West Berkshire Schools' Forum	
Title of Report:	**Balance Control Scheme**
Date of Meeting:	**13th July 2015**
Contact Officer(s)	**Claire White**
For Decision by Maintained School Representatives Only	

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/ring fenced grants).

1.4 At the 9th March meeting of the Schools' Forum, at the request of members, a report suggesting how nursery, special and PRU schools could be included in the scheme was discussed.

1.5 Through these discussions it was agreed that the scheme for all schools should be reviewed as it is probably outdated, particularly in light of the current financial climate for schools.

2. **Review**

2.1 Many other local authorities no longer operate a claw back scheme at all, and if they do it tends to be more light touch. The reasons for this are:

   1. It is no longer a DfE requirement, and the DfE no longer report on school balances, as it is no longer an issue of concern for them.

2. Academies no longer have such a scheme and their balances are not scrutinised.
3. Schools should be capable of making their own judgement on what is a reasonable balance for their circumstances and how this fits into their longer term strategic financial planning.
4. Schools are required to do longer term budget planning and provide 3 – 5 year budget plans which were not a requirement when the scheme originated.
5. Having such a scheme may drive poor decision making, e.g. spending spree at end of financial year to avoid a claw back or transferring large sums to capital without a proper plan for its use.
6. Schools have not seen increases to their funding rates for a number of years, and are unlikely to in the foreseeable future, so schools are less likely to be in a position to build up such large balances.
7. In respect of nursery, special and PRU schools, their funding is volatile as funding follows the child rather than the funding being fixed at the start of the year, so they need a higher contingency.

2.2 In terms of a schools finances, the expectation is that the following would be in place in a school:

1. Governors having autonomy on decisions regarding their budget and receiving the relevant financial information to enable them to make the best decisions for their school
2. Robust medium to long term financial planning in place
3. A detailed annual budget plan linked to the School Development Plan
4. Robust and regular budget monitoring in place

As a result of having all of the above in place, there should be no build up of large balances without the Governors having considered options and having a plan in place for its use. If it is deemed that schools do have this in place, there should be no need to have a balance control scheme in place. Furthermore, the School Financial Value Standard provides Governors with an annual self check that this is all in place within their school.

2.3 The more recent history of school balances in West Berkshire shows that although overall balances are not decreasing, the number of schools with an excess surplus and value of this surplus has reduced significantly since 2011/12 when a number of schools had balances clawed back. The main concern recently has been the high build up of balances at Special and PRU schools since the new funding arrangements came into place in April 2013.

	Number of Schools With Excess Surplus	**Value of Excess Surplus £**	**Total School Balances £**
2011/12	17	£119,607	£3,991,000
2012/13	2	£10,151	£3,972,000
2013/14	3	£35,938	£3,820,000
2014/15	3	£20,637	£4,022,000

3. Options

3.1 The following options are available:

1. To leave the scheme as it currently is.
2. To leave the scheme as it currently is but bring in nursery, special and PRU schools as set out in the report to Schools' Forum on 9th March
3. To no longer operate a scheme at all
4. To replace the scheme with a "light touch" review of school balances by Schools' Forum

3.2 A light touch review could be on the following basis:

- Schools no longer complete a balance control return
- Schools' Forum receive an annual report in July from Finance providing the following information for each school:
    a. Actual end of year balance for last 3 years
    b. Actual end of year balance for the last financial year as a percentage of income actually received
    c. What the planned end of year balance had been for each of the last 3 years
    d. Planned end of year balance for next 3 years
- Schools' Forum to review data and determine whether any school's data raises any concerns and *may* ask such schools to provide further information. For example, this could include schools whose data shows one or more of the following:
    a. Continuing growth in balance in the last 3 years and the current balance is more than 10% of the actual income received in the last financial year
    b. Actual end of year balance for each of the last 3 years is significantly different to planned end of year balance by more than £30,000 in every year
    c. Continuing growth in balance forecast for next 3 years
- Schools' Forum could ask such schools to provide a written explanation – the purpose being that Schools' Forum act as a peer group to challenge the robustness of the school's financial management.
- There would be no claw back.

3.3 Appendix A provides the data as set out above for the current year, as an example of what such a review would look like.

Recommendation:
Heads Funding Group is recommending option 4 – a light touch annual review. If agreed by Schools' Forum this proposal will go out to consultation with all maintained schools in order to change the Scheme for Financing Schools, with a final decision made by Schools' Forum at the September meeting.

Appendices:

Appendix A – Example of Annual Report on School Balances