

End of Year Financial Position and the Balance Control Mechanism

1. Purpose Of The Report

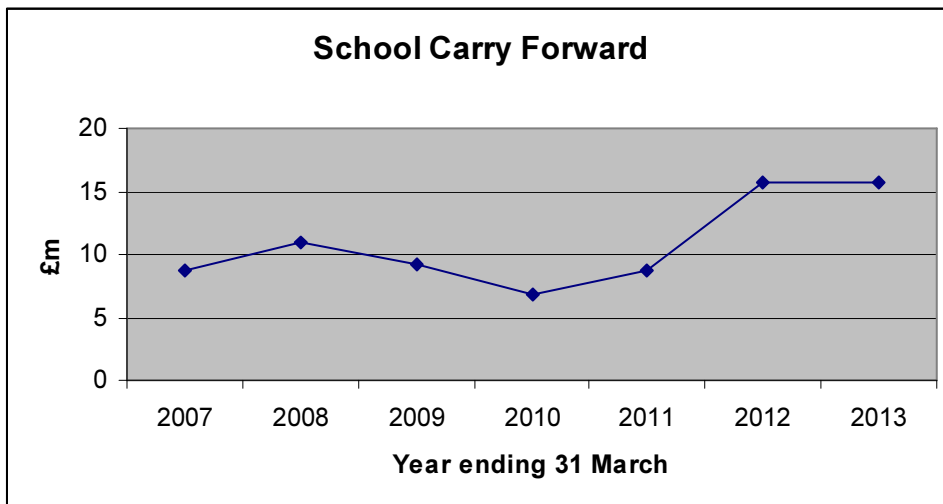
This report considers the schools' carry forward position at the end of the financial year and puts forward options for capping schools with excess balances. It then considers the final position of the Dedicated School Grant at the end of the financial year.

2. Recommendation

- i) The Forum note the balances held by schools
- ii) The Forum agree that all schools that had an excess balance last year (as at 31 March 2013) and where that balance has increased during the 2013/14 financial year, will
 - a) Have a specific letter about their carry forward
 - b) The balance will be capped
 - c) The funding will be released back to the school based on an appropriate budget plan showing how the excess balance will be spent or by demonstrating the expenditure has been incurred.
- iii) All schools to be sent a letter detailing the increase in balances and saying that while the capping mechanism has not been applied in the past, due to the national financial economic position this will not necessarily be the case in the future.
- iv) That the schools balance control mechanism remains in place but officers are asked to give consideration on how to further support schools with their financial management.
- v) The Forum note the underspend on the 2 years old grant.
- vi) The Forum agree to delay the decision on the mutual funds balance until the September meeting.

3. Schools Carry Forwards

3.1 Appendix A contains a list of school carry forwards at the end of the 2013/14 financial year (31 March 2014). The total year end balances in schools was £15.7m. The balance at the end of the previous year also stood at £15.7m (31 March 2013). This has stopped the trend of recent years where the carry forward balance in schools was increasing. The amount of funds that are deemed as excess balances (8% of a schools budget in Primary and Special schools, 5% in Secondary) by schools has fallen from £5.5m to £4.7m



3.2 The average percentage balance for Primary schools is 9% and 5% for Secondary Schools. For schools overall the percentage carry forward is 8%.

3.3 Forum members are aware that surplus balances should not be seen as just a year-end issue. Instead, it should be integrated within the multi-year school budget planning and monitoring cycles. In order to ensure this and to avoid the process of challenge and claw back going beyond the summer term, we have a pre-authorisation process, whereby schools wishing to retain balances above the threshold have to apply before the end of the financial year to do so.

3.4 26 schools applied to exceed the capping limit before the end of the year. These were initially considered by the Head of Resources and the Group Finance Manager. A summary of the circumstances are presented in the appendix.

- 3.5** There are no schools who exceeded the capping limit and that did not apply this year to retain them.
- 3.6** There were nine schools that last year had an excess balance and the Forum asked that they be visited for discussion to take place on managing their balances down. Three of these schools though have increased their carry forward. Two of these can demonstrate they are for good reason. For the federated schools of Elfrida and Athelney, contractors were not able to undertake building works as the ground has been saturated with rain water over the winter while the works are underway, and will be completed. The costs will fall in 2014/15. At Adamsrill negotiations with contractors have not been concluded in the timescales expected. Due to the complications of the school places, the expansion work at John Stainer, has been delayed. The schools planned capital works run concurrently with the places expansion work and have consequently been delayed.
- 3.7** This year schools were also given an opportunity to highlight adjustments that they felt were not in the accounts but should be taken into consideration when the balances are reported. For example internal payments on PFI schemes, advancements of future years' federation funding and balances held on behalf of other schools. These adjustment are shown in Appendix A and total £1.9m. Taking these into account, the balance in schools would reduce to £13.9m
- 3.8** A short survey of London Authorities was undertaken by the finance team to see how many schools forum operate balance control mechanisms. Current returns indicate 50% of the borough's operate such controls. The Forum are asked to consider whether they want to continue with the balance control mechanism.

4 Balance Control Mechanism and financial management

- 4.1** There have been a number of issues highlighted in the press recently regarding poor financial management and probity in schools particularly in academies and free schools. It is suggested that rather than weaken the challenge made to schools, consideration needs to be given to how to help improve and strengthen their financial management further.

- 4.2** The balance control mechanism is not a means to take money away from schools but rather a way to encourage better financial management. The Forum agreed the continuation of the current scheme on 17 February 2011
- 4.3** The scheme of delegation describes how the balance control mechanism operates and is shown in Appendix B to this report. The scheme of delegation makes provision for capping of schools balances. Within the scheme there is provision to enable schools to agree plans for excess balances with the Authority.
- 4.4** The Balance Control Mechanism is in place to ensure funding is spent on those pupils within the school at the time the funding is allocated. It is not intended to be an interference with the running of the school, rather a means to ensure that there is adequate financial management. It approaches excessive balances from the point of view that children are missing out on the benefit of funds they are entitled to. It is designed to allow a flexible approach so as not to impose draconian measures on schools. The level of funding that should remain in reserves of schools will always be a matter of debate as will whether such a mechanism to control balances should be in place. The DfE have relied on the Schools Financial Value Standard to secure the proper financial management in schools.
- 4.5** Historically, local authorities were required by legislation to have a balance control mechanism in their local Scheme for Financing Schools. However, this rule was relaxed from 2012-13 when the Department for Education guidance stated that “a Scheme **may** contain a mechanism to clawback excess surplus balances. Any mechanism should have regard to the principle that schools should be moving towards greater autonomy, should not be constrained from making early efficiencies to support their medium-term budgeting in a tighter financial climate, and should not be burdened by bureaucracy. The mechanism should, therefore, be focused only on those schools which have built up significant excessive uncommitted balances and/or where some level of redistribution would support improved provision across a local area”.
- 4.6** In terms of judging local authority’s financial management of schools, the DfE use a trigger of at least 5% of schools holding balances of at least 15% of their budgets for five consecutive years, as a measure. While this has not currently been triggered in Lewisham, if balances remain at their current level this limit will be exceeded at the end of 2015/16.

- 4.7** One option would be to adopt the DfE's 15% trigger in the balance control mechanism.
- 4.8** The documents suggest that any LA 'caught' by the criteria will be 'approached' by the DfE and asked whether that is appropriate. What it doesn't make clear is what, if any, sanctions that approach might result in. The analysis of the data suggests that any resources should be targeted at those LAs caught by more than one criterion. The risk-based approach should also consider whether LAs have made appropriate risk-based interventions themselves and whether there are 'persistent offenders'.
- 4.9** It is suggested that rather than weaken the challenge made to schools, consideration needs to be given to how to help improve and strengthen their financial management further. It is proposed officers bring a report back to the Forum later this year.

5. Capping Of Individual Schools

There are numerous ways a cap could be implemented and the Forum are asked to consider the current approach. The following list provides a number of options and makes comments about each one. This list is not intended to be exhaustive but highlights the most likely ways to implement a cap.

5.1 Individual judgement by officers on whether each school should be capped.

Comments

- Applications are sometimes light on detail to make a full judgement on whether the school should be capped and clarification would need to be sought from the schools concerned.

- In line with scheme

5.2 A blanket cap on all schools with excess balances with provisos.

Once a school has spent the funding in line with their application to exceed the cap, the money will be returned to them. Any excess that is not spent would be retained and the views of Forum sought regarding use of the funds.

Comments

- Administratively heavy
- While this seems harsh it does give schools a year's grace to resolve their problem
- Strong message to schools that if the funding is not spent on those pupils it was provided for or intended purpose, it will be capped

5.3 Schools with excess balances for two years are capped

Comments

- This is in line with the scheme
- Arbitrary capping may deprive schools of essential funds.

5.4 An individual school letter requesting an appropriate plan to spend the excess with the proviso that if it is not spent by the year end the school will be capped

A letter to be sent to those schools that had an excess balance at the end of the previous year (2012/13) and have increased the balance during the 2013/14 financial year. The letter will say the funding has been capped but will be returned to the school on the basis of a financial plan or upon demonstration that the funding has been utilised as planned and agreed. At the end of the 2014/15 if the school still has an excess balance that is not spent, this would be retained and the views of Forum sought regarding use of the funds.

Comments

- This is a variation of 5.2 described above
- Administratively less heavy than a visit but potentially less effective
- While this seems harsh it does give schools a years grace to resolve their problem
- Strong message to schools that if the funding is not spent on those pupils it was provided for, it will be capped or lost

5.6 It is a fine balancing act to decide which option to take. The trend of increasing balances means funding is not being spent on pupils it is intended for and this needs to be addressed. It is suggested that option 5.4 provide the most appropriate way forward while still giving the schools concerned 12 months to address the issues.

5.7 It is important the all schools are aware of the issues and the latest position. It is therefore also recommended that all schools receive a letter explaining this.

6. Dedicated Schools Grant Outturn

6.1 Excluding schools, the Dedicated Schools Grant showed a balanced position at the year end, apart from the 2 years old grant which has been carried forward.

Dedicated Schools Grant	£'000
Increased number of placements in the independent special school sector and colleges	823
Contingency allocation	-823
2 year old grant underspend due to fewer places provided than grant provided for	-2054
2 year old grant carry forward	2054
Total	0

The 2 year olds grant carry forward will be placed in a reserve which can be utilised by the Forum as needed. It is not proposed to make a decision on its exact use currently; in theory the intended use should be for 2 years olds but it can be used as an emergency buffer for the cost pressure being faced by the High Needs Block.

7. Mutual Funds

7.1 The Schools Forum has a number of mutual funds that it manages on behalf of schools. At the end of the year, any balances are returned to schools or rolled forward to the next year. The end of year position of is described below.

Fund	Budget	End Of Year Spend	Balance
	£000	£000	£000
Growth Fund	2,161	2,231	-70
Contingency	1,222	89	1,133
Maternity Fund	823	734	89
Total	4,206	3,054	1,152

7.2 There are three options with the balance on these funds.

7.2.1 The funding is returned to schools.

7.2.2 Secondly, the Forum could take a cautious approach in the first instance and hold the funds until the financial position on the high needs block is clearer in the Autumn and make a decision in September on the funds' use.

7.2.3 Finally, the Forum may wish to retain the funds to address issues with schools rolls falling, particularly in secondary schools, only for the roll to rise as the primary bulge comes through to the secondary sector.

The national changes made in 2013-14 are intentionally centred on the number and characteristics of pupils rather than the circumstances of schools, but a pupil-led system can cause difficulties where local authorities identify that number of places required will increase in the near future and therefore want to ensure that required schools remain viable in the short term.

The Department for Education recognise this and now allow local authorities, with the agreement of Schools Forum, to top-slice the DSG funding to create a small fund to support schools with falling rolls in exceptional circumstances. Currently the budget does not allow for this.

7.3 In the light of the above it is proposed to bring a paper back to the Forum in September to make a decision on all three options.

8 Conclusion

Schools still face challenging financial circumstances. Funding growth has already slowed, apart from the pupil premium which OfSTED require schools to demonstrate how they have spent. Hanging over the public sector remains the further tightening of funding settlements and the increased probability that the national ring fence of school budgets may not continue. On the other hand there is a level of resources that is lying dormant and not being utilised for the benefit of the children that it was provided for. In times of financial retrenchment the increasing levels of balances may encourage the Government to reduce funding for schools. While capping any school is regrettable, it should also be seen as a mechanism to drive the application of strong financial management controls. If funding is not spent on the pupils in the schools, it puts at risk their educational achievement.

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