

Schools Forum Decisions and Consultations

- 8 March 2017

Theme Based Audit on Planned Use of Schools Balances - Update

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<p>Summary:</p>	<p>This report provides an update (in red) of LA actions (2.5) on the summary of the outcomes of the Theme Based Audit on Planned Use of Schools Balances carried out during the Summer Term 2016 in a sample group of 10 schools which hold relatively high balances and previously reported in the October 2016 Schools Forum meeting.</p> <p>South West Audit Partnership (SWAP) gave an opinion of Partial Assurance in relation to the areas reviewed and the extent to which schools had a planned approach to the use of their surplus balances. Within the sample, three schools received Substantial assurance, six received Reasonable assurance and one received a Partial Assurance.</p>
<p>Recommendations:</p>	<p>The Schools Forum is recommended to discuss the key issues and consider the following proposed actions (detailed further in sections 2.4 and 2.5 below):</p> <p><i>Key Issues</i></p> <ul style="list-style-type: none"> • Lack of evidence of Governors approving Consistent Financial Reporting (CFR) prior to submission to the Local Authority. • Unpredictability of specific circumstances carrying a risk of budget not being sustainable or leading to surplus funds being carried forward. • Lack of robust or developed plans to ensure funds are spent efficiently, effectively and in a timely manner. • A need to identify priorities in the Schools Asset Plan and School Development Plan and cost these items. • Lack of regular monitoring of planned use of funds to ensure intended outcomes are achieved for pupils currently in education. <p><i>Proposed Actions</i></p> <ul style="list-style-type: none"> • Share findings with Finance Officers and Business Managers at Administrative Development Liaison (ADL) meetings. • SCC Budget planning guidance to be reviewed. • Liaise with Schools Forum Technical Working Group to set up a process for additional scrutiny of high surplus balances. • Liaise with Schools Planning Commissioner re improved information and guidance of population forecasts.
<p>Reasons for Recommendations:</p>	<p>The Schools Forum has decision making and consultative responsibilities for various areas of school funding.</p>
<p>Links to Priorities and Children and Young Peoples Plan:</p>	<p>The Schools Budget supports the Raising Achievement & Aspirations aim within the Children's Plan.</p>
<p>Financial Implications:</p>	<p>This report relates to the whole Schools Budget.</p>

1 Background

- 1.1 In May 2010 the DfE removed the requirement for a balance clawback scheme and Somerset subsequently removed the threshold limits. However, each year the DfE require the LA Chief Financial Officer to submit a statement on the Dedicated Schools Grant, assuring that it has been spent in accordance with the grant conditions. This includes the requirement that the LA has less than 5% of all schools with a surplus of 15% or more of their individual budget, for the last five years. It has been indicated that if this threshold is exceeded the LA will be subject to increased scrutiny.
- 1.2 In Somerset the 5% threshold equated to 10 schools at the end of 2014-15. For this period 8 schools reflected a surplus of over 15% of their budget for the past 5 years. A further 8 schools exceeded this level for the past four years and therefore the LA is close to triggering the indicator for further scrutiny. This situation does not uphold the issue raised with the DfE by the LA that Somerset schools are struggling with their allocated funding.
- 1.3 As part of the Schools Financial Value Standard (SFVS), which is a statutory annual return for all LA maintained schools, Governors have to assess if they have adequate arrangements in place with regard to setting and monitoring the budget as well as the planned use of funds.

2 Detail of the Planned Use of Schools Balances Audit

- 2.1 In order to ensure the use of surplus funds in schools is appropriate, supported by detailed plans, consistent with the aims of the school and approved and monitored by Governors, evidence was collected and reviewed together with key documents and records requested. The following areas were tested:
- High balances of surplus funds held by the school have appropriate plans to ensure that they are used for the benefit of current pupils.
 - Surplus funds are supported by robust plans, and plans are developed to ensure that funds are spent efficiently, effectively and in a timely manner.
 - Surplus budgets are subject to regular monitoring to ensure that funds are properly spend on the pupils currently in education or that the planned use of funds will deliver the intended outcomes.
- 2.2 During this audit, 10 schools were visited. Each school received an individual report with findings and an agreed action plan of issues to be addressed. The results of the individual school audits were amalgamated into one report and collectively used to form the audit opinion re Planned Use of Schools Balances of '**Partial Assurance**'.
- 2.3 Whilst generally there was evidence that schools had plans to manage surplus balances and schools have followed a prudent approach to financial planning (which is in line with accepted financial practice and has guarded against overspending), there was one significant finding identified across all schools visited which led to the overall Partial opinion in this report.
- It was found that there is a lack of central guidance regarding:
- a process that provides clarity about acceptable reasons and levels of surplus balances
 - a control framework to manage any exceptional circumstances.
- This has resulted in schools holding significant balances which are now close to exceeding DfE guidelines.

2.4

The following were identified as key findings and therefore categorised, in accordance with the definitions in Appendix A, as a level '4' or '5' priority in the action plan:

- One school had allocated the remainder of their surplus to a General Contingency fund (this represented 21% of their annual budget) with no documented plans to support how it would be spent. This was the only significant finding across all schools.
- 3 of the 10 schools audited had only notional plans for the use of their surplus balances and it was identified that further work was required to ensure the production of documented plans which are fully costed and could be delivered in line with their aspirations.
- One school was awaiting confirmation of their future pupil numbers in order to determine whether the surplus budget would be spent on the opening of an additional classroom.

2.5

As a result of the Planned Use of School Balances audit the following recommendations have been made:

- Governors to ensure that the CFR is presented, approved and recorded in the minutes in a timely manner.
- Schools should consider alternative budgets /plans for surplus funds and share with Governors to ensure that regardless of outcomes, the funds will be spent for the benefit of current pupils.
- Schools should agree specific use for contingency budgets with evidence provided by way of governor's minutes, this should include invoices and quotes for work as defined in the School Improvement/Development/Asset Plans to consider if contingency funds can be released to meet them.
- Schools should add a standing item to the agenda of Governor meetings to discuss use of surplus budget (at least termly).
- LA to consider providing further guidance regarding more rigorous budget planning especially where there are specific uncertainties which can be communicated via support from their allocated Senior Finance Officers.
- It is recommended that Somerset consider introducing a Business Case process linked to the CFR for the justification of large surplus balances. This would require the school to submit costed plans that specify the purpose(s) for a balance, the amount of the balance and the timescale by which the balance will be spent. The Business Case to be approved at LA senior level and monitored throughout the year via financial returns.

Response from LA:

- As CFR data is generated from SIMS, there is no risk if the report is approved retrospectively by Governors and minuted.
The LA will review existing budget planning guidance and consider where improvements can be made. **Revised Budget Guidance published to iPost by Education Finance Services in January 2017.**
- Schools Finance will liaise with the Schools Planning Commissioner to establish if improved information and guidance can be issued in respect of population forecasts. **The information is available on iPost as early as possible following receipt of census information. It is anticipated that with the New National Funding Formula schools will be able to confidently predict their budgets over a period of at least three years and that the need for holding onto high surplus balances to cover variable future funding will not be required.**
- Schools Finance will review existing processes and guidance compared with other local authorities, to provide clear guidance about the typical and acceptable reasons for carrying balances forward. It will be clearly communicated that should the LA not approve a Business Case an amount

equal to the excess may be deducted from the current year's budget share. After reviewing samples of other local authority processes it has been decided to retain Somerset's decision to do away with the clawback process and permit surplus balances as per the Financial Management Scheme. However the School Balances Information Worksheet will be revised to enable schools to provide details of planned use of surplus balances linked to their School Development or Asset Management Plans with dates of anticipated implementation/completion to be monitored by the LA.

- Consideration will be given to using the Schools Forum Technical Working Group to possibly set up a panel process for additional scrutiny of schools with high surplus balances.

A report of schools with high total surplus balances in line with DfE reporting requirements (>15% of budget and >£10k for the past 3,4 and 5 years) will be provided to Schools Forum / Technical Working Group for information.

- Findings will be shared with Finance Officers and Bursars at Administrative Development Liaison (ADL) meetings. Presented at the October 2016 meeting.

2.6 The audit opinion of Partial Assurance will be reported to the Audit and Resources Sub-Committee.

3 Implications – Financial and Other

3.1 By implementing processes and other recommendations within the report there will be increased assurance that surplus funds in schools are appropriate, supported by detailed plans, consistent with the aims of the schools and approved and monitored by Governors.

4 Background Papers

4.1 [SFVS – Evidence and Guidance for Somerset 2015-16](#)

4.2 Internal Audit Report: Planned Use of School Balances Audit Report.

Note: For sight of individual background papers please contact the report author.

5 Audit Framework Definitions

5.1 See Appendix A

Audit Framework and Definitions

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
Priority 4	Important findings that need to be resolved by management.
Priority 3	The accuracy of records is at risk and requires attention.

Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.