules, there are currently a large proportion of balances allowed to be carried forward.. Up to 2008-09 the only clawback made was for £57k recovered from one special school. The main issue tends to relate to school balances continuing to increase despite schools having significant sums as prior year commitments and PAS amounts. Schools are only required to explain the balances above the threshold, rather than providing an explanation for the full surplus. The wide choice of reasons also allows plenty of scope for schools and makes refusal on these grounds difficult.

Difficulty of Administration

- 2 The current mechanism is difficult for schools to manage effectively in the following areas:
 - as additional financial resources become available to schools throughout the year, schools do not know a definitive sum against which surpluses will be calculated until the latter stages of the year. This leads to schools submitting inaccurate PAS requests;
 - many schools submit unnecessary PAS requests because after all the deductions their balances fall below the DCSF threshold;
 - the formally reported balances 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. 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. We understand that recording proper creditors has impacted on the reduced level of balances held as at March 2010;
 - due to the amount of forms to complete in relation to prior commitments, PAS etc there are difficulties in ensuring that all schools submit their returns on time;
 - approval of PAS cannot be completed until all year-end information is received and the final balance figure has been calculated for every school, which is time consuming for the Council;
 - schools perceive that PAS process hinders budget setting process for the following year
 - the Schools Finance Team is concerned that PAS are being carried over year on year because some schools don't include such commitments on their new PAS submission; and
 - issues with the banded system of approved balances e.g. one school moved into the next resourcing band by c £600 which meant that its permitted uncommitted balances sum decreased by 1% and the school was unknowingly approximately £7k in excess of the maximum.

Cultural Issues

- 3 The general culture within the Walsall school community is one of challenge to rules imposed on surplus balances. Notwithstanding the fact that schools are consulted and represented in all matters concerning surplus balances, the Schools Finance Team faces challenges going forward as it presents different approaches to tackling balances and encouraging the spending of surpluses on appropriate projects which support the education of the current cohort. This lack of compliance hinders progress to reduce balances further. The Schools Finance Team has undertaken a number of measures to forge positive relationships with schools and provide training and guidance. It also circulates communications on the issues to the Schools Forum so that it may work to support the reduction in balances. However, continued work in this area by the schools finance team is required to achieve a relationship with schools which is strengthened by the common goal of maximising schools' current (rather than future) performance.

Key Message

The DCSF has stated that significant changes in process are necessary to tackle the issues around the current system and facilitate the reduction of balances to a level it finds acceptable. Ideally, there would be no clawbacks performed against schools as these are bureaucratic and increase funding volatility for schools. However, action is required to create an environment in which these are not required.

Additional challenge to requests for balances to be carried forward and the purpose for these funds would be beneficial in terms of value for money and balance reduction.

Focus on controls around commitments including scrutiny and challenge of projects and clarity concerning their rationale is essential to ensure value for money is achieved.

Proposed Changes

- 1 The schools finance team recognises that additional changes are necessary to enable surplus balances to continue to be reduced. To that end it has developed a number of ideas which it intends to consider. It has already begun to progress these by setting up a Schools Forum Working Party, led by the Schools Finance Officer. We recognise that the Council's aim is for schools to be properly financially managed and that value for money is achieved.
- 2 As there are two parts to the BCM (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.
- 3 Alternative approaches to identify a reasonable sum for schools to carry forward which are being considered by the Schools Finance Team are to:
 - apply the current range of percentage figures, based on the delegate budget share and schools standards grant only. Standards Funds 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 also reduce the total permitted balance and allow more to be clawed back;
 - reduce the percentages currently included in the balance control mechanism. DCSF recognises that schools could cope with a reduction and has not made its suggested percentages mandatory so there is no reason why Walsall could not cut these to increase claw backs. This option would need to be based on initial allocations made to schools in April if schools are to be provided with a definitive figure. We recognise that the Council cannot impose such changes and that these must be approved by the Schools Forum; and
 - eliminate prior year commitments in the calculation of balances as this inflates the balance sum reported and reduces the amount of potential clawback.
- 4 The Council has already put forward a proposed approach of using a cash figure, rather than a percentage limit, depending on the size of the school's budget. This would reduce the size of the total surplus quite considerably and has the added benefits of being simple to understand and administer. However this was rejected by the school community. Notwithstanding this, the Council should continue to consider this option as a potential method of reducing balances in our opinion.
- 5 Other plans already underway are:
 - the recruitment of a traded services and commissioning officer, whose role will include (although is not exclusively related to) driving this agenda forward in schools;
 - meetings are taking place with the DCSF and the Schools Finance Team regarding e-procurement options;

- as requested by headteachers, the setting up of a subgroup to look at how the procurement of traded services can be improved;
- internal audit will include a value for money review which will begin in 2010/11;
- complementary training will be provided for both school and staff governors on managing resources and value for money;
- greater liaison between the Schools Finance Team and advisory staff including school improvement partners (SIPs); and
- The Schools Finance Officer intends to review the BCM in the light of draft guidance recently issued by DCSF, through the recently formed working party.

Notwithstanding a slight reduction in balances in 2008/09, a significant amount of further work is required if balances are to be reduced to acceptable levels. This may need to include more stringent rules on carry forwards of surplus balances.

Key Message

There are a number of initiatives being employed to address surplus balances, some of which encompass the wider issue of school spending to minimise the build-up of such balances. However, in our opinion, an approach which further questions the use of surpluses and the validity of approach taken is the key to success.

Conclusions and Recommendations

- 1 The Council is taking a number of initiatives to reduce school balances and has made some progress, but it acknowledges that there is a significant amount of further progress to be made in order to reduce balances to a level acceptable by the DCSF. Our review did discover that there are a number of initiatives underway which should help it to manage its performance more strongly going forward, should it implement them successfully. However in our opinion, the key to achieving significant reductions in balances lies in the revision of the acceptable surplus balances held by schools at year end above which an automatic clawback of funds is triggered, combined with a process of competitive bidding by schools for these funds.

Strengths

- 2 Walsall has a number of strengths which it can build upon to take balances down further:
 - There is a 'whole school' approach being developed i.e. a focus not just on the financial but other elements such as asset management and school improvement to enhance decision making in respect of balance allowances.
 - Walsall has performed a small number of clawbacks. Whilst this is not ideal for schools, this has contributed to the required reduction in balances. The fact that it has used this tool sends a strong message to schools that it does exercise its powers in this respect. Relatively few Councils have used this as a tool.
 - A number of initiatives have been developed by the Schools Finance Officer which are worthy of discussion in the Schools Forum and other related groups to debate alternative ways of calculating balances and clawbacks.

Challenges

- 3 However there are a few significant challenges to be addressed:
 - The standard rules published by DCSF allow large surpluses to be carried forward. Notwithstanding the fact that the Council has made slight adjustments in respect of primary schools depending on their size, by applying these rules rather than stricter percentages, it is allowing surpluses to be carried forward which may not represent the best value for money.
 - The current arrangements for calculating the balance from which the allowable percentages prior to clawback are calculated are cumbersome in our opinion. They are also difficult to administer, leading to confusion and some erroneous calculations. This is exacerbated by lack of clarity and consistency in accounting systems, meaning that it is difficult for the Council to ascertain the accurate financial position of many schools.
 - Cultural issues need to be overcome if balances are to reduce significantly as schools are not wholly supportive of the need to reduce balances. We have seen evidence of schools putting effort and resource into requesting balance carry forwards. The ongoing development of a shared culture of stewardship is essential for the Council and its schools if the most effective use of public monies is to be promoted. An examination of whether or not the opportunity to retain such balances has resulted in better schools' performance

would be worthwhile to support this. Focus on scrutiny of projects and the value for money they may bring could be developed in order to demonstrate the worthiness of these projects.

Recommendations for Promoting Strong Financial Management in Schools

As part of the initiative to develop the culture to one of shared focus on reducing balances and promoting strong financial management in schools, we recommend the Council should:

- Provide a dedicated resource to enable schools to become aware of the importance of value for money which should encourage the spending of balances on appropriate projects to benefit the current cohort of pupils
- Increase the scrutiny and challenge to schools when submitting project proposals to ensure that value for money is achieved
- Place initial focus on those schools with higher balances and/or ongoing issues so that resources are not as overstretched
- Focus on controls to ensure the robustness of commitments. Ensure that, in each individual case, strict rules are followed regarding the assessment of evidence in support of bids for specific projects. For example purchase orders in respect of works planned but not yet carried out at year end, or meeting minutes where agreement was reached to go ahead with a particular project
- Move further towards a common accounting system to make it easier to review schools' finances centrally and maintain regular monitoring as well as year end processing
- Consider using a technique used successfully elsewhere of publishing details in the local press those schools with surplus balances in excess of the allowable limit

Recommendations for Reducing Existing Surplus Balances

In order to tackle the legacy balances held by a number of schools, we recommend the Council should consider the following:

- Reducing the allowable percentages of total budget to be carried forward would have the most significant impact on balances. Notwithstanding the fact that Walsall's current policy is based on DCSF upper limits for school balances, DCSF has indicated that a surplus of 4-5% of total budget for primary schools and 2-3% for secondary schools would normally be sufficient. We therefore recommend that the Council reviews the percentage limits for its schools
- The PAS request process is time consuming and allows most surpluses to be carried forward by schools. We recommend that the Council considers an automatic clawback process. Schools would then be invited to bid for funds competitively and if their bids were successful would be able to continue their planned projects. The existing process for submissions in respect of the PAS could be followed so this should not result in additional effort by schools, but they would be bidding for funds held from clawbacks and with less certainty of approval. In our opinion this would encourage better bidding and spending throughout the year and provide the most equitable means of utilising the clawed back funds



Grant Thornton

www.grant-thornton.co.uk

© 2011 Grant Thornton UK LLP. All rights reserved.

"Grant Thornton" means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd (Grant Thornton International). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication

© 2011 Grant Thornton UK LLP. All rights reserved