



Cabinet (Resources) Panel

9 September 2014

Report title	School Balances 2013/14
Decision designation	AMBER
Cabinet member with lead responsibility	Councillor Phil Page Learning and Achievement Councillor Andrew Johnson Resources
Key decision	Yes
In forward plan	Yes
Wards affected	All
Accountable director	Tim Johnson, Education and Enterprise Keith Ireland , Delivery
Originating service	Strategic Finance
Accountable employee(s)	Orlen Johnson Finance Manager - Schools Tel 01902 554114 Email Orlen.johnson@wolverhampton.gov.uk
Report to be/has been considered by	School Forum 9 October 2014

Recommendation(s) for action or decision:

Cabinet (Resources) Panel is recommended to:

1. Approve the approach 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 report will update Councillors on the level of balances held by schools as at 31 March 2014 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 Council has a responsibility to ensure that schools are using the resources delegated to them to best effect. In December 2013 the Council informed schools of the additional challenge that will be made going forward and again in January 2014 Councillors approved the process to be taken forward and agreed to receive further progress reports.
- 1.2 Regulations on school funding together with the local scheme for financing schools state 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 and schools should not be holding high levels of balances without a defined plan for the use of those resources. Since 2012 the DfE has been challenging Councils where significant balances have been held for a long period of time.

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 Council.
- 2.3 Up to March 2010, all councils were required to have a balance control mechanism that enabled them to claw back uncommitted balances in excess of 5% for secondary school and 8% for primary schools and special schools.
- 2.4 DfE guidance issued in December 2010 stated that Councils should consider removing or relaxing their balance 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 councils no longer have a claw-back mechanism, there is still an expectation that they 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 councils that have schools with excessive surpluses for an explanation of the circumstances, and details of the action the council was taking to bring about change. The trigger for this additional enquiry would be schools with balances in excess of 15% for more than five years.

2.7 Following consultation on the local 'Scheme for financing schools' it was updated in September 2011 as follows:

- 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 the local area.

2.8 Additionally the Council will be conducting interviews with those schools that meet the following criteria:

- Category A : Balances in excess of 15% for more than five years.
- Category B : School has excess surplus balance but in special measures or 'Requires Improvement' category at their last OFSTED.
- Category C : Surplus balances for two consecutive years.

3.0 Schools balances 2013/14

3.1 At the end of the 2013/14 financial year schools' revenue balances stood at £15.95 million. This is a reduction of £1.5 million on the previous year's position. However £1.3 million of this reduction relates to the transfer of reserves to schools that converted to academy status during 2013/14.

3.2 Within the city 13 schools have now had a balance over 15% of their income for five years meaning that the Local Authority is liable to challenge from the DfE.

The table below shows the continued upward trend of the numbers of schools that have and will prompt this challenge to the Council:

Year	No. of Schools	Phase
2011/12	5	Primary
2012/13	9	Primary
2013/14	8	Primary
	3	Special
	2	Nursery

- 3.3 All schools that have surplus balances are asked to submit a pro-forma with details of their intended use of the portion of their balance above 5% for secondary schools and 8% for other schools. Schools are required to submit these by 3 October 2014.
- 3.4 For 2013/14 the overall balance figures were as follows:

Sector	2012/13			2013/14		
	Total Balances £'000	Number of Schools with Excess Surplus Balances	Total Excess Surplus Balances £'000	Total Balances £'000	Number of Schools with Excess Surplus Balances	Total Excess Surplus Balances £'000
Secondary	2,251	6	1,687	1,587	5	1,127
Primary	9,775	40	4,931	8,994	26	3,812
Junior	485	2	113	477	2	117
Infant	735	4	345	586	3	178
Nursery	844	7	662	537	5	240
Special	2,680	6	1,632	2,861	4	1,852
PRUs	692	3	288	914	1	561
Total	17,462	65	9,370	15,956	46	7,887

Note: For 2012/13 the table above has been adjusted for those settings that converted to academies during 2013/14. The 2013/14 figures also includes the balances of two settings that converted to academy status on the 1st April 2014 and are therefore now outside of Local Authority control. These can be identified as Wolverhampton Girls High £364,605 and Berrybrook Primary £215,120.

The balances can be analysed across phases as follows:

Balance (£)	No of Schools				
	Secondary	Primary	Nursery	Special	PRUs
0-50,000		13	1	1	1
50-100,000	1	18	2	1	2
100-200,000		13	3	1	0
200-300,000		10	0	0	0
300-400,000	3	6	0	0	0
400,000+	2	4	0	4	1

Balances can also be analysed over schools with good to poor outcomes for their children as follows:

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

Details of school individual balances can be found at appendix A.

3.5 Deficit Balances

At 31 March there were five schools with a deficit balance. The progress and actions being taken with these schools will be subject to a further report but current headlines are:

Name	Deficit	Position
Colton Hills	£184,386	Deficit at year end was £20,000 less than expected recovery in line with approval
Coppice	£260,237	Deficit lower than expected. School now in a position to submit an achievable recovery plan
Wednesfield	£561,365	Conversion to academy 1 September 2014.
Castlecroft	£ 21,444	Deficit in line to be recovered by March 2015.
Woodthorne	£ 45,012	Deficit in line to be recovered by March 2015.

Note: As Wednesfield High is converting to academy by order of the Secretary of State as a sponsored academy, the deficit left by the school at the point of conversion will transfer back to the Local Authority and be met from the resources available for schools through the Dedicated Schools Grant in 2015/16.

3.6 Schools for special consideration

In line with the process outlined above at paragraph 2.9 discussions will be held with 42 schools with excess surplus balances on their plans for the intended use of those resources. The number of schools in each category is as follows:

Category	Detail	Number
A	Balances in excess of 15% for more than five years	13
B	School has excess surplus balance but in special measures or 'Requires Improvement' category at their last OFSTED	9
C	Surplus balances for two consecutive years	20

Schools are asked to submit budget plans setting out their projected spending plans and projected balances for 2013/14. During 2013/14 schools projected balances of £11.8 million for 2013/14. Balances at the year end were £3.5 million greater than forecast.

For those schools in the categories outlined above, it is also evident that resources had not been spent in line with their plans. The table below shows the planned and actual balances for schools in category A, B and C.

Category	Planned Balance 2013/14 (£)	Actual Balance 2013/14 (£)	Unplanned Balance
A	3,488,839	4,093,291	604,452
B	1,163,024	1,825,089	662,065
C	4,676,528	6,518,279	1,841,751

These schools have been contacted regarding their balance position and meetings to discuss plans for these balances will occur during September/October 2014. It is hoped that this timing will give schools the opportunity to develop strategies for the use of these resources for the academic year ahead.

3.7 Surplus balances returns

All schools with an excess surplus balance are required to submit a return setting out plans for the use of those reserves. The Council will also be using this information to advise schools outside the three focus categories. Previous years' returns have shown that plans typically centre around building developments and ICT procurement as opposed to strategies which have a direct impact on improving pupil outcomes.

	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
2012/13	4,566	1,654	790	872	1,801	9,683

Factors affecting schools balances

- 3.8 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 £7.1 million of reserves and that they will end the year with balances of approximately £8.9 million. The table below shows the 2013/14 balances, excluding those schools that have become academies in 2013/14:

Sector	Total Balances 2013/14 (£'000)	Planned use of balances (£'000)	Forecast balance 31st March 2015 (£'000)
Secondary	1,587	347	1,240
Primary	8,994	3,768	5,226
Junior	477	120	357
Infant	586	114	472
Nursery	537	118	418
Special	2,861	1,821	1,040
PRUs	914	804	110
Totals	15,956	7,092	8,863

Previous experience has shown that this reduction may not be realised. The table below shows a history of planned balances set against actual balances for the previous three years and suggests that this reduction is unlikely to be realised.

Years	Planned £000s	Actual £000s
2011/12	11,856	21,845
2012/13	11,233	17,512
2013/14	11,872	15,375

Issues impacting on schools balances

3.9 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 impending introduction of the government's national funding formula due at some point in the next parliament. It is anticipated that this will lead to a redistribution of school funding away from local areas like Wolverhampton.

Pupil Premium

- 4..0 The pupil premium is a major strategy of the current government to improve social mobility and narrow the achievement gap that currently exists between children eligible for free school meals and their peers. This funding envelope was introduced in 2011-12 and funded at £625 million in the first year rising to £2.5 billion in 2014/15. Funding is based on the number of children eligible for free school meals at the January census (that have been eligible at any point in the previous six years). Due to the levels of deprivation within the city, schools have attracted significant additional funding to support the outcomes for eligible pupils. The levels of funding attracted since the introduction of the premium is as follows:

	2011/12 £	2012/13 £	2013/14 £	2014/15 £
Rate per pupil (Pri)	488	623	953	1300
per pupil (Sec)	488	623	900	935
Total (000's)	4,255	7,945	12,818	15,788

As part of the challenge to the schools in a balances category, particular attention will be paid to ensure that funds earmarked for pupil premium are being utilised in year and are not added to the balances that schools are holding.

5.0 Council Strategy for Challenging Schools

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 Council 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.

- 5.1 Between September and October, School Improvement Officers and the School Funding team will meet with these schools to challenge them about the level of balances and:
- Ascertain a school's plan for all their 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 revisions to a school's spending plans where appropriate.
 - Consider the impact on the school improvement within those schools if resources were clawed back for redistribution.

Following these meetings and the review of returns from other schools with surplus balances, the arbitration process set out in 2.7 will be instigated for those schools where there appears to be no justification for the level of surplus balances. Where it is

considered it would be beneficial for resources to be recovered and redistributed, recommendations will be made to Schools Forum. This would be in accordance with the Scheme previously agreed by Schools Forum. Recommendations from Schools Forum would then be brought back to Cabinet (Resources) Panel to be approved.

6.0 Financial implications

- 6.1 Schools have a right to hold reasonable levels of balances and plan for the use of those balances over the medium term. The Scheme for Financing Schools includes provision for clawing back balances considered excess and redistributing these amongst other schools. Governing bodies have been 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. Such decisions would be subject to an arbitration process, agreement by the Schools Forum and ratification by Cabinet (Resources) Panel.

[MF/18082014/L]

7.0 Legal implications

- 7.1 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. The Council has a duty to monitor use and challenge schools where balances exceed national guidelines. Schools Forum has agreed a mechanism for this purpose. The information shown in appendix A is already within the public domain.

[TS/18082014/L]

8.0 Equalities implications

- 8.1 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.

End of year balance figures shown in Appendix A may include unspent pupil premium allocations. It is important that discussions with schools explore how the needs of target cohort pupils/ students are being identified and met in school development and budget plans.

9.0 Environmental implications

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

10.0 Human resources implications

- 10.1 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 be clawed back for redistribution this could have implications on the resources available to meet costs of existing staffing structures.

11.0 Schedule of background papers

- 11.1 Schools Forum report – School Balances 2012/13 (24 October 2013),
Wolverhampton School Improvement Partnership – Schools Balances (13 December 2013).
Cabinet (Resources) Panel report – School Balances (28 January 2014)