

<b>West Berkshire Schools' Forum</b>	
<b>Title of Report:</b>	<b>Balance Control Scheme for Nursery Schools, Special Schools and Pupil Referral Units</b>
<b>Date of Meeting:</b>	<b>9<sup>th</sup> March 2015</b>
<b>Contact Officer(s)</b>	<b>Claire White</b>
<b>For Decision</b>	

## **1. Background**

1.1 The 'Scheme for Financing Schools' is a statutory document which sets out the financial arrangements for all maintained schools within the local authority. Any changes to the scheme must be consulted with schools and be approved by the members of the Schools' Forum representing maintained schools.

1.2 The scheme must set out the arrangements in relation to the carrying forward from one funding period to the next of surpluses. The scheme *may* contain a mechanism to clawback excess surplus balances (balance control mechanism scheme). The latest guidance states:

“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”.

1.3 Our current scheme applies to primary and secondary schools only. An excess surplus balance is set as 8% in primary schools and 5% in secondary schools or £20,000 whichever is greater, based on the total formula funding received by the school (excludes additional grants).

1.4 Many other local authorities no longer operate a claw back scheme at all, and it tends to be more light touch. Where they do, if it includes nursery, special and PRU schools, they tend to use 5% or 8% as the limit.

1.5 The reason for the West Berkshire Scheme excluding nursery schools, special schools and pupil referral units (PRUs) since 2013/14 is due to the change in the funding system that year, with these schools now being funded by a very different methodology compared to mainstream schools as follows:

- A lower proportion of their budget is fixed for the year, irrelevant of how many pupils access the places. The majority of their funding is based on actual take up of places during the year (top up funding in special and PRU schools), which can vary on a daily basis. In comparison, primary and secondary schools have all their funding fixed at the start

of the year and there are no uncertainties regarding their funding during the financial year.

- Due to the volatility of funding it is difficult to accurately predict in year funding and managing the overall budget in response to sudden changes in numbers of pupils being placed can be challenging. Forecasts can vary significantly from one month/term to the next.
- As the funding is based on demand for places, a large surplus can quite quickly turn into a large deficit if the number of pupils placed suddenly drops. These schools should be encouraged to carry forward surpluses in order to offset possible future deficits. Mainstream schools are funded on actual pupil numbers recorded in the previous year census and so have time to manage changes to their funding.

1.6 However, the funding of special schools and PRUs is more flexible than mainstream schools as it could be locally decided to vary the top up fees if appropriate in order to help these schools balance their budget. They do not have the limitations of formula funding as in primary and secondary schools.

1.7 At the end of 2013/14 (the first year of the new funding system for special schools and PRUs), Schools' Forum members were concerned that the balances at some of these schools seemed very high, and requested that consideration be given to the excess balance scheme also covering these schools, but adjusted accordingly to meet their circumstances.

## 2. Review and Options

2.1 The following table sets out the carry forward and funding budget for each Nursery, Special and PRU school:

School	Balance at 31/3/14	Fixed (guaranteed) Funding 2014/15	Funding Budget Set by school 2014/15 <sup>1</sup>	Fixed Funding as a % of budget set	Closing Balance as a % of Funding budget set
<b>Hungerford Nursery</b>	24,974	127,830	371,060	34%	6.7%
<b>Victoria Park Nursery</b>	50,788	127,830	443,470	29%	11.5%
<b>Brookfields Special School</b>	556,603	2,156,309	4,910,510	44%	11.3%
<b>The Castle Special School</b>	185,945	1,529,129	3,252,160	47%	5.7%
<b>Alternative Curriculum</b>	138,762	384,000 <sup>2</sup>	1,244,130	31%	11.2%
<b>Reintegration Service</b>	175,907	288,000 <sup>3</sup>	1,094,490	26%	16.1%

2.2 All these schools closed last year in surplus, some of which were significant.

<sup>1</sup> Excludes PPG & other ring fenced grants, and any carry forward from previous year

<sup>2</sup> Due to increase to £480,000 in 2015/16

<sup>3</sup> Due to increase to £360,000 in 2015/16

2.3 If the Forum wish to include all or some of these schools in the excess balance clawback scheme this should reflect the volatility of funding and be sympathetic to the issues set out in paragraph 1.4 above. However, for special and PRU schools it should also reflect the impact on the DSG high needs budget, as the surpluses for these schools have largely been generated from top up funding paid out of the high needs block that has not all been used by the school in the year. If as a result of increased top up payments these central high needs budgets overspend, this then has the perverse effect of requiring cuts to high needs services which affect all schools, whilst the special schools and PRUs keep high balances as a reserve and/or spend this money on their chosen projects.

2.4 In determining what constitutes an excess surplus for these schools given the volatility of their funding, two aspects need to be considered: should these schools require a higher percentage surplus in order to manage their budgets, and should it be based on the funding each individual school expects to receive in the coming year or their actual funding received in the previous year.

2.5 If the principle is to allow these schools to keep a higher surplus due to the volatility of their funding, their surplus at the end of the year should perhaps be measured against their actual funding received in that year and be set at 5% as a reasonable volatility reserve (with the recommendation that the school would keep the first 5% of a surplus in reserve and not spend it – it would be used to support their budget if a sudden dip in pupil numbers/top up fees occurs) plus the next 5% as a general surplus for the school to spend as it wishes. A balance greater than 10% would be deemed to be an excess surplus.

2.6 A further consideration is whether to add to the year end surplus figure any funding the school has transferred to capital in excess of £20,000 during the year, both to be more transparent and that this is in effect using surplus revenue balances during the year so shows a more accurate financial position. This may also want to be considered for inclusion in the scheme for mainstream schools.

2.7 There are then two options to consider for use of any excess balance at special and PRU schools:

- 1) These schools submit bids regarding use of this balance for investment at their school, to be reviewed by Schools' Forum and weighed up against other pressures within the high needs block. This would also include taking into account any in year proposals by these schools to use greater than £20,000 revenue funding for capital projects *prior to the school committing to such expenditure.*
- 2) Rather than claw back the excess balance, the schools are requested to reduce the top up fees accordingly (using up the excess balance) for the next financial year.

2.8 Nursery schools with an excess surplus balance would need to submit a case similar to primary and secondary schools.

2.9 An illustration based on last year's outturn is as follows:

School	Balance at 31/3/14	Revenue Contributions to Capital in 2013/14 (over £20k)	Total Funding Received by school 2013/14 <sup>4</sup>	5% Volatility Reserve	5% General Surplus	Excess Surplus Balance
<b>Early Years Block:</b>						
Hungerford Nursery	24,974		372,113	18,606	6,368	0
Victoria Park Nursery	50,788		481,059	24,053	24,053	2,682
<b>High Needs Block:</b>						
Brookfields Special School	555,510		4,659,391	232,970	232,970	89,570
The Castle Special School	183,800	17,468	3,174,975	158,749	42,519	0
Alternative Curriculum	138,762		1,177,302	58,865	58,865	21,032
Reintegration Service	175,616		1,138,084	56,904	56,904	61,808

This shows that if such a scheme had been in place for 2014/15, there would have been a potential reinvestment or saving to the high needs block of £172k.

**Action:** Schools' Forum (maintained school members only) to decide whether it wishes to bring nursery, special and PRU schools into the excess balance clawback scheme, and if so on what basis. If agreed this will be subject to consultation with all maintained schools in order to change the Scheme for Financing Schools, and then be brought back to the next meeting of the Schools' Forum for decision after reviewing any comments received from the consultation.

<sup>4</sup> Excludes PPG & other ring fenced grants, and any carry forward from previous year