

## **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 the final position on the Dedicated School Grant at the end of the financial year.

### **2. Recommendation**

The Forum

- i) Note the balances held by schools.
- ii) Agree not to cap any school balances.
- iii) Agree that schools with an excess balance be asked for a return in October detailing the progress on their spending plans.
- iv) Agree to redistribute the balance of the maternity mutual fund on the basis of pupil numbers.
- v) Agree a new standardised budget monitoring template for termly returns to the Local Authority.

### **3. Dedicated Schools Grant Outturn**

- 3.1 Excluding schools, the Dedicated Schools Grant showed a small surplus. As expected there was a large overspend on High Needs pupils this was offset by the underspend on early years payments. The balance has been transferred to the reserve that was created from the underspend in 2013/14 on the 2 year olds grants. The reserve stood at £2,050k (which includes capital grant of £360k) at the start of the year and at the end of the year this now stands at £2,507k.
- 3.2 The final overspend on the High Needs pupils was higher than expected and is currently being investigated. It is planned to take a report to the High Needs sub group at their next meeting in July. At this point in time it is recommended that the Forum continue to hold the reserve to support any overspend on high needs children in 2015/16.

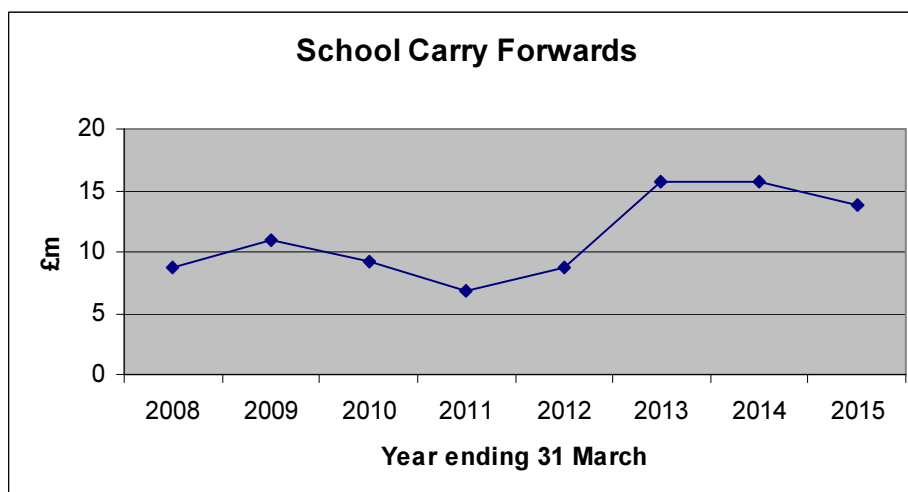
<b>Dedicated Schools Grant</b>	<b>£'000</b>
Increased number of high needs pupils	2773
CERA	-366
2,3 and 4 year old grant underspend due to fewer places provided	-2,864
Transfer to reserves	457
<b>Total</b>	<b>0</b>

The DSG reserve is as follows

	<b>£'000</b>
Balance Brought Forward	2054
Transfer at end of year	457
End of year balance	2511

#### 4. Schools Carry Forwards

- 4.1 Appendix A contains a list of school carry forwards at the end of the 2014/15 financial year (31 March 2015). The total year end balances in schools was £13.9m. The balance at the end of the previous year stood at £15.9m (31 March 2014), a fall of £2m. This is the first time since 2011 that there has been a fall in school balances.



- 4.2 The reporting of school carry forwards is subject to accounting regulations and the requirements specified under the national consistent financial report. Schools have been given the 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, advance payments of future years' federation funding and balances held on behalf of other schools. These adjustments total £1.9m. Taking these into account, the balances in schools would reduce to £12.0m. Banker school balances are still contained within the balances but in the wrong school
- 4.3 The average percentage balance for Primary schools is 7% and 1% for Secondary Schools. For schools overall the percentage carry forward is 6%.
- 4.3 The balances total in the Primary Sector is at the same level as last year, the fall in balances having occurred in the Secondary sector. This has mostly been the result of two secondary schools having deficits emerge during 2014/15. The two schools are Deptford Green and Sedgehill. The Deptford Green deficit was expected and a recovery plan put in place sometime ago. The Sedgehill deficit emerged late in the financial year and the Mayor and Cabinet will consider the school's recovery plan and licensed deficit application on the 3 June 2014.
- 4.4 29 schools applied to exceed the capping limit before the end of the year. Last year 26 schools applied, although the number of schools has increased the total cumulative excess balances in schools have fallen from £4.7m to £3.6m. There are six schools where the excess balance exceeds £100k. All the excess balances relate to planned capital works being delayed or funding given to schools to help develop partnerships.
- 4.5 The excess balances were considered by the Head of School Improvement and the Group Finance Manager for Children and Young People. In their view there was good reason for the balances. It was agreed to recommend to the Forum that as the excess balances had a set purpose that no school should be capped.
- 4.6 The applications to exceed the capping limit were based mainly on capital works being delayed. A similar scenario occurred last year. It is proposed that all schools who have an excess balance are asked for a further return in October to detail the progress on the implementation of their capital works. These returns will be summarised and brought to the Forum in December.
- 4.7 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 boroughs operate such controls.

## **5 Balance Control Mechanism and financial management**

- 5.1 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 Forum agreed the continuation of the current scheme on 17 February 2011. It is not the purpose of this report to review this decision but members can ask if they want to re-consider this at a later date. The balance control mechanism is a way to encourage better financial management and is not a means to take money away from schools.
- 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 To aid schools with their financial monitoring, the financial monitoring paper at the forum meeting on 19 March 2015 meeting suggested some improvements which the Forum advised the Local Authority they were supportive of. The meeting was not quorate to agree the proposals and these are detailed below for the Forum to confirm the decision. These proposals are detailed below
- 4.6 The budget monitoring returns received from schools vary in terms of both format and quality. Some returns do not provide an end of year

forecast but compare expenditure with a profiled budget while many have little supporting narrative. The capacity to examine all returns promptly is limited. When issues are identified there can be a delay before schools are challenged. If the template included additional data this process could be speeded up.

- 4.7 To overcome these issues it is proposed that a standard budget monitoring template is introduced. This will have validation checks built into the template to make basic checks on the data, for example a check will be made on whether the average cost per month of the salaries forecast be in line with the average monthly cost of salaries paid to date, a comment will be needed to be provided if not. There will be a level tolerance before a comment needs to be provided.
- 4.8 These inbuilt warning messages should aid discussions within the school between the school bursar, Headteacher and Governors on the progress of the budget and the financial forecasts. The template will also ask for more commentary which will not only aid the discussions internally within the school but will demonstrate the budget is being controlled adequately. Before the next monitoring statement is due consideration will be given to how the financial data in the template can be populated from the schools local accounting systems.
- 4.8 For 2016/17 the budget planner would also move to this basis.

## **5. Mutual Funds**

- 5.1 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 is described below.

5.2

<b>Fund</b>	<b>Budget</b>	<b>End Of Year Spend</b>	<b>Balance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Growth Fund</b>	<b>1,739</b>	<b>1,917</b>	<b>(178)</b>
<b>Contingency</b>	<b>1,255</b>	<b>808</b>	<b>447</b>
<b>Maternity Fund</b>	<b>831</b>	<b>712</b>	<b>119</b>
<b>Total</b>	<b>3,825</b>	<b>3,437</b>	<b>388</b>

- 5.3 In addition, the contingency has a brought forward balance of £1,063k from 2013/14 leading to an overall end of year position of a £1.510k. The growth fund will need to be offset against this leaving a balance surplus £1,332k.

- 5.4 The maternity fund had a brought forward balance of £89k from 2013/14 leading to an end of year position of a £208k balance.
- 5.5 It has been agreed previously that the Contingency balance will be rolled over to the 2015/16 financial year and the Forum agreed not to de-delegate any funds from schools. The balance on the Maternity Fund can now be returned to schools.
- 5.6 It is proposed that the balance should be distributed pro-rata to amount de-delegated from each school. A list is shown in Appendix C.

## **6 Conclusion**

Schools still face challenging financial circumstances. The carry forwards would indicate that this is more acute in the Secondary sector than the primary sector. The decline in Secondary balances partly hides the fact that two secondary schools have large deficit balances which is worrying and highlights the importance of tight budget monitoring.

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