



Cabinet (Resources) Panel

28 January 2014

Report title	School Balances 2012/13	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Phil Page Schools, Skills and Learning	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All	
Accountable director	Tim Johnson, Education and Enterprise	
Originating service	School Funding and Financial Planning	
Accountable employee(s)	Orlen Johnson	Principal Finance Officer
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Report to be/has been considered by	Wolverhampton Schools' Improvement Partnership	13 December 2013

Recommendation(s) for action or decision:

The Cabinet (Resources) Panel is recommended to:

1. Approve the process to be taken with regard to challenging schools around the level of their balances and their plans for those resources.
2. Agree to receive further updates on the progress and actions agreed with schools.

1.0 Purpose

- 1.1 This is a report, to update Councillors on the level of balances held by schools as at 31 March 2013 with specific focus on those schools that are maintaining high balances. Whilst schools have a right to plan the use of their resources over the medium term and maintain balances, as champions of school improvement the Local Authority has a responsibility to ensure that schools are using the resources delegated to them to good effect. The Local Authority has informed schools of the additional challenge that will be made going forward, Councillors are asked to approve the process to be taken and agree to receive further reports on progress being made.
- 1.2 Regulations on school funding together with the local scheme for financing schools provides that schools may maintain balances, and schools are encouraged to plan for the use of resources over the medium term. However, Department for Education (DfE) guidance makes the point that funding is provided for the children and young people who are currently in school. As champions for school improvement the Local Authority has a responsibility to ensure that resources are being used to deliver the best outcomes for its children and young people.

2.0 Background

- 2.1 A school's right to carry forward surplus balances is covered in Section 4 of the Wolverhampton Scheme for Financing Schools. Section 4.1 states that
- 'Schools may carry forward from one financial year to the next any surplus/deficit in net expenditure relative to the school's budget share for the year plus/minus any balance brought forward from the previous year'*
- 2.2 Where a school is in deficit or its financial planning information suggests that it will be in deficit, the school is required to submit an application seeking the approval of the Local Authority.
- 2.3 Up to March 2010 all local authorities were required to have within their local scheme a balance control mechanism that enabled local authorities to claw back uncommitted balances in excess of (5% secondary school, 8% primary schools and special schools).
- 2.4 DfE guidance issued in December 2010 stated that Local Authorities should consider removing or relaxing their balances control mechanisms. The guidance stated that any balance control mechanisms that remained 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.
- 2.5 Where authorities chose to retain a balance control mechanism, this should focus only on those schools:
- a) That have built up significant excessive uncommitted balances

- b) Where some level of redistribution would support improved provision across a local area.
- 2.6 Even if authorities no longer have a claw-back mechanism, there is still an expectation that authorities will challenge any schools that consistently have high, uncommitted surpluses. This is reflected in a consultation published by the DfE in April 2012 entitled 'Improving the Assurance system for Financial Management in Local Authority Maintained Schools'. In the consultation it was proposed that the DfE would ask Local Authorities (Las) that have schools with excessive surpluses for an explanation of the circumstances, and details of the action the Local Authority was taking to bring about change for the future. The trigger for this additional enquiry would be schools with balances in excess of 15% for more than five years.
- 2.7 At the end of 2011/12 there were five schools that met this criteria and the Local Authority was required to provide explanations of the work being done with the schools in question. At the end of 2012/13 there were 13 schools that met these criteria.
- 2.8 Following consultation on the local "***Scheme for financing schools***" the local scheme was updated in April 2012 to provide that:
- a) *The Authority was entitled to request information on the proposed use of surplus balances from any school where surplus balances exceed 8% of the following year's budget share for primary and special schools and by 5% for secondary schools for two consecutive years or in other circumstances where, in the view of the Authority, the level of surplus balances may be cause for concern'.*
- b) There is an option for claw back of schools balances subject to an arbitration process. Any decision would be made by a panel comprising:
- a) Governor nominated by the Schools Forum.
 - b) Headteacher nominated by the Wolverhampton Schools' Improvement Partnership (WSIP) or subsequent successor,
 - c) The Strategic Director of Education and Enterprise
 - d) The Chief Financial Officer or his/her nominated representatives.

Any balances clawed back must be redistributed amongst schools in that local learning community within the City of Wolverhampton..

3.0 Schools balances 2012/13

- 3.1 At the end of the 2012/13 financial year school balances stood at £18.1 Million Since that date six schools have converted to academy status with the result that their balances are no longer subject to local authority monitoring.
- 3.2 Within the city 13 schools have now had a surplus balance over 15% for five years meaning that the Local Authority is liable to challenge from the DfE. This is an increase on five schools at the end of 2011/12.

3.3 All schools that have excess surplus balances are asked to submit a pro-forma with details of their intended use of that portion of their balance above 5% for secondary schools and 8% for other schools.

3.4 For 2012/13 the overall balance figures were as follows:

Sector	Total Balances £'000	Number of Schools with Excess Surplus Balances	% of Schools with Excess Surplus Balances	Total Excess Surplus Balances £'000
Secondary	2,964	6	54.6	1,687
Primary	10,396	40	64.5	4,931
Junior	485	2	40.0	113
Infant	735	4	80.0	345
Nursery	844	7	100.0	662
Special	2,680	6	85.7	1,632
Total	18,104	65	67.01	9,370

Details of school individual balances can be found at **Appendix A**

The balances can be analysed across phases as follows:

Balance (£)	No of Schools			
	Secondary	Primary	Nursery	Special
0-50,000	0	9	1	0
50-100,000	0	18	1	2
100-200,000	1	18	5	0
200-300,000	1	10	0	1
300-400,000	0	5	0	0
400,000+	5	5	0	4

3.5 For those schools that have submitted their surplus balance information the intended use of balances is as detailed below:

Sector	Contribution to Building Capital (£'000)	Purchase of ICT (£'000)	Purchase of Fixtures and Fittings (£'000)	Staffing Issues/Single Status (£'000)	Other Projects (£'000)	Total (£'000)
Secondary	928	682	181	147	69	2,007
Primary	2,489	795	409	397	734	4,824
Junior	107	10	6	0	0	123
Infant	276	67	5	3	2	353
Nursery	46	24	32	126	190	418
Special	720	76	157	199	479	1,631
PRU					327	327
Total	4,566	1,654	790	872	1,801	9,683

3.6 In previous years schools' returns listed the following planned use of surplus balances:

	Contribution to Building/ Capital (£'000)	Purchase of ICT (£'000)	Purchase of Fixtures/ Fittings (£'000)	Staffing Issues/ Single Status (£'000)	Other (£'000)	Total (£'000)
2009/10	682	73	113	392	875	2,135
2010/11	1,182	481	599	791	1,531	4,584
2011/12	1,899	831	320	1,014	2,857	6,921

As can be seen from these figures the levels of schools' excess balances have been increasing year-on-year despite schools' submitted spending plans.

3.7 Schools have submitted budget plans, approved by governing bodies, for the current financial year which show a reduction in end of year balances. They forecast that schools will use £5.6Million of reserves and that they will end the year with balances of approximately £11.9Million. The table below shows the 2012/13 balances excluding those schools that have become Academies in 2013/14:

Sector	Total Balances 2012/13 (£'000)	Planned use of balances (£'000)	Forecast balance 31st March 2014 (£'000)
Secondary	2,778	851	1,927
Primary	9,990	3,145	6,845
Junior	485	69	416
Infant	735	124	611
Nursery	844	331	513
Special	2,680	1,120	1,560
Totals	17,512	5,640	11,872

Previous experience has shown that this reduction may not be realised.

3.8 It is recognised that there are a number of issues affecting schools' spending and balance management decisions in the medium term. These can be summarised as:

- The impact of the new pay arrangements following the single status review.
- Turbulence in schools' budgets 2013/14 and 2014/15 due to the government's funding reform agenda.
- Schools funding will continue to be funded at a 0% cash increase per pupil which will mean a reduction in real terms.

Schools also face uncertainty around funding levels due to the introduction of the government's national funding formula in 2015/16. It is anticipated that this will lead to a redistribution of school funding away from local authorities such as Wolverhampton.

Local Authority Strategy for Challenging Schools

3.9 The DfE expresses the view that schools should have the autonomy to plan effectively over a medium term framework and manage their balances in a manner that supports the schools' improvement priorities. As champions of school improvement the Local Authority still has a responsibility to challenge schools where there is evidence to suggest that there is an absence of clear plans for the levels of balances that a school may hold, particularly where the results reflect that the school may not be delivering the best outcomes for the children currently in the school.

3.10 There is a need to be challenging all schools to ensure that the levels of balances are appropriate for the needs of the schools and this process will be strengthened from the beginning when a school submits its three year budget plan through to its planned use of balances at the end of each financial year.

Budget planning and approval process

3.11 At two points in a financial year schools submit budget plans detailing their planned use of resources for the current year and two subsequent years, these plans are currently assessed and where schools are predicting deficits in current year they are required to apply to the local authority for permission to operate in a deficit position. Where a school is estimating a deficit position in the second and third year they are asked to provide additional information regarding their contingency plans to address the predicted deficits. Going forward this process will be strengthened further with the following steps

- 1) All schools budget plans will be reviewed and approved or schools asked to make resubmissions.
- 2) Plans will be assessed to test that all funding assumptions are reasonable and realistic.
- 3) Where a schools plan is predicting balances in excess of 5% (secondary) 8% (primary special schools) at any point in the three year planning period they will need

to provide details of their planned use of balances. Schools predicting deficits will continue to be required to produce explanations regarding contingency plans.

- 4) Where the authority has concerns about the assumptions in the plans, it will be returned and the school will be asked to address the issues highlighted and resubmit the budget plan.
- 5) Where the local authority still has concerns about the adequacy of a school's explanations or a school's resubmission, the local authority will request a meeting with the head teacher and chair of governors to discuss the issues. The meeting will be attended by the school improvement officer, head of service or Assistant Director.
- 6) Schools budget plans will also be assessed to ensure that they reflect strategies for the use of surplus balances brought forward from the previous year. Where budget plans do not demonstrate that surplus balances are being used and the school is unable to evidence acceptable plans for those surplus balances going forward, the Local Authority will progress the process to claw back and redistribute balances as detailed in paragraph 2.8.

- 3.12 In addition to strengthening the challenge of the budget planning process in schools the local authority will also be introducing greater challenge and around the balances that a school holds at the end of a financial year. As detailed at paragraph 3.5 schools currently submit returns detailing their planned use of surplus balances, as part of the school improvement agenda there will now be greater around the adequacy of those plans. Particular focus will be on those settings that meet the following criteria.

Schools (Satisfactory or requiring improvement)

- 3.13 Analysis of schools' balances against OFSTED judgements (Table below) illustrates the importance of challenging satisfactory or requiring improvement schools that may not be using the resources delegated to them to best effect:

Balance (£)	No. of Schools	No. with Good Ofsted	No. judged as satisfactory or requiring improvement
0 - 50,000	10	6	4
50 - 100,000	19	11	8
100 -150,000	12	7	5
150 - 200,000	13	10	3
200 - 250,000	10	8	2
250 - 300,000	2	2	0
300,000+	20	13	7

- 3.14 The table below shows that there are 19 schools judged as satisfactory or requiring improvement that have a surplus balance. The table below shows the planned use of those surplus balances:

School Phase	Number of schools	Contribution to Building/ Capital (£'000)	Purchase of ICT (£'000)	Purchase of Fixtures/ Fittings (£'000)	Staffing Issues/ Single Status (£'000)	Other (£'000)
Secondary	2	928	123	0	147	
Primary	15	1,281	194	43	128	374
Junior	1	6	10	6		
Infant						
Nursery						
Special	1	268	35	15	90	49
Total	19	2,483	362	64	365	423

Actions to be taken

- 3.15 As part of a regular discussion with schools, School Improvement Officers and the School Funding team will work with these schools through a process that will challenge schools to:
- Ascertain a school's plans for all balances held by the school.
 - Review the school's priorities for the use of balances and their suitability for the improvement agenda needed at the school.
 - Recommend some revisions to a school's spending plans where appropriate.
 - Communication of the findings and action to be taken by the school and the Local Authority will be sent to each member of the governing body.

Schools with balances in excess of 15% for more than five years

- 3.16 For these schools the information would suggest that there may not be clear plans for the balances held by these schools, the local authority will be required to demonstrate that it has plans with the schools to effect a change in these settings.

Action to be taken

- 3.17 As part of a regular discussion with schools, School Improvement Officers and the School Funding team will work with these schools through a process that will challenge schools to:
- Understand why these schools have built such levels over a prolonged period of time.
 - Ascertain what these schools are doing to work to an "outstanding" judgement.

- c) Understand the schools' plans for the resources going forward and their expected impact on school improvement outcomes.
 - d) Ascertain the risks to school improvement if resources were removed for redistribution.
 - e) Understand the effect of funding reform on the schools budget settlements in 2013/14. I.e. what is the level of Minimum Funding Guarantee (MFG) within each school's settlement.
- 3.18 Findings will be reported back to Councillors and School Forum with recommendations for action to be taken. Decisions around whether any elements are ear marked for redistribution will be made through an arbitration process as detailed in section 4 of the scheme for financing schools with schools being given the opportunity to attend to aid discussions.

Other schools with surpluses

- 3.19 Where a school has been in surplus for more than **two** consecutive years additional scrutiny will be directed around balances.

Action to be taken

- 3.20 As part of a regular discussion with schools, School Improvement Officers and the School Funding team will work with these schools through a process that will:
- a) Monitor the progress being made against plans detailed in the schools' surplus balance return.
 - b) Consider the schools priorities for the use of balances against the school improvement needs of the school.

- 3.21 Findings will be reported back to Councillors and School Forum with recommendations for actions to be taken.

4.0 Financial implications

- 4.1 Schools have a right to hold reasonable levels of balances and plan for the use of those balances over the medium term. Schools are to be made aware that where there is evidence that there are no plans for the use of balances held and redistribution would be beneficial to the wider school community resources could ultimately be clawed back.

Reference No: [CF/15012014/S]

5.0 Legal implications

- 5.1 A school's right to hold balances is regulated by Section 45 – 53 of School Standards and Framework Act 1998 and is contained within section 4 of the authority's Scheme for financing schools, as approved by the schools forum.

Reference No: [RB/14012014/D]

6.0 Equalities implications

- 6.1 The allocation of resources to schools has a major impact on a school's ability to deliver its desired outcomes and as such has implications for all pupils in the wider school community and within Education and Enterprise.

7.0 Environmental implications

- 7.1 There are no direct environmental implications as a result of the proposals of this report.

8.0 Human resources implications

- 8.1 There are no direct Human resources implications as a result of the proposals of this report, but should an element of a school's balance was clawed back for redistribution this could have implications on the resources available to meet costs of existing staffing structures.

9.0 Schedule of background papers

- 9.1 School Forum report – School Balances 2012/13 (24 October 2013),
Wolverhampton School Improvement Partnership – Schools Balances (13 December 2013)