

Title of meeting:	Schools Forum
Date of meeting:	26 th February 2014
Subject:	School Balance Control Mechanism and Raising Educational Standards in Portsmouth
Report from:	Julian Wooster, Director of Children's and Adults Services
Report by:	Richard Webb, Finance Manager for Children's Services Julien Kramer, Head of Education
Wards affected:	All Wards
Key decision:	No
Full Council decision:	No

1. Purpose of report

A report was presented to Schools Forum on 17 July 2013 advising on the level of schools revenue and capital balances as at 31 March 2013 and their planned use. A further report on those schools with the largest uncommitted revenue balances was presented to Schools Forum in December 2013.

This report considers the options available in respect of re-instating the school balances claw-back mechanism, as requested by Members at the December meeting. In addition, this report also considers the options as part of the raising educational standards agenda in Portsmouth.

2. Recommendations

It is recommended that Schools Forum:

- a. Considers and approves one of the following options, subject to consultation with maintained schools:
 - i. To implement a new "balance control mechanism" to clawback excessive balances as set out in Appendices 2 and 3; or
 - ii. To continue to operate without a "balance control mechanism", and implement the proposals set out in paragraphs 6.14 to 6.16 and Appendix 3 .
- b. Endorse a further report to be presented to Schools Forum considering the options available for utilising school balances to support initiatives to raise educational standards in Portsmouth.

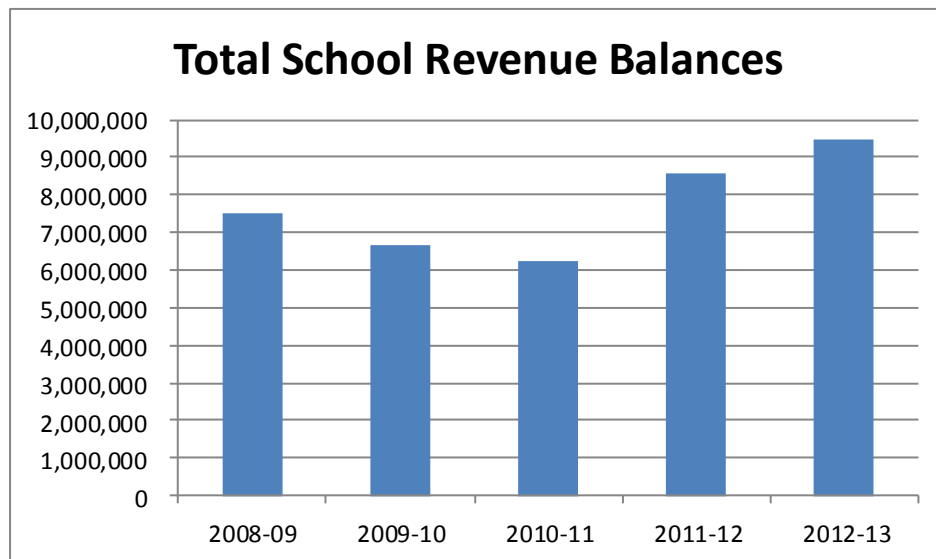
3. Background

- 3.1. In December 2011 a report was presented to Schools Forum in respect of the required changes to the Scheme for Financing Schools. It was reported to Schools Forum that the mandatory requirement for the Scheme for Financing Schools to contain a "balance control mechanism" providing arrangements for "clawing back excessive balances" was no longer required by the Department for Education (DfE).
- 3.2. Whilst the mandatory requirement for a "balance control mechanism" was removed, it was still possible to include a mechanism by agreement between the Schools Forum and the Local Authority. However, the mechanism was removed completely in Portsmouth.
- 3.3. Since the mechanism was removed, the school revenue funding arrangements have changed significantly as part of the transition to the National Fair Funding Formula. In particular under the new regulations a Local Authority is not able to make changes to their school funding formulae after the funding period has commenced, meaning that any redistribution of balances cannot take place until the next funding period.
- 3.4. The latest Scheme for Financing Schools in Portsmouth does not include a "balance control mechanism"; however there is provision within section 4.2 of the scheme (see below) for Schools Forum to revisit this.

'4.2 As schools are moving towards greater autonomy and should not be constrained from making early efficiencies and to support medium term budgeting in a tighter financial climate, the mechanism for the clawback of excessive balances has been removed. This provision may be revisited by Schools Forum where significant excessive uncommitted balances have built up.'

4. School Balances

- 4.1. The total school balances as at 01 April 2013 amounted to £9.5m. Included within this balance were £0.9m of community related balances (e.g. Community Improvement Partnerships, community lettings, breakfast and after school clubs, etc), leaving £8.6m of 'curriculum' balances. Of this, a further £3.6m has been committed to specific projects or initiatives, leaving a balance of £5.0m, or 6.54% of 2012-13 budget allocations as uncommitted.
- 4.2. The graph below shows the level of school revenue balances for the five years 2008-09 to 2012-13. Whilst the revenue balances were declining for the 3 years to 2010-11, they have risen sharply since 2011-12, possibly due the uncertainty created by the introduction of the National Fair Funding Formula, alongside the removal of clawback mechanism.



4.3. The table below shows the maintained school revenue balances as at 01 April 2013 by school phase.

Sector	Total Balances as at 01/04/13	% of 2012/13 budget allocation	Uncommitted Balances as at 01/04/13
Nursery & Primary schools	5,636,467	9.71	2,983,890
Secondary schools	3,399,712	7.99	1,800,400
Special schools	464,301	5.26	280,123
Total	9,500,480	8.68	5,064,414

4.4. The DfE also publishes annually a summary of all the local authority school balances. The table below shows the revenue balances as a percentage of total revenue income (for schools in surplus only) for Portsmouth compared to the National and Regional figures.

	09/10	10/11	11/12
England Average	5.9	6.4	8.0
South East	5.1	5.3	6.8
Portsmouth	6.2	5.7	7.4

4.5. This shows that whilst Portsmouth school revenue surplus balances have been above the regional average during this period, they have been significantly below the national average since 2010-11. At the time of writing this report the data for 2012-13 has not yet been published by the DfE.

- 4.6. As schools convert to Academy status, they generally take any surplus balances with them. Since 01 April 2013, a further five schools have converted to Academy status in Portsmouth and this has reduced the level of revenue balance by £830,000 (8.7%) based on the April 2013 values.
- 4.7. A number of further Academy conversions are expected during 2014-15, which will further reduce the level of balances. There are a number of schools with Academy Orders in place, whilst we are aware of others that are seeking to convert. Based on this information, the estimated reduction in balances during 2014-15 could amount to a further £1,600,000.

5. Previous balance control mechanism

- 5.1 The statutory guidance relating to 'Schemes for Financing Schools', states in respect of "balance control mechanisms" that:

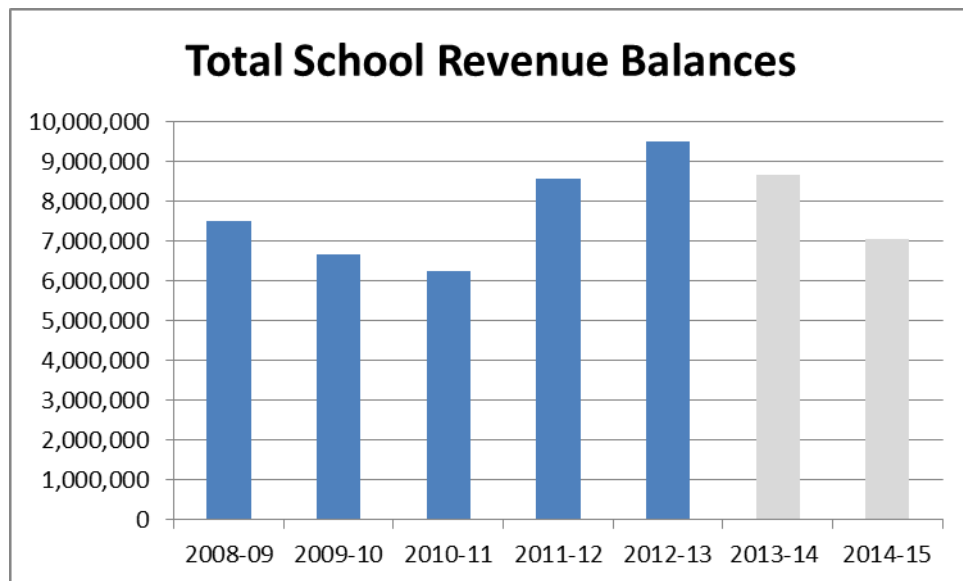
'The scheme may contain a mechanism to clawback excess surplus balances. Any mechanism should have regard to the principle that schools should be moving towards greater autonomy, should not be constrained from making early efficiencies to support their medium-term budgeting in a tighter financial climate, 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.'

- 5.2 The previous "balance control mechanism" is shown at Appendix 1. Under this mechanism uncommitted balances in excess of 8% (Primary & Special) and 5% (Secondary) would have been clawed back.

6. Future Options

- 6.1. As highlighted within the report, the level of school revenue balances had been declining up until 2011-12. Since 2011-12, when the "balance control mechanism" was removed, the level of balances rose sharply to a five year high in 2012-13.
- 6.2. During this period, we have seen a number of developments and changes to the school landscape, including the transition to the National Fair Funding Formula, which is delegating more funding and responsibilities to schools, alongside the increasing number of schools converting to Academy status. It is highly likely that the uncertainty created by these changes and reforms, will have contributed towards the increase in school balances.

- 6.3. As highlighted within the report, the conversion of schools to Academy status is having an impact of the level of maintained school balances. Using the school balances information from the 01 April 13, the table below shows the forecast reduction in balances in 2013-14 and 2014-15, arising from the schools that have already converted and are forecast to convert during 2014-15. It can be seen that by the end of March 2015, the level of balances could have reduced by circa £2.5m and be below the levels in 2008-09 purely as a result of Academy conversions.



- 6.4. The Education Department are currently reviewing their arrangements for supporting school improvement in Portsmouth. As part of the package of support available, options for utilising school balances to support initiatives to raise educational standards in Portsmouth are being considered. These include match funding for school or cluster initiatives and a possible reintroduction of the loan scheme for maintained schools to provide catalyst funding support initiatives for school improvement. The criteria and value of loans available would need to be structured to address the issues identified with the old scheme that was ceased last year.
- 6.5. Schools Forum has the following two options available in respect of a school balances claw-back mechanism:
- a. implement a new "balance control mechanism" to clawback excessive balances; or
 - b. continue without a "balance control mechanism".
- 6.6. The sections below provide further details in respect of each of these options, including the operational arrangements and the potential implications.

Implement a new "balance control mechanism"

- 6.7. The provisions of the 'Scheme for Financing Schools' only apply to maintained schools within Portsmouth. Therefore if a "balance control mechanism" was to be reintroduced within the scheme, it would only apply to maintained schools and **not** Academies within the city.
- 6.8. Furthermore, any funds centrally recouped through a clawback process can **only** be reallocated to schools through the school revenue funding formula, which would include allocating this amount to both maintained schools and Academies. Alternatively, funding could be retained and used to support the Growth Fund and Falling Rolls Fund.
- 6.9. If a new "balance control mechanism" was to be introduced into the Scheme for Financing Schools, it will be necessary to consult with the maintained schools within Portsmouth, before final ratification by Schools Forum. It is recommended that any mechanism apply to balances as of the 31 March 2015.
- 6.10. If any of the balances as at 31 March 2015 were clawed back, based on the current regulations, they could only be allocated through the school revenue funding formula for the year 01 April 2016 to 31 March 2017 (i.e. the following financial year), as the funding formula cannot be re-determined during the funding period.
- 6.11. A potential "balance control mechanism" is attached at Appendix 2. The management of any mechanism is resource intensive for both schools and the Local Authority. One area of particular difficulty is applying the DfE requirements set out in paragraph 5.1 in relation to identifying 'committed' and 'uncommitted' balances.
- 6.12. Appendix 3 includes a revised list of items that can be considered as 'committed' for these purposes. The list has been reduced in order to reduce some of the subjective decision making and increase the ability to more easily monitor the balances centrally.
- 6.13. It is also proposed within the criteria at Appendix 2 that Schools Forum will have the final decision on any issues arising from the application of the policy.

Continue without a "balance control mechanism"

- 6.14. If Members choose to continue to operate without a "balance control mechanism", then it would not be possible to clawback any balances from maintained schools. However, the balances would continue to be monitored by both Finance and the Education Department and reported to Schools Forum.

6.15. The procedure set out below will continue to be applied in monitoring the school balances under this option. It is also proposed that if Members decide not to implement a "balance control mechanism" to clawback balances, that this process be clarified within the Scheme for Financing Schools:

- a. Schools will continue to be asked to provide a breakdown of their year-end balances between committed and uncommitted.
- b. Schools Forum will receive the School Balances report, following the completion of the year-end closedown process, which will provide an analysis of the balances by school and will identify those which exceed the 8% and 5% thresholds.
- c. Those schools identified as potentially breaching the thresholds, will be asked to provide further evidence of the planned use of their balances. The information will be reported back to the Schools Forum and the Education Department in the new academic year.
- d. The Education Department will consider this information as part of its school performance and improvement reviews.

6.16. In order to simplify the process above, it is recommended that Appendix 3 is also incorporated into the Scheme For Financing Schools and replace the existing criteria which is based on the previous "balance control mechanism". Any changes to the Scheme For Financing Schools will require consultation with maintained schools.

7. Reasons for recommendations

This report considers the options available in respect of re-instating the school balances claw-back mechanism, as requested by Members at the December 2013 meeting. In addition, this report also considers the options as part of the raising educational standards agenda in Portsmouth.

8. Equality impact assessment (EIA)

This report does not require an Equality Impact Assessment as the proposal does not have any impact upon a particular equalities group.

9. Legal comments

Legal comments have been included within the body of this report

10. Head of Finance’s comments

The financial implications are included in the body of this report.

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Signed by:

Appendices:

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Schools Forum Reports: School Balances 31 March 2013 - 31 July 2013 School Balances - 18 December 2013	http://democracy.portsmouth.gov.uk/ieDochome.aspx?Categories=
Portsmouth Scheme For Financing Schools	www.portsmouth.gov.uk
School Balances Information	Education Finance
DfE School Balance data	http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding/balances/a0068022/school-balances

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

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Signed by:

Appendix 1 - Previous Balance Control Mechanism

4.2 Reporting on and control of the use of surplus balances

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

The authority shall calculate by 31 May 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.

The Authority shall deduct from the calculated balance any prior year commitments and any unspent Standards Fund grant for the previous financial year.

The Authority shall then deduct from the resulting balance any sum which the governing body has declared to be assigned to specific purposes permitted by the Authority (as listed in Annex 9) 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.

If the resulting balance is greater than 5% of the current year's budget share (secondary schools) or 8% (primary and special schools) or £10,000 (where that is greater than either percentage threshold), then the Authority shall deduct an amount equal to the calculated excess from the current year's budget share.

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 the provisions of this scheme or otherwise.

Funds held in relation to a school's exercise of powers under s.27 of the Education Act 2002 (community facilities) will not be taken into account unless added to the budget share surplus by the school as permitted by the Authority.

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

Annex 9

Permitted Specific Purposes for the Use of Surplus Funds

- Unspent Standards Fund Grants up to a maximum of 30% of allocation.
- Prior year commitments not included in accounts – must be evidenced by:
 - A contract or official order dated prior to 1st April, or
 - A clear statement of intent signed by the Chair of Governors (subject to clawback if not delivered in stated timescales - maximum 3 years)
- Providing consistency in staffing levels where numbers on roll are predicted to fluctuate within the next year (note that a reasonable commitment would be £3,000 per pupil and forecast variations in pupil numbers should be given)
- Balances held on behalf of a cluster of schools e.g. phase conferences, CIP funding
- Balances held for specific community projects e.g. nursery provision, children's' centres, extended services

Appendix 2 - Potential Balance Control Mechanism

4.2 Reporting on and control of the use of surplus balances

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

The authority shall calculate by 31 May 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.

The Authority shall deduct from the recurrent balance any sum which the governing body has declared to be assigned to specific purposes permitted by the Authority (as listed in *Appendix 3*) 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.

If the resulting balance is greater than 5% of the current year's budget share (secondary schools) or 8% (primary and special schools) or £10,000 (where that is greater than either percentage threshold), then the Authority shall remove any amount equal to the calculated excess from the schools balances.

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 the provisions of this scheme or otherwise.

Funds held in relation to a school's exercise of powers under s.27 of the Education Act 2002 (community facilities) will not be taken into account unless added to the budget share surplus by the school as permitted by the Authority.

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

Schools Forum will have the final decision as to whether any amounts shall be removed from school balances.

Appendix 3 - Proposed Permitted Specific Purposes for the Use of Surplus Funds

The Council will take into consideration any amounts which the Governing body can demonstrate are properly assigned for specific purposes. These are:

- Valid orders placed through the financial system, but for which the goods have not been received.
- Funds held on behalf of other schools by fund holder schools (e.g. cluster funding).
- Balances held for specific community projects e.g. nursery provision, children's' centres, extended services.
- Contribution towards capital works with the school (where alternative capital resources have been exhausted). A clear statement of intent signed by the Chair of Governors (subject to clawback if not delivered in stated timescales - maximum 3 years).
- Providing consistency in staffing levels where numbers on roll are predicted to fluctuate within the next year (note that a reasonable commitment would be £3,000 per pupil and forecast variations in pupil numbers should be given)
- Unexpected funds received by the school near the year-end which will be utilised for a specific purpose in the following financial year.