Wiltshire Council **Agenda Item No. 10**

Schools Forum
6 December 2012

Controls on Surplus Balances Scheme

Purpose of the paper

1. To review the Controls on Surplus Balances Scheme and consider whether the Local Authority (LA) should continue to operate such a scheme in 2013-14.

Background and context

2. The Schools White Paper 2010, the *Importance of Teaching*, removed the requirement for LA's to have a claw back mechanism in place with effect from April 2011. Further to this it stated that the DfE would consult on making changes to the current arrangements from 2012-13 and would subsequently review guidance, including the level of balances deemed to be excessive.

3. The DfE's *Local Authority Scheme: Directed Revisions*, which took effect from 2011, included the following revision regarding balance control mechanisms:

   "Local Authority Funding Schemes may contain a mechanism to claw back 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 on only 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. At its meeting in March 2011, Schools Forum decided to continue with the scheme for 2011-12 and review the situation once the national picture had been identified. In December 2011, Schools Forum agreed to continue with the scheme for the 2012-13 year.

5. The *Local Authority Scheme: Directed Revisions* which took effect from April 2012 did not offer any further guidance and the DfE has now advised that they will next revisit the Scheme for Financing Schools ahead of the 2013-14 year. This would be the point at which any further change in guidance would be considered.

6. The National Audit Office published a report, on *Oversight of financial management in local authority maintained schools,* in October 2011which identified a weakness in the DfE's current assurance system. The DfE accepted these findings and agreed to strengthen their arrangements for approaching LA's about the financial management of their schools where there appeared to be areas for concern.

7. In response, the DfE launched a consultation on *Improving the assurance system for financial management in local authority maintained schools* in April 2012.

This included a proposal that the DfE would challenge LA's where more than 5% of schools have had a revenue surplus in excess of 15% for 5 years. The consultation document stated that:

"The Government believes that schools are best placed to manage their money and it is sound financial management for schools to keep a small balance from year to year. In this tight financial climate, it is reasonable for schools to keep some money aside for when it is needed most and they should be able to do this without criticism or claw back.

However, if a school has a very large surplus for several years, this suggests that they do not have a clear plan for how this will be deployed and so are not using their allocated funding to fully benefit today's pupils. LAs continue to have a key role in supporting and challenging schools on excessive surplus balances. This is why they are able to include a provision in their local schemes to claw back excessive, uncommitted, revenue surpluses. Although they are no longer required to operate a claw back mechanism, we do expect authorities to effectively challenge any schools that have very high, uncommitted surpluses."

8. The DfE has responded to the above consultation and, in order to strengthen the assurance system for financial management in LA maintained schools, will be asking LA's to provide additional information where they have concerns that money is not being used with propriety and that value for money is not being secured.

   Significantly, from 2011-12, they will challenge LA's with 5% of schools that have had a surplus of 15% or more for the last 5 years.

9. The DfE will also be asking LA's to provide additional information where an LA has 2.5% of schools that have been in deficit of 2.5% or more for the last 5 years.

Main Considerations

10. Wiltshire Council currently operates a claw back scheme with permissible thresholds of 5% and 8% for secondary and primary/special schools respectively. An analysis of revenue balances from 2007-08 to 2011-12 indicates that 8 maintained schools, 4% of total, have had revenue balances in excess of these thresholds for 5 years. This level of surplus would not trigger an enquiry from the DfE and is indicative of the robust measures that Wiltshire Council already has in place.

11. Wiltshire schools net revenue balances have reduced from £13.9m in 2008-09 to £8.76m in 2011-12. This could be perceived as a direct consequence of the scheme being in place but underlying factors and causes generating, or reducing, balances need to be taken into consideration. Factors which may skew any analysis include:

    i) Pupil Premium – this does not have to be spent in year and some, or all, may be carried forward to future financial years. Such balances must be assigned, but not evidenced, as being retained for specific purpose on the Intended Use of Revenue Balances return to be submitted by all schools whose revenue balances exceed the permitted thresholds. For the financial year 2011-12, 18% of balances retained for specific purpose were attributed to the Pupil Premium.

ii) Formula Capital – schools received significantly reduced Devolved Formula Capital allocations in 2010-11 and 2011-12 compared to previous years. Some schools are therefore retaining revenue funding in support of planned capital projects.

iii) Academies – total revenue balance data should be discounted to reflect the effect of academy conversions in order to compare on a like for like basis.

12. The purpose of the scheme is not to claw-back excessive balances from schools but to ensure that schools exercise prudent financial control whilst addressing the moral issue of spending funds generated for pupils while they are pupils at the school. Its operation has enabled the LA to monitor and challenge schools that have built up excessive reserves which would prove difficult if the scheme was not in place.

13. Continuing to consider the future of the Controls on Surplus Balances Scheme on an annual basis does not provide schools with long term certainty and, together with the expected turbulence in school budgets due to the new funding reforms, is counterproductive placing additional pressure on schools.

14. The revised Academies Financial Handbook, published September 2012, has removed the limits previously set by the Education Funding Agency on the sum of General Annual Grant that could be carried forward by an academy from one year to the next.

15. The School Financial Value Standard (SFVS), which replaced the Financial Management Standard in Schools, is an annual requirement for LA maintained schools. Governing bodies have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at them.

SFVS questions whether the governing body receives clear and concise monitoring reports of the school's budget position at least three times a year and whether year end balances are at a reasonable level with a clear plan in place for using any surplus.

16. As part of the Wiltshire LA assurance system, maintained schools are required to submit an Income and Expenditure return twice a year. This details actual income and expenditure to date and reviews original budget allocations to forecast the year end position. This enables schools to be proactive in their financial planning by anticipating under and overspends in advance and enabling timely remedial action to be taken.

Both the Intended Use of Revenue Balances and Income and Expenditure returns should be considered and approved by the governing body.

17. The Controls on Surplus Balances Scheme can only be removed or amended after consultation with all schools as this would require a revision of the Wiltshire scheme for funding schools. The consultation process could be completed in early 2013 with results being reported to Schools Forum in March.

Proposal

18. That Schools Forum considers the following possible options:

    i) To continue with the existing Controls on Surplus Balances Scheme for 2013-14.
    ii) To remove the existing Controls on Surplus Balances Scheme with effect from 2013-14 and, in future, to challenge schools holding excessive balances as they approach the thresholds that the DfE has set following the recent consultation on *Improving the assurance system for financial management in local authority maintained schools*, i.e. a surplus of 15% or more for 5 years.
    iii) To remove the existing Controls on Surplus Balances Scheme with effect from 2013-14 and to implement a more holistic approach to fulfilling the LA's role, under section 48 of the School Standards and Framework Act 1998, to support schools in achieving sound financial control. This could consolidate the existing reporting regime in a year end report to individual schools on the effectiveness of their monitoring, to be considered and ratified by the governing body. There is potential to incorporate good practice guidance and include the process in the School Financial Returns Compliance Statement.

Recommendation

19. That Schools Forum decides which of the above proposals to adopt with effect from 2013-14.

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