

**Draft Scrutiny Inquiry Final report
School Balances
April 2011**

Draft



Introduction and Scope

Introduction

1. The Scrutiny Board (Children's Services) received a report on 2008/09 school balances in April 2010. The Board identified the topic as an area for further work in 2010/11.
2. It was agreed that this work would be undertaken by a working group of the Board. Membership was confirmed at the new Board's first meeting in June.
3. The working group held two meetings, in November and December 2010. The working group's findings, which were endorsed by the full Scrutiny Board, are presented below.

Scope of the Inquiry

4. The issues raised in April 2010 to be addressed by the working group included:
 - high and rising level of overall school balances
 - build up of large surplus by some schools
 - school strategic financial planning
 - concern about the effect of carrying forward balances on existing children in schools
 - conversely, concern about pressures on schools to spend surplus balances leading to less effective decision-making
 - support for schools with deficit budgets
 - checking Ofsted's assessment of schools with significant balances
 - learning more about the clawback scheme and the work of the Schools

Forum panel, ensuring that the scrutiny working group did not duplicate this role in relation to individual schools.

5. During September and October 2010, the call in of a decision in relation to the community use of schools, and the Board's inquiry on outdoor education centres, raised some further issues for consideration:
 - the extended services element of school balances
 - understanding the make-up of school budgets, including which elements of the budget are allocated for specific purposes
 - clarifying the extent of schools' discretion in determining how the allocated budget is spent

Anticipated Service Impact

6. We hope that the working group's findings, and the Scrutiny Board's recommendations, will have a positive impact on the service by improving the ability of school governors to manage and challenge the effective use of school funds for the benefit of the current cohort of pupils.



Conclusions and Recommendations

Level of balances

7. Members began their inquiry by receiving information about the level of balances for all Local Authority maintained schools in Leeds, at March 2008, 2009 and 2010. The total level of balances held by Leeds schools in March 2010 was £17.1M, an increase of £3.3M over the previous year.
8. Despite this level of balances, Members were informed that Leeds was ranked 123rd out of 150 local authorities for the average balance held per school in 2008/09.
9. Individual schools are considered to have an 'excessive' surplus balance if their balance is over 5% of the school's budget at secondary level or 8% in primary and special schools.
10. We were assured that the authority operates a rigorous control on the accumulation of school balances, insofar as this is possible in line with legal requirements. Controls have been in place since 2004/05. We explored this further in relation to some of the good practice outlined in the Department for Education national guidance for local authorities in managing school surplus balances. This document was published in March 2010 following a survey of local authorities. We heard examples of how Leeds complied with many of the guidelines.

Schools Forum

11. The Schools Forum is a statutory body which the local authority must establish and consult on proposed changes to the schools' funding formula. Membership is drawn mainly from heads and governors

with input from other relevant stakeholders. It is also the mechanism for managing school balances, through a specially constituted small panel of governors and headteachers.

12. In Leeds, where a school has an 'excessive' surplus balance, the Schools Forum panel considers all requests to retain the surplus. Where the panel does not feel that a request meets the set criteria, either in full or in part, the panel makes a recommendation to the Deputy Director of Children's Services for all or part of the excess balance to be clawed back. The criteria relate to future plans and commitments for spending the surplus balance.
13. Members were told that the Schools Forum panel was very likely to be happy to consider a scrutiny board representative joining the panel. This would encourage greater member understanding of the management of surplus school balances, as well as strengthening the link between the two bodies' 'accountability' functions. However, the Scrutiny Board is aware that the statutory requirements on school balances legislation are currently subject to change and that therefore this proposal may no longer be proportionate.

Recommendation 1
That the Schools Forum and the Member Management Committee give further consideration to including a Scrutiny Board representative on the Schools Forum panel, if this remains appropriate in the light of emerging legislation regarding control of school balances.



Conclusions and Recommendations

Surplus balances

14. 62 schools had an 'excessive' surplus balance in 2009/10, amounting to £2.26M. It was reported that £159k had been clawed back from balances this year. This money returns to the Dedicated Schools Grant (DSG) to be recycled to schools. This can be allocated against specific projects or distributed to schools generally. This year the Schools Forum decided not to allocate the £159k and use it to help with next year's budget.
15. The working group discussed the difference between what was defined as a committed or an uncommitted balance. There are 4 reasons that Leeds schools can give for a request to carry forward a surplus balance:
- Prior year commitments – where goods and services were received in the previous financial year but no payment was raised
 - Unspent Standards Fund balances – schools have until 31 August to spend their allocations
 - Revenue contributions to specific projects – these are one-off projects, normally of a capital nature
 - Exceptional circumstances
16. Officers clarified that in Leeds it would not normally be accepted for a school to carry forward the excess balances to deal with staffing issues or falling rolls, as it was assumed that the 8% threshold in primary and special schools and 5% in secondary schools was sufficient to manage these issues. If the issue is not properly managed it can lead to bigger problems and potential deficit budgets for the school in the longer term. We were given a couple of examples of specific exceptional circumstances where a staffing issue had been accepted as a reason for a surplus balance, but this is rare.
17. Members were concerned that the use of revenue finance to save up for capital projects could be seen as contrary to the principle that school revenue funds are allocated for the benefit of the current cohort of pupils. This appeared to be the major use of surplus balances.
18. Members asked whether there was any limit on how long a school could hold on to surplus balances for capital projects. They were told that there was no fixed limit, and that such projects are liable to delays for many reasons. However, the Schools Forum panel were very conscious of checking the projected completion date for capital projects, and a case certainly looked less credible if a school came back again the following year with further delays.
19. Most claims are supported by evidence including governing body minutes. If such evidence is not available, then the Education Leeds finance team will liaise with the headteacher. In some cases the Learning and Environment team in Education Leeds may have information, for example where the balance is being held for a capital project, especially if the surplus is due to slippage in the timetable for work to take place.
20. Schools normally highlighted slippage in their applications to carry surplus balances forward. We felt that it was important that schools are encouraged to reappraise their plans on an annual basis to reflect current circumstances if they are saving over a period of years for such projects.



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21. The working group was given an example of a school that had had surplus balances clawed back where its application consisted of general intentions rather than a specific plan.
22. It was also confirmed that balances were clawed back if no explanation was submitted, although this had only happened in a couple of cases with small sums involved.
23. The working group was also informed that a 'prior approval' process had recently been developed to deal with committed use of balances, to reduce the burden of work on the Schools Forum panel and the uncertainty for schools.
24. The working group asked about balances being retained for schemes such as Building Schools for the Future (BSF). They were told about one school that had saved up to equip its new building, based on the advice of schools that had preceded it in the programme. In the event, the school received a government grant for ICT facilities which left it with the saved sum as a 'windfall'. The school has used this sum to manage a situation of falling rolls and to replace equipment on a rolling programme, over a period of several years. The school now has a much smaller balance, and will be looking to find savings. It was acknowledged that unions had challenged the school over the management of staff reductions while there appeared to be a significant balance.
25. It was noted that schools sometimes received late notification of grants with an expectation that they would be spent within the year, which could be difficult to achieve. However, the Schools Forum panel was not inclined to be so sympathetic where a grant was announced in plenty of time for plans to be made, with the actual funding following later. An example was given in relation to the harnessing Technology grant, £96k of which had been clawed back and was being recycled to mitigate a cut in the grant this year.
26. Members asked whether governors were aware of the definitions of expenditure which might be eligible to carry forward surplus balances. It was generally felt that governors were aware that there was a scheme, but that most were probably not aware of the details. Education Leeds does ask that the Chair of Governors signs off all requests to retain surplus balances.
27. It was confirmed that currently all correspondence in relation to balances is directed to the headteacher. We suggested that this could be copied automatically to the chair of governors (although it was acknowledged that this would not always ensure that the information was shared with other governors).
28. Officers reported that the financial management standard in schools FMSiS had improved the amount and

Recommendation 2
That the Director of Children's Services ensures that all correspondence with headteachers in relation to school balances is copied automatically to the chair of governors.

School financial management



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quality of information provided to governors over the last four years. Schools in general were getting better at financial planning and evidencing their spending plans. However the relevant standards had recently been scrapped, and new rules were being awaited.

29. Members talked about the fact that revenue budgets are intended to be spent for the benefit of the current cohort of pupils, and that that message should be strongly stressed to schools and governors. This message was stressed in the government guidance. Officers indicated that there were heads who operated very much to this principle, where the school balance tended to be very close to £0 most years.

30. It was also important to emphasise that the 5 and 8% surplus balance limit was not a target but a maximum level of balances to be retained. Nevertheless it was acknowledged that a small balance was a prudent approach to planning, and that it was important that the budget plan linked back to the School Improvement Plan.

31. Education Leeds officers offer advice and support to schools with budget planning. Any school with a potential deficit budget requires local authority approval including a plan to eradicate the deficit over a maximum three year period.

32. Officers indicated that they currently receive notice of schools' budget plans for the current financial year around May, which will include an indication of any unallocated or contingency funding. Currently schools are not asked to provide any explanation for these figures. The working group suggested

that some model questions could be developed for governing bodies to ask of headteachers in such instances, from this early stage of the financial year. This could include exploring areas such as staffing numbers, pay levels and class size strategy for example.

Recommendation 3
That the Director of Children's Services provides model questions for governing bodies to use to assist them in scrutinising the school's budget plan, including any contingency or unallocated funding.

33. Members recognised the importance of good school management and leadership in maintaining a sustainable budget.

34. Officers reported that schools on the whole tend to be very cautious about money. It was anticipated that many would reduce spending in the current climate, and also forecast pessimistically for the future. It was likely that school balances would increase in the current year in anticipation of future cuts and then reduce over the next few years as schools felt the impact of cuts, but this was not a certainty. Education Leeds finance officers try to work with headteachers to help them to assess financial risks appropriately. There is a rolling programme to work with schools, focused on those considered to be at greatest risk, for example as a result of falling rolls.

35. It was also acknowledged that the reductions in sixth form funding next year would be a big challenge for secondary schools. Leeds has a



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comparatively high proportion of sixth form students in schools. The pupil premium was another key unknown at this stage. Schools had experienced 10 years of real terms growth prior to this year.

36. Officers explained that these types of budget forecasting issues were provided in an annual briefing for the headteacher and chair of governors to assist in budget planning. This year, it was anticipated that this would be produced early in the new year.
37. In addition, around 5 or 6 'roadshows' are held around the city to cover an overview of the key financial modeling parameters for the coming year. It was suggested that consideration be given to a traffic light system that would provide a wider context as to the seriousness of a particular issue, to supplement local knowledge of the school's situation.
38. Members asked about the balances of SILCs. Officers explained that Education Leeds buy places from the SILCs for the year, based on anticipated demand. As a result year on year changes in numbers may be an issue, but the SILCs are less vulnerable to fluctuations in pupil numbers during the year. Extra places are bought if needed during the year.
39. It was also suggested that an annual report to councillors on school balances be considered. This could highlight the key issues to reassure councillors about the prudent management and allocation of school balances, without necessarily naming specific schools. It was felt that at present many councillors were only aware that there was a significant sum of school balances, without having a general understanding of how much of

this was the subject of plans and commitments.

Recommendation 4
That the Director of Children's Services provides an annual report to councillors on school balances. This could highlight the key issues to reassure councillors about the prudent management and allocation of school balances, without necessarily naming specific schools.

School improvement

40. We were provided with information on the latest Ofsted inspection judgement for each school with an excess surplus balance. Most of the schools were judged either good or satisfactory, although there were also seven outstanding schools and just two judged inadequate. Given the lack of any obvious link between surplus balances and wider concerns about the standard of a school, it was agreed that the working group did not wish to ask any schools to attend the inquiry. We had already agreed that we would not be asking schools about their individual surplus balances as this would be duplicating the role of the Schools Forum.
41. The role of School Improvement Partners (SIPs) was also discussed. Information about balances is shared with SIPs. Where a school has balances available, then some interventions will not be centrally funded. We endorsed this approach as we agree that schools should be prioritising their resources to support the School Improvement Plan.



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Schools Forum panel

42. The working group heard from two governor members of the Schools Forum panel about their experience and observations regarding school balances.
43. They confirmed that there were a number of accounting and timing issues which can cloud the picture of school balances. These include the mismatch between the financial year and the academic year. Schools will have some money, for example Standards Fund grants, that is to be spent over the school year, so some money will still be in the budget at the end of the financial year.
44. Sometimes suppliers do not issue bills in a timely way and therefore money is held over to pay for items already received. Some schools hold money on behalf of others, most notably in relation to extended services clusters.
45. Furthermore, schools are often saving to fund a capital project that they know will not receive funding from any other source – for example ICT renewals or minor building modifications. This is particularly the case for Aided schools, but also applies to other schools.
46. The panel members felt that in their experience it tended to be largely the same schools that had high balances or deficits year on year. It was suggested that this partly reflected the management approach of the Head and/or governors. For example some school leaders took a potentially over cautious approach to maintaining a 'rainy day' fund despite the intention that school funding is meant for the children in school at that time.
47. However, these witnesses also spoke to us of their view that there were some inbuilt anomalies in the funding system which would tend to exacerbate the above situation. For example the minimum funding guarantee (a national guaranteed increase in funding per pupil) coupled with the limitation on the overall impact of changes to the scheme of funding from year to year, tends to perpetuate a school's situation with regard to how 'generously' or 'marginally' funded it is.
48. They also felt that the safety net for small schools provided good protection, but that this was not always necessarily required, and that there may be other schools struggling with small class sizes who were not getting this level of support.
49. Officers confirmed that many year on year changes in grants were required under the terms of the grant to be calculated as percentage increases on the previous year. However, many of these grants are now being subsumed into the main block funding for schools, so in future a higher proportion of funding will take account of deprivation when it is allocated. Some schools will benefit and others lose out as a result.
50. Panel members also confirmed that the Schools Forum undertakes checks that the small proportion of funding that is currently ring-fenced is spent as required.
51. The level of surplus balances may also reflect a school's ability to raise additional money, for example through the PTA. Schools that are able to do this are understandably likely to consider that any surplus in the school budget



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that results is 'their' money to decide how to spend.

52. The panel members also told us that their questioning of balances was currently limited to the excess money above the 5% and 8% thresholds. They would like to be able to ask about all of the surplus, especially when the school has a year on year history of surplus balances.

Joint Consultative Committee

53. We invited comments from a representative of the education joint consultative committee on behalf of school staff. He reiterated the principle of using allocated money for the purpose of educating the children currently in a school. If a school is not doing this then there is likely to be a detrimental impact on the learning situation for pupils and by extension the working situation for staff.

54. He also acknowledged that the position in Leeds compared well nationally, and he praised the role of the Schools Forum panel and the support provided by Education Leeds finance staff to support headteachers in making, sometimes difficult, budget decisions. He agreed with us that it was reasonable for schools to use a certain level of balances towards short-term capital projects that contribute to improving the learning and working environment, so long as this is carefully monitored. A rising year on year balance or using funding for 'prestige' projects would ring alarm bells however.

55. He suggested that parents and staff might be asked for their views on the impact of saving balances over a longer period of time.

56. A potential alternative could be for schools to have a facility to borrow money up front and pay it back over the period when the children are getting the benefit.

57. We heard that the local authority already borrows against the school balances fund – which it holds on behalf of schools – for certain education related projects. However, any borrowing needs to recognise that individual schools can withdraw their balances at any time should they wish to do so. Furthermore, any school becoming an Academy will take any balances it has accumulated with it when it leaves the local authority.

Extended Services

58. We noted that schools are required to maintain separate financial records for extended services and joint projects. In many cases one school will hold the extended schools funding for a whole cluster. These balances are excluded from the controls on surplus school balances. In 2009/10 the balances across Leeds totalled £4.2M, up from £3.9M in 2008/9.

Recommendation 5
That the Director of Children's Services monitors the extended services and partnership balances held by schools to ensure value for money from council funding of these activities.



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Academies

59. Members asked about the balances of schools that become Academies. Under the original Academies programme, the local authority kept any balance – or in most cases wrote off the deficit. Under new arrangements Academies formed by ‘outstanding’ schools without a sponsor take both surplus and deficit balances with them. Academies that require a sponsor take surpluses but leave deficits with the local authority.
60. Academies are companies outside of local authority control and will have audited accounts. It is still very early days in terms of Academies in Leeds, but it is possible that they may be allowed to keep higher than average balances. We also learned that Academies’ accounts are available to the public once they are filed with Companies House, and that Academies are now also required to comply with the Freedom of Information Act.

Conclusion

61. We were pleased to note the effective controls on school balances in Leeds in general, although we remain concerned about the large surplus balances held by a very small number of schools over a period of years. We would like to see these balances being used for the benefit of existing pupils in the very near future.
62. We recognise that the current regime for the control of school balances is altering significantly. As more schools become Academies, the local authority will no longer have any role in relation to their

funding. In addition the government has indicated that it intends to remove the requirement on local authorities to operate a clawback mechanism. We have therefore sought to focus our recommendations on promoting effective budget management by school governors and centrally through the Director of Children’s Services.

63. We would like to conclude by thanking our witnesses for their co-operation with our work.



Evidence

Monitoring arrangements

Standard arrangements for monitoring the outcome of the Board's recommendations will apply.

The decision-makers to whom the recommendations are addressed will be asked to submit a formal response to the recommendations, including an action plan and timetable, normally within two months.

Following this the Scrutiny Board will determine any further detailed monitoring, over and above the standard quarterly monitoring of all scrutiny recommendations.

Members of the working group

Councillor Geoff Driver (Chair)

Councillor Bill Hyde

Mr Tony Britten

Professor Peter Gosden

Reports and Publications Submitted

- Education Leeds report to School Balances Working Group – November 2010
- Education Leeds report to Leeds Schools Forum – 13 May 2010
- Education Leeds report to Leeds Schools Forum – 23 September 2010
- DCSF Guidance for local authorities on managing surplus school balances – 15 March 2010
- Education Leeds report to Children's Services Scrutiny Board – 22 April 2010
- Minutes of Children's Services Scrutiny Board – 22 April 2010
- Ofsted Inspection grades for schools with surplus balances
- Information on capital projects being funded from balances
- School balances information from Academies
- Extract from Education White Paper concerning school balances

Witnesses Heard

Martin Hollos, Director of Resources, Education Leeds

Simon Darby, Head of School Funding, Initiatives and Lettings, Education Leeds

Patrick Fletcher, Head of Financial Services to Schools, Education Leeds

Rod Ash, Member of Schools Forum panel

Cyril Snell, Member of Schools Forum panel

Tim Hales, Teachers' Joint Consultative Committee representative

Dates of Scrutiny

24 November 2010

13 December 2010

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Scrutiny Board (Children's Services)
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