Proposed Changes to the Scheme for Financing Schools

Consultation Document for Schools
2nd to 13th November 2015

1. Introduction

1.1 The 'Scheme for Financing Schools' is a statutory document which sets out the financial relationship between the local authority and the schools it maintains. In making any changes to the scheme, a local authority must consult all schools in their area and receive the approval of the members of their schools forum representing maintained schools.

1.2 The Department for Education (DfE) will review its guidance annually and update where necessary. The latest statutory guidance was published by the DfE on 19th August 2015 and contained two changes. The local authority has also reviewed the current scheme to ensure that all sections are still appropriate. Following on from this review a number of changes are being proposed where there is the discretion in the regulations to do so.

1.3 The two statutory changes are as follows:

1) Requirement for maintained schools to publish a register of the business interests of their governors, along with any relationships with staff (section 2.17).
2) Clarification that borrowing includes the use of finance leases and is not allowable, with the exception of certain schemes approved by the Secretary of State. Currently only Salix loans have such approval (section 3.8).

1.4 The discretionary changes being proposed are as follows:

1) Provision of month 9 budget forecast.
2) Change the deadline for submission of budgets to 1st May.
3) Requirement to set a capital spend de-minimus level.
4) Balance Control Mechanism – removal of the claw back scheme for excess surplus balances and replace with a light touch review.
5) Requiring schools closing the year with an unplanned deficit to meet some of the same conditions as schools with a deficit budget if asked.
6) Revising the guidelines for school loans.

1.5 The rationale behind each of the discretionary changes is set out in this document, and we are seeking your views on these changes.

1.6 The complete scheme is attached showing the proposed tracked changes. This also includes the statutory changes and minor amendments (e.g. updating web page references).

1.7 In order to respond to this consultation, please use the following link to access the short survey monkey, which contains the questions asked in this document:

https://www.surveymonkey.com/r/SFS_Oct2015

1.8 The timetable for this consultation is as follows:

2nd to 13th November 2015	Consultation with Schools
24th November 2015	Heads' Funding Group review responses
7th December 2015	Schools' Forum approve revisions
1st January 2016	Revised scheme comes into operation

2. Provision of Financial Information and Reports (section 2.2)

2.1 The current provision requires schools to submit quarterly budget monitoring reports to the LA, *unless they are submitting an imprest and are part of the LA financial system (Agresso).* It is proposed to require imprest schools to submit their budget monitoring forecast reports and bank report as at the end of month nine (31st December). This is for the following reasons:

1) This will formalise what is currently being requested and all schools are complying with.
2) It provides the LA with assurance that schools are on track or have arrangements in place to deal with any excess surpluses or deficits.
3) Support can be offered at an early stage to those schools who are having financial difficulty.
4) It focuses on the significance of month nine, helping to prepare schools for year end.

> Do you agree with our proposal to formalise the current arrangement for imprest schools to submit a month nine forecast and bank report (as at 31st December) by mid January each year?

3. Submission of Budget Plans (sections 2.8 and 2.9)

3.1 The statutory requirement is for the LA to set the deadline for submission of one year school budget plans for any date between 1st May and 30th June. The LA may also request forecasts for a multi year period. The current deadline for West Berkshire schools is 31st May for the one year plan (section 2.8), and 31st July for the three year plan (section 2.9).

3.2 It is proposed to move the deadline to the earliest date of 1st May for both plans for the following reasons:

1) Schools receive indicative budget allocations much earlier now (November) and final budget allocations are usually received by the end of January (the statutory deadline is end of February). Previously indicative budgets were end of January with final budgets end of March.

2) Schools generally start the budget planning process much earlier with access to planning tools/data that aid this.

3) Accounts at year end are closed earlier, and schools know their final end of year balance by mid April, though robust monitoring should give a clear estimate of this well before the end of March.

4) Schools need to be setting their budgets before the start of the financial year as this will inform their spending and staffing decisions. Schools need to ensure that the dates for the relevant Governor meetings to approve the budget facilitate this. Note that a budget is not expected to contain exact expenditure and income, but is your best estimate at a certain point in time using the best information you have. Academies and most other institutions will set their budgets well before the start of the financial year.

5) For consistency, it is good practice to prepare the three year budget at the same time as the one year budget, and the planning tool provided to schools facilitates this. It is recognised that years 2 and 3 will be a snapshot of the school's position as at that time and an indication of the school's position if no changes (such as staffing) and no action is taken.

6) To allow longer term strategic financial planning to start in the summer term and form part of the school development plan for the next academic year, particularly where the three year plan is showing the school going into deficit in future years if nothing changes.

3.3 If agreed, this provision would not be mandatory for 2016 in recognition that many schools will have set their Governors meetings which do not facilitate the budget submission by the earlier date, but we would expect schools to submit their budgets as early as possible.

Do you agree with our proposal to move the budget plan submission date to 1st May?

4. Accounting Policies (Section 2.5) - Capital Spend de-minimus level

4.1 There is no mention in the scheme about schools being required to set a de-minimus level for capital spend. It is therefore proposed to require schools to set a de-minimus within their own financial management policy, which needs to be in the range £2,000 to £5,000. As a default the LA de-minimus will apply, currently £5,000, or £2,000 for VA schools. The reasons for including this in the scheme are:

1) Schools have sought clarity on this subject
2) Schools are required to set their own de-minimus level and report this on the annual CFR return.

Do you agree with our proposal to specify within the Scheme a requirement for schools to set a de-minimus level for capital spend?

5. Controls on Surplus Balances (section 4.2)

5.1 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".

5.2 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).

5.3 It is proposed that the claw back scheme be removed and replaced with a light touch review. The reasons for this are:

1. The number of schools with an excess surplus balance and the value of these excesses have reduced significantly since 2011/12 (3 schools in 2014/15 totalling £21k, all with valid reasons).
2. 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.
3. Academies no longer have such a scheme and their balances are not scrutinised.
4. 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.
5. 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.
6. 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.
7. 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.
8. 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.

5.4 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 and vice versa.
4. Robust and regular budget monitoring and forecasting 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. The School Financial Value Standard provides Governors with an annual self check that this is all in place within their school.

5.5 At the July meeting of the Schools' Forum it was agreed that a light touch review should be proposed to replace the current claw back scheme.

5.6 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 in every year.
    c. Continuing growth in balance forecast for next 3 years.
- Schools' Forum may ask such schools to provide a written explanation and/or attend a meeting of the Heads Funding Group to be challenged – the purpose being that Schools' Forum act as a peer group to challenge the robustness of the school's financial management.

Do you agree that the current scheme for the claw back of excess surplus balances should be removed and replaced by a light touch review by the Schools' Forum?

6. Obligation to carry forward deficit balances (section 4.4)

6.1 The current scheme sets out additional requirements (in section 4.9) those schools in deficit need to meet, including the provision of additional information.

6.2 It is proposed that schools that close the financial year with an unplanned for deficit but are submitting a balanced budget for the following year may also be required to provide this additional information for the duration of one year. This is for the following reasons:

1) To understand the reasons why the school has closed with a deficit, and whether the school needs support in improving its financial monitoring and planning procedures.
2) To ensure that the school has set a robust balanced budget for the next year, and that any new systems/procedures put in place are working effectively.

Do you agree that schools closing the year with an unplanned deficit carried forward to the following financial year, should for that year be required to submit the same additional information as schools setting a planned deficit budget?

7. Loan scheme (section 4.10)

7.1 It is proposed that the arrangements be amended as follows:

1) Clarifying that the LA will determine the schools ability to repay the loan by reviewing the following information:
    - Last three years end of year balances.
    - Last three years capital funding allocations.
    - Current three year budget plan.
    - School's estimate of next five year pupil numbers and funding allocations (verified by the LA).
    - Latest audit plan recommendations.
2) Changing the maximum size of the loan from 20% of the school's budget share to 5%, due to school funding allocations not keeping up with inflation in recent years, and the risk of cuts to school funding in the future. This also aligns with the Academy loan scheme.
3) Changing the maximum proportion of the collective school balances backing the arrangement from 40% to 20% to reflect that schools are now starting to use their balances having not had funding increases for several years, and the risk that the current level of balances will not be there in the future.

7.2 Note that the maximum size and maximum proportion (points 2 and 3 above) for loans must also apply to licensed deficits (section 4.9).

Do you agree with the proposed amendments to the current loan scheme?