

Paper for Information Only

SOMERSET SCHOOLS FORUM

Date of meeting – 12th July 2017

Somerset School Balances 2016/17

Author: Ken Rushton, Service Manager - Schools Funding

Contact Details: kerushton@somerset.gov.uk 01823 356911

1. Summary

1.1 This is the annual report on Somerset School Balances. The general trend in previous years has been for school balances to steadily increase each year. However at the end of the 2016/17 school year there was a **decrease** of £2.2m in total school balances.

The figures include schools which have converted to academies during 2016/17 financial year, but excludes schools which had already converted to academies before the start of the 2016/17 financial year.

2. Recommendations

2.1 This report is for information only. Although Forum members may wish to consider revenue balances in light of the wider financial constraints and when making future funding recommendations.

3. Background

3.1 The previous trend of increasing school balances has now ended and there has been a decrease of £2.26m to £21.72m compared to last year's £23.98m. Savings which have been made over the past few years are being utilised to balance the school budgets. Schools are yielding to the continued pressure of increased costs and are now not able to make further savings. The slight increase in DFCG held reflects a reduction in capital spend by schools.

3.2 The level of school balances is a topic of national interest, and the current expectation of the Department for Education (DfE) is that it is sound financial management for schools to keep a small balance from year to year. In spite of Somerset's efforts to retain stability in the levels of funding to individual schools, we saw since the implementation of The School Funding Reforms in April 2013 rises in balances. Many schools were facing uncertainties in their future funding, particularly where pupil numbers were dropping. Consequently, they made savings to help to protect their financial position for future years. It appears they have reached that turning point and can no longer retain the previous level of balances to assist for the future.

3.3 Schools are self-managing and autonomous and financial responsibility is delegated to the Governing Body. However, Local Authorities (LAs) are responsible for the effective oversight of financial management in schools. There is an expectation from the DfE that LAs and their schools should manage the very large amounts of public

funding they receive appropriately, securing value for money across all of their spending. Value for money is a fundamental principle of the Schools Financial Value Standard (SFVS), which has been an annual statutory return for all LA maintained schools.

- 3.4 In the past, it was compulsory for councils to operate a balance control mechanism where uncommitted surpluses are deemed to be excessive – identified by the DfE to be in excess of 8% of a primary or special school budget and 5% of a secondary or middle school budget. In 2011/12, following a change in national legislation there was no longer a requirement for Local Authorities to have a balance control mechanism within their Financial Management Schemes for Schools. Somerset chose to continue with this constraint within its Financial Management Scheme; however the Schools Forum supported the proposal to suspend the control balance mechanism for 2012/13 and 2013/14. At its meeting on the 7th October 2014 the Forum unanimously supported the proposal to remove the mechanism for the 2014/15 year onward. Despite the removal of the balance control mechanism the DfE will scrutinise those LAs where more than 5% of their maintained schools carry forward total revenue balances of more than 15% of their budget for five years or more, as long as the amount exceeds £10k.
- 3.5 The Schools Finance and Accounting Team collect and validate information on each school’s balance at the financial year end. This includes consistently identifying and validating exceptions in order to determine true uncommitted balances. There is a focus on developing robust and accurate management information, improving the level of challenge regarding financial management in schools and generally raising the profile of school balances and how this information may be perceived by stakeholders.
- 3.6 The Schools Forum should note that the audit plan for 2015/16 included a themed audit on school balances undertaken by SWAP during the Summer term. Following a final report from SWAP on the findings The Schools Finance and Accountancy team issued a Themed Audit Summary – Planned Use of School Balances Audit 2016-17 and is available on iPost (IPOSTID-2-5542).
- 3.7 A summary of individual school balances is included in **Appendix A** for information.

4. Detail

- 4.1 Table 1 below shows how the level of school balances has changed in the last year.

N.B. Academies (except those who have converted through the current year) have been excluded from the data for both financial years.

Table 1

	£m	£m	£m
--	----	----	----

	2015/16	2016/17	Variation
Total School Balances at 31 March	23.98	21.72	-2.26
Capital Balances:			
Devolved Formula Capital Grant (DFCG) – to assist schools with capital developments and improvements over a three year period	1.53	1.56	+0.03
Other evidenced Capital Commitments – see below	0.74	0.58	-0.16
Revenue Balances:			
Other evidenced Revenue Commitments – see below	7.13	6.50	-0.63
Uncommitted Revenue Balances	14.58	13.07	-1.51

4.2 Devolved Formula Capital Grant (DFCG) Balances

Balances in respect of Devolved Formula Capital Grant (DFCG) have increased this year, by £0.03m since last year, and currently stand at £1.56m. They are used by schools to address their highest priority asset issues and for ICT hardware and infrastructure replacement. Since April 2013, each invoice has been processed by Corporate Finance to ensure that it constitutes legitimate capital expenditure. Due to the size of most capital projects, it is expected that schools should 'save' funds for up to three years in order to deliver significant improvements to their school buildings, which would not be achievable with only one year's allocation. There may be scope to utilize some DFC balances which exceed the three year rule, especially where the individual school has no imminent capital spending requirements. There is no unspent DFC retained for more than 3 years as at July 2017.

4.3 Other Capital Projects

Schools have identified specific capital projects for which they are holding balances. Evidence of governing body approval, costs and timescales of these projects are held to validate the commitment. Together with the increase in the level of DFCG funding, there has been a decrease in Other Capital commitments. This year the decrease is £0.16m, which suggests that schools are still reluctant to commit to capital projects in the light of the uncertainty in their future level of funding.

4.4 Committed Revenue Balances

Schools have identified balances being held for specific commitments, and this has decreased by £0.63m compared with 2015/16. Committed revenue balances have been listed and checked individually and include:

- Orders raised but not paid prior to April 2017 £0.90m (a decrease of £0.18m from £1.08m in 2015/16).
- Pupil Premium £1.46m (a decrease of £0.12m compared with £1.58m in 2015/16)
- Third party balances, income held for school trips/music lessons, Community Learning Partnership funds, PFSA/SASH/PTA, nursery funds etc. £2.94m (a decrease of £0.24m compared with £3.18m in 2015/16)
- Grant funding £1.17m, mainly PE and Sport Grant and Universal Infant Free School Meals (UIFSM). A decrease of £0.19m compared to a balance of £1.36m at the end of 2015/16.

4.5 Uncommitted Revenue Balances

Most schools have spending plans for their uncommitted balances and these have been summarised in the information provided by each school to the LA at the end of the financial year. Balances have been classed as uncommitted if they do not meet the strict criteria consistent with eligible exclusions in the claw-back arrangements (as detailed in the Financial Management Scheme), even though the decision had been made not to enforce claw-back at the end of 2013/14. It is evident that most Primary, Special and PRU schools had continued to make savings up to 2015/16 so as to have sufficient uncommitted revenue balances at the end of 2015/16 to support balancing their 2016/17 budgets. This is not the case for the end of 2016/17 and schools are now finding themselves with reduced savings to assist with the 2017/18 budgets.

4.6 Analysis of the Uncommitted Balances

For 2016/2017, following recommendations from an Audit report on The Planned Use of School Balances, schools were requested to provide a detailed breakdown of the use of uncommitted balances going forward. The results are shown in Table 2 below.

Table 2

	2016/17 Uncommitted Balances (£m)
To be used to balance the following year's budget (2017 / 2018)	6.51
Surplus Balance to be used for future plans linked to School Development Plan / Asset Management Plan	2.45
Reserve contingency for repairs and maintenance (over and above DFCG) previously BMIS	0.11
General Surplus Balance	4.00
TOTALS	13.07

4.7 Further analysis of the 'uncommitted' balances held by schools in 2015/16 and 2016/17 across the sectors is shown in Table 3 below.

Table 3

	2015/16 Uncommitted Balances (£m)	2016/17 Uncommitted Balances (£m)
Primary	10.22	9.21
Middle	0.30	0.22
Secondary	0.75	0.37
Special	1.96	1.84
PRUs	1.35	1.43
TOTALS	14.58	13.07

4.8 Deficit Balances

At the end of 2016/17, ten schools had uncommitted deficit balances:

- four of which were for less than £10K (Primary schools)
- three of which were for less than £20k (Primary schools)
- one of which was for less than £100k (Middle school)
- two of which were for over £100k (Secondary schools)

The following table reflects the trend of uncommitted deficit balances for the current schools under analysis for the past six years:

Year	No. of schools	Amount	Variance on previous year
2011/2012	5	-£471K	-
2012/2013	3	-£25K	- £446K
2013/2014	7	-£58K	+ £33K
2014/2015	3	-£43K	- £15K
2015/2016	5	-£876K	+ £833K
2016/2017	10	-£1,411K	+ £535K

4.9 Further Action

The Schools Finance team will continue to be involved in supporting schools in deficit with recovery planning. Spending is being monitored against these plans to ensure that recovery plans are revised as appropriate with the aim of future budgets being balanced and sustainable.

Expected revenue balance levels in schools will be monitored throughout the year through routine monthly school budget monitoring processes. Where there are concerns, these schools will be contacted and discussions will focus around sustainability of the school and the way in which balances can be used to raise achievement.

Commitments detailed on the year-end forms (such as those for capital projects) will also be monitored to ensure that expenditure occurs as evidenced.

5. Implications – Financial and other

5.1 Individual schools' revenue balances are automatically carried forward. If funds were to be clawed back they would remain in the Individual Schools Budget and their subsequent distribution discussed with the Schools Forum.

5.2 The School Funding Reforms were implemented from April 2013 and further amendments have been made nationally in 2014/15. They have resulted in a re-distribution of funding amongst Somerset schools and an increased awareness within schools of the significant effect of changes in pupil numbers on their formula funding. Increased levels of Pupil Premium are also having a marked effect on schools' budgets and this, along with the Universal Infants Free School Meals grant implemented in September 2014, has caused fluctuation in school balances.

Further changes are expected following the consultation around "Fairer Funding" nationally and for which details have yet to be released.

6. Academy Balances

6.1 A summary of Academy Balances for academic year 2015/16 will be tabled as Appendix B. The financial information is compiled from those academies that provided the financial return circulated in the Autumn and then again in the following Spring. Where academies chose not to provide the Schools Forum with figures, their balance for academic year 2015/16 has been determined from interrogation of the financial

statements. In some cases the balance has been shown for the multi academy trust as a whole, where individual academy figures could not be identified.