

## **EDUCATION SCRUTINY COMMITTEE – 1 OCTOBER 2015**

### **SCHOOL REVENUE BALANCES – UPDATE**

**Report by Interim Deputy Director, Education & Learning**

#### **Introduction**

1. This report updates the Committee on the meetings held with maintained schools in the Spring of 2015 to challenge plans for use of balances, where schools had consistently retained surplus revenue balances at the end of the last four financial years. The local authority cannot challenge Academies on the use of any surplus balances that they may hold.
2. Recommendations for future action are based on the outcome of these meetings.

#### **Outcomes of Meetings**

3. Meetings were held with three maintained Primary schools in the period January to March 2015. Councillors Tilley and Gray attended the meetings along with Rebecca Matthews, Interim Deputy Director for Education and Learning and Gillian McKee, Finance Business Partner for Children Education & Families (CEF). The Headteacher and Chair of Governors or Finance Governor attended from each school. Two of the schools were also accompanied by their external Bursar.
4. The format of the meetings was the same for each school. The trend in balance levels over the last three years was reviewed. Schools were questioned about differences between projected year balances and actual outturn. Schools were asked to explain how the balances had arisen, what the plans were for use of balances, and the reasons for any delays in implementing plans. Attainment data for each school was also reviewed and schools were challenged about any areas where performance appeared low. Schools were asked whether they thought they had any gaps in expertise on their Governing Body, particularly in relation to finance. Governors were asked if they received sufficient financial information and in a clear format, to allow them to effectively fulfil their responsibilities for overseeing the management of the resources available.
5. The first school invited in for discussion was Windmill Primary School, which is a relatively large Primary (NOR October 2014 = 529). The school has been expanding rapidly in recent years and the school has expressed concern about the budget impact of the timing difference between staffing for extra pupils arriving in September and the additional funding for those pupils being reflected in the budget for the following financial year, plus the need to fund set up costs associated with new classes. They have taken a very prudent

approach to budgeting in recent years, including cautious forecasting of income relating to catering and the breakfast club and top ups for Special Educational Needs (SEN) pupils.

6. The school's three year budget plan reflects in year expenditure exceeding income for the next three years, thus anticipating running down the balance. The school understands that resources should be spent in year for the current cohort of pupils. The importance of moving towards an in year balanced budget and maintaining this in future years was emphasised at the meeting, but it was acknowledged that there is some difficulty in achieving this, and ensuring long term financial stability, as the school is in a rapid expansion phase. There were no concerns noted in relation to attainment. Overall the conclusion was that the school was managing its resources effectively, and addressing the challenges of significant changes in recent years.
  
7. The second school invited to meet was Great Milton Church of England Primary School, which is relatively small (NOR October 2014= 164). Budgeting has been done on a cautious basis, and some key reasons were identified for the level of balance having reached such a high level in recent years. This included budget not being fully used for a newly recruited member of staff who withdrew just before the start of the full year, and the teaching commitment being covered partly by supply and partly by the Headteacher. Significant surpluses have been generated by the After School and Breakfast Clubs. Approximately £14K of the balance related to donations from the school's parents' association and is expected to be used for the next stage of a project to improve the outdoor learning and play area, which has been delayed. Other plans for use of the balance include redecorating and replacing ICT or telephone equipment. The school is also keen to maintain separate classes for each age group as it believes this made a difference in moving from a 'Satisfactory' Ofsted report in 2011 to 'Good' in 2013. The Headteacher and Governor acknowledged that revenue funding should be spent on the current cohort of pupils, but the difficulty faced by this school arose from the smaller than average size, which makes it difficult to manage unexpected developments from one year to the next with a relatively small overall budget.
  
8. The third school was North Leigh Church of England Primary School which is also below average size (NOR October 2014= 176). The school has had a temporary Headteacher since summer of 2014. The school has recently converted to Academy status (1 July 2015) and has a new Headteacher in post. Pupil numbers have increased from 133 in 2010-11 to 176 in 2014-15 (+32%). A significant factor identified by the school as a reason for increased balances was delay in building projects being completed and reaching agreement about disputed invoices for work done and making final payments. The school also mentioned concerns about being restricted in admission numbers, as it is keen to maintain/ increase numbers. The Chair of Governors expressed the hope that converting to an Academy would give them more flexibility with this. The school acknowledged that revenue funding should be spent on current cohorts of pupils. The panel concluded that the

school was managing the budget effectively and addressing the challenges facing small schools.

### **Subsequent Review of 2014-15 Year End Balances**

9. The year end balances at 31 March 2015 were reviewed for the 41 schools previously identified as having consistently held surplus balances for the four years from 2010-11 to 2013-14 (as shown in Appendix 1). This was based on the balances as reported for Consistent Financial Reporting (CFR) purposes. The figures for previous years are extracted from the DfE Statistical Release SR52/2014. The statistical release incorporating 2014-15 balances will not be available until later this year, but no significant differences are expected.
10. Overall the level of balances for the 41 schools has reduced by £700,795, a reduction of nearly 15% on the 2013-14 balances, with 28 of the 41 schools showing a reduction
11. The three schools invited in to discuss the level of their balances have all shown reductions in the balance held from 2013-14 to 2014-15. Windmill's balance reduced by £44,955 (-15%), Great Milton's by £4,167 (-4%) and North Leigh's by £28,997 (-29%).
12. When the latest statistical release is published later this year the information will be reviewed and if any schools are newly identified as having held surplus balances consistently over the last four years they will be challenged as part of the budget setting and monitoring cycle, and invited in for a further discussion with senior officers and Councillors if necessary.

### **Conclusions**

13. The work done in reviewing the level of balances held by the 41 schools, including the challenge meetings with the three schools documented above, did not indicate that schools are retaining balances without reasonable justification. Schools acknowledged that funding should be spent on the current cohorts of pupils but there are difficulties in managing budgets smoothly over a number of years particularly where schools are small and unexpected costs can have a disproportionate impact from one year to the next, or where schools are facing significant changes e.g with rapidly increasing numbers.
14. It would therefore not be justified to claw back balances from these schools, as allowed for under the Scheme for Financing Schools, as the discussions at meetings indicated that they have been planning prudently and managing their funding effectively.
15. As referred to in the previous report to the Committee, other local authorities have not generally been using a clawback mechanism, usually because of concerns that it would not apply consistently to both maintained and academy schools, and would therefore not be equitable. This is also the view of officers in Oxfordshire.

16. Schools Forum have not been supportive of operating a clawback for similar reasons, recognising that schools and academies are facing increasing financial pressures and levels of balance are likely to be reduced in the next few years as a result.

### **Financial and Staff Implications**

17. There are no financial and staff implications as the recommendation is to take no action in terms of claw back of balances, but to remind schools of the need to spend revenue funding in year so far as possible on current cohorts of pupils, and to continue to challenge schools on the level of and use of their balances as part of the annual budget setting process.

### **Equalities Implications**

18. There are no equalities implications identified as no claw back action is identified as outlined in paragraph 16 above.

### **RECOMMENDATION**

19. **The Education Scrutiny Committee is RECOMMENDED:**
- (a) to note the contents of the report;**
  - (b) to note that schools will be reminded of the need to spend revenue funding on current cohorts of pupils as part of the annual budget setting process; and**
  - (c) to note that if schools are identified as having consistent surplus balances they will be challenged and may be invited in to discuss proposed use of balances with Councillors and the Deputy Director for Education & Learning.**

**Rebecca Matthews**

Interim Deputy Director Education & Learning

**Contact Officer:** Gillian McKee, Finance Business Partner for Children, Education & Families; Tel: 01865 323920

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