School balances

# Title of Report: SCHOOLS BALANCES 2020-21

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| Details on who has been consulted with on this paper to date: n/a  Executive Summary  This report informs schools forum of maintained school provisional balances as at 31st March 2021. It outlines the proposed review process for  Schools with surpluses above the recommended limits. It proposes a further  Report to forum in December after schools have been challenged to submit details of their planned use of the balances.  ACTION REQUIRED  Schools Forum is invited to discuss and comment on any of the issues raised in the report. |

**Appendices to this report:**

Appendix 1 Individual school balances for 2019-20 and 2020-21, with in-year movement if value and as a percentage

Appendix 2. provides some guidance on the appropriate use of revenue surplus balances

Appendix 3 Individual school balances as a percentage of the schools budget, highlighting those with a revenue surplus over the 5% and 8% thresholds

## 1. Purpose of Report

1.1 To provide School Forum members with the provisional school balances position recorded as at 31st March 2021.

## 2. Background

2.1. Schools receive their delegated budget share based upon the formula factors and components agreed in the Tower Hamlets Schools Funding Formula.

2.2. All schools via their governing body have delegated powers and responsibilities to manage and deploy their financial resources at a local level in accordance with the locally agreed aims and objectives as outlined in the School Improvement Plan (SIP), aimed at achieving the best outcomes for pupils.

2.3. Within the framework of Tower Hamlets’ Scheme for Financing Schools (see Section 5), schools are permitted to carry-forward any year-end surplus/deficit recorded at 31st March, to the following financial year.

## 3.Schools Position

3.1 Overall the school balances at the end of the 2020/21 financial year have ***increased*** by **£7.69m** (£7.41 revenue and £0.28m capital) to **£34.68m** (£31.44m revenue and £3.24m capital). The year-end position illustrated school by school, is shown in Appendix 1 and the position by school sector in Table 1.

**Table1. Provisional Balances carried forward by sector: 2019-20 and 2020-21.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Type | 2020/21 Revenue | 2020/21 Capital | 2019/20 Revenue | 2019/20 Capital | Revenue movement | % |
| £ | (£) | (£) | (£) | (£) | (£) | (%) |
| Nursery | 676,137 | 136,545 | 616,234 | 122,373 | 59,904 | 10% |
| Primary | 16,284,001 | 1,398,561 | 11,700,180 | 1,475,611 | 4,583,821 | 39% |
| Secondary | 9,462,857 | 533,579 | 7,265,390 | 525,814 | 2,197,467 | 30% |
| Special | 5,018,583 | 1,174,814 | 4,452,713 | 839,575 | 565,870 | 13% |
|  | **31,441,579** | **3,243,498** | **24,034,517** | **2,963,372** | **7,407,061** | **31%** |

**School Revenue Deficits**

3.2 The final year end position at the end of 2019-20 included ***seven*** schools with a revenue deficit, which has increased to ***nine*** at the end of 2020-21. Overall, the total value of deficit schools increased from -£1,62m to -£3.06m. One school came out of a deficit position, and 3 more entered into a deficit

3.3. Four of these deficit schools were undergoing planned closures, since completed; one school has successfully amalgamated; and another is seeking a partner in a bid to become sustainable for the future.

## 4. **Scrutiny / Challenge**

4.1 The following sets out the desired position on challenging surplus balances. In the current pandemic this might not be feasible given the other pressures on schools and council officers.

4.2 The Department for Education (DfE) published Financial Management Framework document outlines how the DfE intend to challenge and scrutinise local authorities and schools in certain areas. The framework focuses on three key aspects:

* The reported year-end position of the total Dedicated Schools Grant (DSG);
* The reported position of schools completing the Schools Financial Value Standard (SFVS); and
* The reported position of surplus school balances held.

4.3. The latter aspect specifically will result in the DfE challenging, via the Local Authority (LA), schools that repeatedly hold a surplus balance at year-end at 15% or above of their delegated budget share. Those schools with a surplus balance at or above 15% will be required to demonstrate that the surplus balance reported is held for assigned purpose(s) and has been reported to and agreed with the governing body.

## 5. **Surplus Balance Control Mechanism**

5.1Tower Hamlets Scheme for Financing Schools imposes a threshold on uncommitted surpluses of 5% for secondary schools and 8% for other schools. Above this threshold, a school must demonstrate that there is either a prior year commitment or that its governing body has agreed to set aside funds for specific purposes permitted by the authority. To count as properly assigned, amounts must not be retained beyond the period stipulated for the purpose in question, without the consent of the LA. In considering whether any sums are properly assigned the LA may also take into account any previously declared assignment of such sums but may nottake any change in planned assignments to be the sole reason for considering that a sum is not properly assigned.

5.2 The Schools Finance Team have requested all schools to confirm the balances reported and requesting the completion of the surplus plan proformas. This information is analysed and discussions held between finance staff and other officers, including school development officers, to arrive at a decision as to whether or not the proposals are acceptable. Further information may be required from schools to support their proposals. Schools should involve Governing bodies in this process.

5.3 Schools are also required to submit quarterly monitoring information, which includes a projection of the year end position, and should evidence progress or potential further financial risk is assessed. Where proposals are accepted, schools will continue to be supported and monitored to ensure the plans are put into practice and are sustainable.

5.4 Where proposals are not accepted, the surplus funding (in excess of the 5% and 8%) can be clawed back and directed to the Schools Budget overall, to benefit pupils in general.

## Appendix 2

**Defining a “committed” balance**

• Schools with an excess surplus balance must be able to justify their plans for their whole balance, not just the amount they are over the threshold, or they could be subject to clawback.

• However, the local authority recognises the need for schools to hold a reasonable ongoing contingency balance.

• Monies will only be classed as committed if the school can provide evidence to show that they

* have been set aside for a **specific purpose**;
* will be spent within a **defined timescale** with a fixed end point; and
* have been **properly approved** by governors.

• All schools should be planning to spend the great majority of their money on children in schools now, rather than planning reasons to hold on to it. Committed sums should be planned for, and should not simply be used as an explanation for a large balance. Schools will need to provide evidence of planning, such as details of projects in the school’s Asset Management Plan or School Development Plan, along with minutes of governors’ meetings.

• The local authority will monitor whether the school has subsequently implemented the agreed plans, and will be prepared to claw back funds if there are not good reasons for these failing to progress.

***Planning for uncertainty over future rolls, staffing, or funding***

**Schools should provide calculations, plans, or projections to show expected changes in rolls or staffing.**

If a school is projecting a fall in pupil numbers, then it needs to move towards a budget and staffing structure which is sustainable on a long-term basis. Surplus balances should not be used to defer difficult decisions, though it could be legitimate for a school to cushion a temporary dip in pupil numbers or to fund the part-year costs of not implementing staffing reductions until the autumn term.

**It is prudent to keep some money aside for contingencies.**

However, this amount should be reasonable, based on the size of the school and its history of

balances. It is expected that contingencies would be within the 5% and 8% limits.

***Prior year payments, accruals, and committed orders***

Where a school is awaiting charges for services or goods, it should be able to produce evidence such as copies of orders, quotes, delivery notes, or invoices. Reported accruals or commitments should reconcile to what is recorded on the school’s financial system.

**Use of clawed back funds**

The regulations state that the Local Authority can use any funding clawed back to be: *“applied as part of their schools’ budget for the funding period in question”*

Funding will normally be clawed back in the financial year following that in which the balance arose. Any funding clawed back will be re-invested in that same financial year.

The Local authority, in consultation with the School Budget Forum if the sum is significant, will ensure that any funds clawed back are spent productively so that local and national priorities either benefit directly or by reallocation of resources through supporting efficiency measures elsewhere in the budget. Simply redistributing relatively small sums to all other schools will be of little benefit.

Clawed back funds may be used to fund invest-to-save priorities which can lead to greater efficiency savings and value for money in schools’ spending. Examples of invest to save schemes include:

• Energy efficiency measures;

• Supporting training initiatives;

• Pump priming partnership arrangements;

• Adaptations to schools enabling them to admit more pupils with special educational needs, avoiding expensive out of authority placements.