

TO: SCHOOLS FORUM
DATE: 12 MARCH 2015

UPDATE TO THE SCHEME FOR FINANCING SCHOOLS
Director of Children, Young People and Learning

1 PURPOSE OF REPORT

1.1 The purpose of this report is seek agreement to proposals to update the Scheme for Financing Schools in respect of:

- 1 The control on surplus school balances;
- 2 The deadline to submit budget plans to the authority.

2 RECOMMENDATIONS

2.1 **That the Maintained School Representatives of the Forum AGREE revisions to the Scheme for Financing schools, to be effective from 1 April 2015, in respect of:**

- 1 **The control on surplus school balances, as set out in Annex 1; and**
- 2 **Subject to less than 10% of schools rejecting the proposed change, the deadline to submit budget plans to the authority, as set out in Annex 2.**

3 REASONS FOR RECOMMENDATIONS

3.1 To reflect the wishes from schools, as expressed in the 2014 consultation and to ensure requirements surrounding the submission of budget plans adequately take account of all circumstances.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 These were considered as part of the 2014 consultation.

5 SUPPORTING INFORMATION

Background

5.1 Each LA is required to publish a Scheme for Financing Schools (the "Scheme"). This sets out the financial relationship between the LA and the maintained schools which it funds, so does not apply to academy schools. It is a legally binding document on both the LA and schools relating to financial management and associated issues.

5.2 The DfE issues statutory guidance to LAs in respect of minimum content of Schemes. Parts of Schemes must be in accordance with "directed scheme revisions" and are mandatory, for other elements of schemes, there is discretion to make

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changes to reflect local circumstances. The statutory power to update discretionary parts of Schemes rests with maintained school representatives on the Schools Forum, but changes can only be made after a consultation with all governing bodies and head teachers.

- 5.3 The current Bracknell Forest Scheme was agreed by the Forum in November 2013. This report recommends changes are made in respect of the control on surplus school balances and the deadline for submission of budget plans.

Control on surplus school balances

- 5.4 The Scheme currently contains provision for where significant balances are not being held by a school for a valid purpose, a claw-back scheme would be applied to remove relevant amounts for re-distribution within the Schools Budget. This was based on the principle that generally speaking, the significant majority of annual funding should be spent on pupils in school that year and not held back unnecessarily.
- 5.5 Members of the Forum will recall that balances in excess of 5% for secondary or 8% for primary and special schools or Pupil Referral Units (PRU) have been defined as significant and that a range of valid purposes have been agreed that permit schools to retain surplus balances above these levels.
- 5.6 In general, schools in Bracknell Forest manage their finances well, spending the majority of funding in-year on current pupils, although average surplus balances continue to be slightly above the level expected to be required to manage unforeseen in-year changes and future pressures. However, there are a number of schools exceeding or approaching a surplus balance of 15% of annual income. Such levels were not anticipated when the criteria for the claw-back scheme was agreed.
- 5.7 The 2013-14 accounts show ten schools as holding a significant surplus which is unchanged compared to the end of 2012-13. Seven continue with a significant surplus for the third consecutive year. The aggregate level of significant surplus balances amounts to £1.251m, an increase of £0.107m (9.3%). This is 28% of the £4,452m total aggregate surplus balances.
- 5.8 Whilst there is no desire to claw-back money from schools, and none has been, there is still a responsibility to challenge those with the largest surpluses as to why more is not being spent now on the educational needs of pupils currently in schools. The Forum has widely debated this matter during the year and as part of the 2014 financial consultation with schools, requested views on potential changes. The responses from schools supported three amendments as follows, which the Forum agreed should be incorporated into the Scheme:
- 1 Removing the clause that schools losing money from the April 2013 funding reforms are excluded from the scheme. This clause was introduced to help schools manage any funding losses. However, based on 2013-14 data, there were 7 schools that lost from the funding reforms but had achieved significant surpluses within the scheme conditions with aggregate significant surplus balances of £1.114m. Responses from 17 schools (89% of respondents) supported removing this clause.
 - 2 Current 5% and 8% thresholds should continue to determine what is a significant surplus, but then apply an absolute cap to the level of a surplus balance that can be retained above these levels. The consultation

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document proposed using double the current threshold, so potentially the higher of 16% of annual income or £0.150m for primary, special and PRUs or 10% for secondary schools. Based on 2013-14 budgets, this would equate to a maximum of between £0.150m and £0.376m for primary schools and £0.447m and £0.608m for secondary schools. The retention of money above this level would be conditional on individual cases made by schools to the Schools Forum, but the expectation would be that any significant surplus balance above the second threshold would be lost. Schools would be able to appeal the decision of the Forum to the relevant Director. Responses from 16 schools (84%) supported this proposal.

- 3 A more detailed and robust statement should be provided by schools seeking to retain balances above the 5% and 8% thresholds. This could include a statement showing a comparison of the original budget plan, in-year spend and an explanation to variances as to how a surplus has occurred. Detailed plans of what the surplus would be spent on and when could also be required. This would help the Forum to judge the appropriateness of individual significant surplus balances and the likelihood of the spending plans being implemented. All 19 schools commenting on this question (100%) supported this proposal.

5.9 To allow schools already retaining surplus balances above those proposed to be permitted by paragraph 5.8 (2) above, it is proposed that relevant schools have 2 financial years to manage balances down to the new limits.

5.10 Taking account of school views, the existing scheme text has been updated at Annex 1 which the Forum is recommended to approve and to become effective from 1 April 2015.

Submission of budget plans

5.11 In reviewing the current Scheme, it has become apparent that a further change is required. This relates to the requirement that by 31 May each year, schools submit a balanced budget plan, as approved by the relevant governor committee. Whilst this requirement will be valid for the majority of schools, for those in discussion with the LA relating to a loan agreement or other financial support that requires approval of the Schools Forum, it will not always be possible to meet this deadline due to the time required to obtain the relevant decision. A change is therefore proposed to the existing text in order to allow the LA to extend the submission deadline to no later than 31 July. This would only be where a budget plan is being formulated that requires approval of the Schools Forum, which would normally take place in June or July. Annex 2 sets out the proposed revised text relating to this aspect of the Scheme.

5.12 As the DfE requires consultation with schools and governing bodies before the Forum makes a change to the Scheme, it is proposed to undertake an email consultation on the recommended revision, for comments on the proposed wording to be received by 31 March.

5.13 In order for Governing Bodies seeking financial support from the Forum in setting their budgets to have sufficient time to formally approve the plan after the relevant decision of the Forum has been made, the Forum is recommended to agree the revised Scheme text as set out in Annex 2, and that it becomes effective from 1 April 2015, provided less than 10% of schools reject the proposed revision.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

6.1 The relevant legal issues are addressed within the body of the report.

Borough Treasurer

6.2 The Borough Treasurer is satisfied that no significant financial implications arise from this report.

Equalities Impact Assessment

6.3 None identified.

Strategic Risk Management Issues

6.4 None identified.

7 CONSULTATION

Principal Groups Consulted

7.1 Schools have previously been consulted on making amendments to the scheme to control surplus school balances.

Method of Consultation

7.2 Written consultation.

Representations Received

7.3 Included in relevant reports.

Background Papers

None.

Contact for further information

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Control on surplus school balances

Text proposed to be deleted is struck through i.e. ~~deleted~~

New text is in bold and shaded i.e. **bold and shaded**

Normal text indicates the wording for the BFC Scheme. Words in *italics* are offered as an explanation to the Scheme text and are not part of the Scheme.

Controls on surplus balances

Surplus balances held by schools as permitted under this scheme are subject to the following restrictions:

- a. the Authority shall calculate by 30 June each year the surplus balance, if any, held by each school as at the preceding 31 March. For this purpose the balance will be the recurrent balance as defined in the Consistent Financial Reporting Framework;

*Balances **on** Devolved Formula Capital and any other specific grant funded activities are excluded, unless allowed for in the relevant grant conditions.*

- b. the Authority shall deduct from the calculated balance any amounts for which the school has a prior year commitment to pay from the surplus balance from the previous financial year;

In this context, a prior year commitment is defined as a project previously agreed with the Authority to be excluded from the claw-back calculation, for example, capital building and construction projects – see c.i to viii below for full criteria to be used to establish a valid commitment against a surplus balance.

- c. the Authority shall then deduct from the resulting sum any amounts which the governing body of the school has declared to be assigned for specific purposes permitted by the authority, and which the authority is satisfied are properly assigned. To count as properly assigned, amounts must not be retained beyond the period stipulated for the purpose in question, without the consent of the Authority. In considering whether any sums are properly assigned the Authority may also take into account any previously declared assignment of such sums but may not take any change in planned assignments to be the sole reason for considering that a sum is not properly assigned. **Schools will be required to provide relevant information to support funds assigned for a specific purpose, in a format prescribed by the authority.** [paragraph 5.8 (3) refers]

The criteria to consider whether sums are properly assigned are as follows:

- i. Capital building and construction projects
- ii. Furniture, IT and other one-off expenditure of a capital nature
- iii. Infrastructure, maintenance and refurbishment
- iv. Staffing remodelling and restructuring
- v. Specific curriculum resources
- vi. Balances held in respect of pupil focused extended activities
- vii. Money held to fund budget deductions known to be occurring in the next financial year e.g. fall in pupil numbers.
- viii. Other high cost activities, of a long term nature, agreed in advance with the Director of Children, Young People and Learning and the Schools Forum.

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~~In October 2012, the Schools Forum agreed another criteria where funds could be properly assigned as follows:~~

- ~~ix. Those schools losing money at April 2013 through the funding reforms be allowed to retain any significant surplus balance without a valid reason until 31 March 2015. [paragraph 5.8 (1) refers].~~

The conditions outlined here are intended to ensure schools can build up reserves towards particular projects but cannot defer implementation indefinitely. A change in the plans of a school is not allowed to be the only criterion by which a sum can be considered to be properly assigned or not. After the accounts are closed each year, the Authority will contact schools with significant surplus balances to agree whether any of the balance has been properly assigned for a specific purpose and can therefore be deducted from the claw-back calculation.

The above specified criteria have previously been approved by the Schools Forum following consultation with schools where they were supported by the vast majority of respondents.

- d. if the result of steps a-c is a sum greater than 5% of the current year's budget share for secondary schools, 8% for primary and special schools and **Pupil Referral Units (PRUs)**, then the Authority shall deduct from the current year's budget share an amount equal to the excess.
- e. the calculation will be made against the final budget for the year in question i.e. after any contingency funding, significant in-year pupil growth allocation etc. The deduction will be made annually in arrears i.e. the final balance at 2011-12 calculated against the final budget for 2011-12 (known around June 2012) will be deducted at the start of the 2013-14 financial year.

This paragraph has been added to make clear that the calculation will be made against final and not initial budgets. It is also proposed to delay any claw-back for one year to allow relevant schools time to plan for the change when setting subsequent budgets.

- f. **Any amount proposed by a school that relates to an assigned amount of the surplus, as calculated at step c above shall be limited to no more than 5% of the current year's budget share for secondary schools and 8% for primary and special schools and Pupil Referral Units (PRUs) i.e. is limited to the same amount that schools may retain without assignment.** [paragraph 5.8 (2) refers]
- g. **Should any school wish to retain a higher surplus than permitted in step f above, the Schools Forum will consider each referral on a case by case basis, taking account of the merits of each individual proposal based upon the submission made by the school.**
- h. **An appeal against a decision by the Forum in step g. can be made to the relevant Director. The Director's determination will be final.**
- i. **Where, at 31 March 2014, a school holds a surplus balance in excess of step f, this can be retained until 31 March 2017 without specific approval of the Forum.**

Funds deriving from sources other than the Authority will be taken into account in this calculation if paid into the budget share account of the school, whether under provisions in this scheme or otherwise.

The total of any amounts deducted from schools' budget shares by the Authority under this provision are to be applied to the Schools Budget of the Authority.

Annex 2

Extract from the Scheme for Financing Schools

New text is in bold and shaded i.e. **bold and shaded**

2.3 Submission of budget plans

Governing bodies must prepare and formally adopt a budget plan which reconciles with their total budget allocation as notified by the authority, plus/minus an estimate of any brought forward balance from the previous year. This budget plan must be formulated having regard to known facts and a realistic assessment and financial provision for future events. To assist schools in this process, the authority shall provide schools with a guide to budgets at the time that they are notified of their delegated budgets. Budget plans must be approved by the relevant committee of the Governing Body and notified to the authority by May 31 of the financial year to which the budget relates in a style and a format determined by the authority. A copy of relevant minutes must also be supplied by the end of that calendar year. These minutes should specify the total net planned expenditure agreed for the delegated budget.

The governing body must also prepare details of any assumptions that underpin the budget plan and submit these if requested. This could include further schedules, such as a listing of all employees, together with their individual costs. Such requests will only be made where there is doubt that a realistic budget has been submitted with the governing body being required to supply requested information within one month.

To aid schools in their budget planning process, the authority undertakes to supply all income and expenditure data which it holds that is necessary for efficient planning by schools. This will ordinarily be in the form of monthly cost centre reports where schools use the authority's financial accounting systems, or annual financial statement, if a school chooses to use financial accounting systems other than those available through the authority.

There is one exception to the requirement on the relevant committee of the Governing Body to notify the authority by 31 May of their budget plan and this relates to where the Governing Body is in discussion with the LA relating to a loan agreement or other financial support that requires approval of the Schools Forum. In such circumstances, it will not always be possible to meet this deadline until formal decisions are taken by the Schools Forum, which is normally in June or July. Where the authority considers it unreasonable for a Governing Body to meet the 31 May submission deadline, an alternative submission deadline will be set by the relevant Director, which will be no later than 31 July. A copy of relevant minutes must still be supplied by the end of that calendar year. These minutes should specify the total net planned expenditure agreed for the delegated budget.