



Leicester
City Council

WARDS AFFECTED
All

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Children and Young People Scrutiny Committee
Cabinet

06 July 2010
12 July 2010

Proposed Changes to the School Balance Control Mechanism

Report of the Strategic Director, Investing in Our Children

1. Purpose of Report

- 1.1 The purpose of this report is to seek support for proposals for a new School Balance Control Mechanism to be introduced during 2010-11 that will apply to school balances held at 31 March 2011. These proposals are based upon feedback from a formal consultation and revised national guidance for local authorities.

2. Recommendations

- 2.1 Children and Young People Scrutiny Committee and Cabinet are asked to:-
- note the report;
 - support and/or comment upon the proposed new School Balance Control Mechanism (Appendix 2) to be introduced during 2010-11 and applied to school balances held at 31 March 2011 and annually thereafter;
 - support and/or comment on the intent of Schools Forum to promote the use of any clawed back excess school balances to support collaborative projects to improve educational and well-being outcomes for City learners; and to
 - note that the approval of the new scheme, taking into account these comments, will rest with the Schools Forum.

3. Summary

- 3.1 Purpose of the School Balance Control Mechanism: The aim of the School Balance Control Mechanism [SBCM] is to promote the effective and planned use of balances so that more of the funding schools receive is spent on the children currently in the schools. Schools are still able to hold a reasonable amount in reserve to meet unforeseen circumstances. The overall intended outcome from the Balances Control Mechanism is that balances are used in the best way to benefit children and young people, and as a result the levels of balances reduce to acceptable levels and are not placed at risk.
- 3.2 Background to School Balances in Leicester City: School Balances in Leicester City schools are in aggregate too high. There are some contributory factors to justify this (e.g. provisions for the new Single Status scheme and Building schools for the Future

[BSF]), but there is also a need to change the culture and practice regarding budget management in some schools and also for the City Council to support schools in effecting this change to address this issue. The Council is not seeking to routinely claw-back funds from schools and would much prefer schools to utilise funding in an effective and timely manner at a local level. It is essential, however, to have a robust SBCM scheme in place, which of necessity includes provision to claw-back excessive balances.

- 3.3 External pressures for change: There is significant external pressure on local authorities to have a robust control mechanism to control surplus balances and to claw-back funds where schools have excessive balances. In view of the current economic climate, unless action is taken locally, there is a very real risk that central government may impose a method that claws back the money to the detriment of City schools. There is national expectation that school balances will reduce.
- 3.4 Action taken locally: A set of proposals has been developed with the Schools Forum, which formed the basis of a consultation with schools and any other interested parties. Schools have also been asked to review their financial planning arrangements, as there is evidence to support the view that most schools do not plan to have the level of balances that materialise. We have also asked school headteachers and governors in a letter dated 25 May 2010 to begin to consider the impact of the proposed scheme now, as it is intended that this will apply to balances held at 31st March 2011. Work will continue in reminding governors and headteachers of their responsibilities in being accountable to make appropriate use of funds provided for today's children, and the level of balances will also feature as a key consideration when responding to requests for additional funds.
- 3.5 Analysis of the consultation responses and proposed new scheme: The formal consultation closed on 31st March 2010, with broad support amongst schools for the majority of the proposals. The most recent national guidance to local authorities on school balances highlights that the 5% (of budget) limits on school balances for secondary schools and 8% for primary / special schools are not targets, and emphasise that where balances exceed these limits the whole of the balance needs to be challenged.
- 3.6 Use of clawed back funds: The City Council, in consultation with Schools Forum, will seek to ensure that any funds clawed back are spent productively within the scope of the overall Schools Budget. Schools Forum has indicated that it would expect excessive balances to be clawed back for recycling into collaborative initiatives to be agreed by the Council and the Forum that are designed to bring about a step change in children's preparedness for learning and secure improved achievement in City schools. These measures will also seek to improve well being and narrow the performance and well being gaps in and between City Schools.
- 3.7 Decision making process: Schools Forum approves, as part of the Scheme for Financing Schools, the SBCM. The scheme is then administered by the City Council in consultation with the Schools Forum as appropriate. This report sets out proposals for a new scheme and seeks comments from a range of stakeholders. Cabinet will consider the proposals on 12 July 2010 and it is expected that Schools Forum will be asked to formally approve the new scheme on 23 September 2010.

4. Report

Background to School Balances in Leicester City

- 4.1 The level of school balances held by Leicester City schools has been subject to concern for a number of years. Although there are many local contributory factors (including Single Status, BSF reserves etc) there is a need for action to address this. The nationally recommended headline figures are 8% and 5% of primary / special and secondary school budgets respectively, although it is emphasised that these are guidance levels and not targets.
- 4.2 At 31st March 2009, in aggregate Leicester City schools held the 4th highest headline school balances in England, with secondary schools having the highest headline balances in England. Leicester's school balances were reported nationally at £20.6m (or 12.4% of budget allocation). These figures include provision for Single Status and BSF; which are particular local issues for which the Council has asked schools to set aside funds. Once these provisions are removed then all schools drop to 32nd highest, with secondary schools becoming the 16th highest. Although in aggregate balances held at 31st March 2010 reduced to £15.9 million, a reduction of £4.7 million, there is still a need for further reductions.
- 4.3 Although it is important to recognise the wide variations in practice across the City and some very effective prudent local management, the overall position in Leicester suggests that a much sharper focus on financial planning and monitoring is required in some schools. Analysis shows that the majority of schools do not set out at the start of each financial year to accumulate the level of balances that materialise at each year-end. The underlying principle is that the funding received each year should be applied for the benefit of children in that year, and that reasonable estimates of income and spending should be made at the start of the year and kept under review as the year progresses.
- 4.4 The Council is not seeking to routinely claw-back funds from schools and would much prefer schools to utilise funding in an effective and timely manner at a local level. It is essential, however, to have a robust School Balance Control Mechanism [SBCM] scheme in place, which of necessity includes provision to claw-back excessive balances.

External pressure for change

- 4.5 A number of national publications have placed the spotlight on the size and the potential use of school balances: The Audit Commission report "Valuable lessons: Improving economy and efficiency in schools" (July 2009); the DCSF (now the DfE) documents: "Securing our Future: Using our Resources Well" (November 2009) and "Investing for the future, protecting the front line: school funding 2010-13" (March 2010).
- 4.6 On 15th March 2010 the DCSF (Now the DfE) issued further guidance which emphasised that "*Local authorities should continue to monitor balances and use their powers to claw-back excessive uncommitted surplus balances. If we do not see a*

substantial reduction in excessive surplus balances, the Government will consider further action from 2011-12 to bring the total down". It was also emphasised that "ongoing costs should be funded on a sustainable basis and not from balances".

Action taken locally

- 4.7 Schools have been made aware of the need to change the mechanism for managing surplus balances. It has also been emphasised that schools need to have a clear understanding as to the planned level of balances that will materialise, to ensure that they are not excessive, and for the need to have a clear rationale for their intended use. The most recent communication was dated 25 May 2010 and this asked all schools to begin to consider the impact of the proposed scheme now, as it is intended that this will apply to balances held at 31st March 2011, and to contact the City Council if they anticipated that they would exceed the Normal Maximum Level. Most important is the requirement to develop a change in the financial management, culture and attitude in schools, and to ensure a multi-divisional approach which ensures that balances held by schools are underpinned by a strong rationale with appropriate challenge made by Children's Services, Learning Services and Learning Environment. It is also important to reinforce to school headteachers and governors the need to be accountable and to plan to fund ongoing costs on a sustainable basis not from balances; and to continue to use funds available to raise the levels of attainment for current children.
- 4.8 A formal consultation was agreed with Schools Forum and issued to schools on 11th February 2010. The purpose of this process was to develop, through consultation, a shared view locally about what is a reasonable balance for a school to hold, and crucially, to ensure that funds are spent on raising standards for today's children. By consulting on these proposed new rules at an early stage, schools will have preparation time, in which to secure sound plans for spending any potential surpluses above the likely limit. The consultation closed on 31st March 2010.
- 4.9 It is proposed that the new scheme would be introduced during the autumn term of 2010 and would apply to balances held at 31st March 2011. This may result in funds being clawed back from schools, although they may only be used for schools in accordance with the national School Finance Regulations. The total of any amounts "clawed back" from the schools' would be returned to the overall Schools Budget for redistribution to schools or deployment for wider block purposes within the Dedicated Schools Grant [DSG]. This would be based upon proposals made by the Strategic Director for Investing in our Children, in consultation with Schools Forum. The level and incidence of school balances will also be a consideration of the Formula Funding Review Group, who has a remit to review funding mechanisms for the provision of education to pupils aged 2-19 years of age, and to make recommendations to Schools Forum.

Analysis of the consultation responses and proposed new scheme

- 4.10 The proposed new scheme is based upon feedback to the consultation and guidance issued to local authorities by the DCSF (now the DfE). A comparison of the current scheme and the new proposals is provided in Appendix 1. The current scheme is based around a 5% threshold for secondary schools and 8% for primary / special schools, with a number of exceptions which would be permissible in addition to these thresholds e.g.

summer term Standards Funds, Prior Year Commitments etc. The proposed scheme (Appendix 2) is based around agreed maximum thresholds (which would now include School Standards Grant [SSG] and School Development Grant [SDG]), with agreement required from the City Council as part of the Balance Management Process being required for a number of exceptions which have much tighter criteria attached to them.

- 4.11 Within the scheme much stronger challenge is proposed with the thresholds being seen as maximum thresholds rather than targets. To support schools with substantial capital commitments on the horizon the development of a capital reserve scheme is being introduced, where schools met certain requirements. An initial opportunity for schools to contribute to a capital reserve was made available in March 2010 and a more detailed scheme will be introduced during the Autumn Term. Schools Forum is aware that it is intended to introduce the scheme during 2010-11 and to apply it to balances held at 31st March 2011. Transitional arrangements have been incorporated to ensure that schools with significant balances are not encouraged to utilise them rapidly in a way that does not demonstrate value for money.
- 4.12 Twenty-seven schools made a response to the consultation (out of 106 schools), sixteen responses from primary schools and eleven responses from secondary / special schools. Although the consultation was made available widely, no responses were received from any other group. However it is noted that the consultation proposals had been supported by Schools Forum. The consultation responses have been previously considered in detail by the Leadership Team, Schools Forum, Priority Board and the Strategic Management Board. Full details of the responses received may be found at <http://consultations.leicester.gov.uk/feedback.aspx?Con1=305> and an analysis of the responses in the context of the new scheme is provided in Appendix 3.

5. FINANCIAL, LEGAL AND OTHER IMPLICATIONS

5.1 Financial Implications

This report is concerned throughout with financial implications, focusing on the level of School Balances held, and the manner in which they should be deployed - Colin Sharpe, Head of Finance and Efficiency, CYPS, ext. 29 7750.

5.2 Legal Implications

This report has no direct legal implications. There is a requirement in s.48 of The School Standards and Framework Act 1998 for local authorities to prepare a Scheme for Financing Schools, and Schedule 14 thereof imposes a requirement to consult thereon. The report notes that consultation has been undertaken with schools and other partners, and that consultation on the proposals has taken place with Schools Forum. This complies with the obligations imposed by the School Finance Regulation 2008 - Kamal Adatia, Barrister, Resources, ext. 29 7044.

5.3 Other Implications

OTHER IMPLICATIONS	YES/ NO	Paragraph/References Within Supporting information
Equal Opportunities	Yes	Entire report
Policy	Yes	Section 2
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities Impact	No	

7. Background Papers – Local Government Act 1972

7.1 Not applicable.

8. Consultations

8.1 School Balance Control Mechanism (commenced 10th February 2010, ended on 31st March 2010)

9. Report Authors

9.1 Trevor Pringle, Divisional Director (Planning and Commissioning), Ext 29 7702
Colin Sharpe, Head of Finance (Investing in our Children), Ext 29 7750

Key Decision	Yes
Reason	Is significant in terms of its effect on communities living or working in an area comprising more than one ward
Appeared in Forward Plan	Yes
Executive or Council Decision	Executive (Cabinet)

SUMMARY OF 'PROPOSED' SCHOOL BALANCE CONTROL MECHANISM [SBCM] EXCEPTION CRITERIA

Allowable under Current SBCM Exemption Rules	Balances at March 2010	Balances at March 2011 and beyond
1. School Development Plan		
1.1. Maintenance	This must be linked to asset management plan	Generally no longer eligible – ordinarily costs should fall in the year that goods/services are received.
1.2. Building Projects or Major ICT purchases	Eligible, but 'commitment' should be evidenced, and Devolved Formula Capital balance exhausted or firmly committed to a future project in agreement with the Council	No longer eligible unless supported by plans and formally approved under new procedure. Funding for future capital projects may be passed to the Council and set aside in a capital reserve
1.3 BSF Reserves	No restriction	To be supported by plans and formally approved under new procedure, or set aside in a capital reserve
1.4 Standards Funds	Unspent Standards Fund, to be spent in the summer term, giving details of the type of fund and amount	No general exemption for SDG and SSG. Schools would be able to retain a maximum of 5%/8% of the aggregate of the delegated budget, SSG and SDG. Possible exemption for ring fenced Standards Funds.
1.5 Short Term Provisions	Short term provisions eligible	Ordinarily no longer eligible – costs should fall in the year that goods / services are received. Exceptions are limited to support short term strategic one-off requirements e.g. to support temporary down-turn in pupil numbers.
2. Prior Year Commitments	Items that have been ordered but not paid for. If this is greater than 2% of budget a list must be provided	No longer eligible – costs should fall in the year that goods/services are received, in accordance with standard accounting policies.
3. Job Evaluation / Single Status	Provision for back pay in relation to job evaluation	Will be reviewed as details of the scheme and the implications become known. Special arrangements for March 2011 will be required
4. Payments in Advance	Payments in Advance not accounted for as part of the closure arrangements (detail to be provided)	No longer eligible, as should be accounted for correctly, i.e. as a receipt or payment in advance.
5. Income received from external bodies such as lottery funders	Receipt in Advance as part of year end procedures. Late allocations identified after the year end closedown which had not been spent may be eligible.	No longer eligible, as should be accounted for correctly, i.e. as a receipt in advance.

Proposed Scheme: School Balance Control Mechanism

1. **Purpose of the School Balance Control Mechanism:**

The aim of the School Balance Control Mechanism is to promote the effective and planned use of balances so that the funding schools receive is spent on the children currently in the schools. Schools are still able to hold a reasonable amount in reserve to support multi-year budgeting and meet unforeseen circumstances. The overall intended outcome from the Balance Control Mechanism is that balances are used in the best way to benefit children and young people, and as a result the levels of balances are within acceptable levels.

2. **Introduction of the new Mechanism**

The proposed scheme, following various consultations, will be considered for approval by Schools Forum on 23 September 2010. The scheme will be introduced during the autumn term of 2010 and applies to balances held at 31st March 2011 and 31st March each year thereafter.

3. **Policy:**

This section details the key aspects of the proposed School Balance Control Mechanism, which would form the basis of the formal scheme to be set out in the Scheme for Financing Schools.

3.1 **Financial Planning and Balance Management Process**

The management of surplus balances should not be seen as just a year-end issue. Instead, it should be integrated with multi-year school budget planning and monitoring. Given the importance of having an understanding as to the level of reserves that schools are planning, and to ensure that this allows sufficient time for schools to change plans under challenge, both the City Council and schools will participate in a Balance Management Process. Schools will provide early in the new financial year (prior to 31st May) a Budget Plan which will additionally include the intended use of any planned anticipated reserves at the end of the financial year over the Normal Maximum Level, including Standards Funds (NML). Such plans will be reviewed by the City Council and discussed with the school to ensure that the intended level and use of balances will be effective, leading to approval or otherwise of the plans by the Director of Children's Services.

Additionally, it is proposed that schools will be asked to prepare an in-year budget revision in the Autumn Term prior to 15th October. This will provide a further opportunity for any school that has significant changes to its original Budget Plan to set out a revised year end forecast, which also sets out the intended use of any new or additional reserves over and above the NML anticipated at the end of the financial year. Such plans will be reviewed by the City Council prior to the end of November, leading to approval or otherwise of the plans by the Director of Children's Services.

After the end of the financial year, schools will submit a statement of how any balances are to be used (whether below or above the NML). Any balances above the NML not approved by the Council in the original or revised budget will be discussed with the school and would potentially be subject to claw-back. Such discussions would encompass the school's entire balance.

3.2 **Normal Maximum Threshold for School Balances**

The normal maximum level of a school's balance is calculated by the City Council and notified to the school before the start of the financial year. This will be limited to 5% (in secondary schools) or 8% (in primary / special schools) as a percentage of the aggregate of the school's delegated budget plus School Development Grant and plus School Standards Grant. This is termed the "Normal Maximum Level". These thresholds are not targets and schools with balances above the threshold will be challenged on their whole balance.

3.3 **Exemptions**

The scheme incorporates scope for schools to apply for exemptions and transitional relief in certain circumstances. Schools Forum has indicated that it will expect City Council officers to apply more challenge to schools with balances over the standard threshold and that it would also expect excessive balances to be clawed back for recycling into initiatives to be agreed by the Council and the Forum.

Proposals should form part of the initial budget plan and the in-year budget revision, which should be approved by the Governing Body prior to submission to the City Council for approval. This process would help promote a dialogue with the City Council where balances are anticipated to be above the Normal Maximum Level and enable schools to apply for approval from the Council to retain such balances. It is important to have an understanding as to the level of resources that schools are planning, and to ensure that this allows sufficient time for schools to change plans under challenge. Such plans will be reviewed by the City Council.

3.3.1 **Transitional Arrangements**

To ensure that schools which had significant balances at 31st March 2009 (which predominantly relate to unspent standards funds) do not utilise them rapidly in a way that could not demonstrate value for money, then transitional arrangements are incorporated for balances held at 31st March 2011 only.

This will apply where a school had unspent Standards Funds (SDG and SSG) in excess of a threshold (£50,000 for primary schools and £200,000 for special and secondary schools) at 31st March 2009 with such schools able to retain a maximum of 5/17ths (being the 5 months Summer Term funding out of the 17 months in which Standards Funds may be spent) of their 2010-11 Standards Funds (SSG and SDG) grants, where there are clear plans to utilise these funds during the summer term of 2011.

This measure will only apply to a small number of schools and is designed to support these schools if it can be demonstrated that resources can be more

effectively deployed for the benefit of teaching and learning over a longer period in a planned way.

3.3.2 **Revenue Funding of Capital Projects and BSF**

The DCSF (now the DfE) has previously stated that schools would not normally be expected to use their revenue balances for capital projects, but they are able to do so and indeed this was suggested in a more recent commentary by the DCSF (now the DfE) on school balances. Revenue funding cannot be 'converted' to capital in school accounts until it is spent. Surplus revenue balances to be set aside for a future capital scheme could, however, be transferred to a City Council reserve for capital schemes. An interim scheme, which was set out in a letter to schools on 19th April, has been implemented. It is intended to develop a longer term scheme in consultation with Schools Forum and schools.

3.3.3 **Exceptional circumstances related to planning for uncertainty**

In exceptional cases a school may be able to demonstrate that a set of circumstances shows that it is prudent to maintain a reserve over the 5%/8% threshold in the short-term. For example, to support short term costs whilst a sustainable budget plan is implemented or a short term change in circumstances occurs. This can assist in the development of long-term solutions for events such as falling levels of pupil numbers or changes in staffing or in addressing matters detailed in the policy relating to schools facing exceptional cost pressures, preferably using a multi-year budget planning tool. Schools should provide calculations/plans/projections to demonstrate this. Proposals would be considered on a case by case basis, and it is expected that these would be agreed with the Council in accordance with the Balance Management Process.

3.3.4 **Standards Funds**

In exceptional cases the City Council may permit an exemption for Standards Funds (or other external funding) which is ring-fenced or issued late in the year. In such cases notification of this exemption will be issued by the City Council to all relevant schools prior to 31st December (where possible) in advance of the year end.

3.4 **Deciding to Claw-back Balances**

There is a presumption that the Council will claw-back funds from schools whose out-turn (actual at end of year) balance exceeds the Normal Maximum Level or such higher figure as has been agreed between the Council and the School in advance. Before the Council decides on the level of claw-back from such a school, schools will have an opportunity to explain why such an excess balance has occurred and the school's plans for how it would be used if not clawed back.

It is expected that the Normal Maximum Level would be sufficient to accommodate routine amounts of additional income or changes to costs in the final outturn compared to the budget. Justifications supplied would need to be significant changes compared to the budget plan, which the school could not reasonably have foreseen or controlled.

Any proposals for claw-back would be considered by a Partnership Panel comprising of City Council officers and Schools Forum representatives. This panel would make

recommendations to the Director of Children's Services who will take the final decision. Usually claw-back will be determined by the end of September after the year end.

3.5 **Use of clawed back funds**

Local authorities, in consultation with their Schools Forum, should ensure that any funds clawed back are spent productively within the scope of the overall Schools Budget. Schools Forum has agreed that it would expect excessive balances to be clawed back for recycling into initiatives to be agreed by the Council and the Forum. The City Council will be seeking to utilise any clawed back funds to undertake collaborative activity to finance strategies to help address local educational and efficiency priorities, subject to robust monitoring and evaluation by Schools Forum and its Formula Funding Review Group, in consultation with headteachers and Chairs of Governing Bodies. The City Council will be seeking to make proposals to Schools Forum to utilise any clawed back funds to support strategic resourcing recommendations that are designed to bring about a step change in children's preparedness for learning and secure improved achievement in City schools. These measures will also improve well being and narrow the performance and well being gaps in and between City Schools. Consideration will also be given to supporting the development of efficiency initiatives (e.g. procurement arrangements, sharing back office functions with other schools and exploring federations and other partnership models).

3.6 **Appeals**

The decision of the Director of Children's Services will be final and there will be no appeal mechanism.

Analysis of Consultation Responses in the context of the Proposed Scheme

The key aspects of the proposed scheme and recommendations based upon the consultation responses and the latest guidance from the DCSF (now the DfE).are provided below:-

(i) Normal Maximum Threshold for School Balances

Schools were asked whether the normal maximum level of a school's budget should be limited to 5% (in secondary schools) or 8% (in primary / special schools). This was supported by 63% of schools with 22% of schools disagreeing with this proposal, and 15% not expressing an opinion. This proposal will be a central feature of the new scheme, with the added emphasis that the "5% and 8%" thresholds are not seen as targets and that schools with balances over the thresholds are challenged on their whole balance

(ii) Standards Funds (SDG and SSG)

The consultation highlighted that the main allocations of School Development Grant (SDG) and School Standards Grant (SSG) are effectively now annual allocations known before the start of the financial year with some predictability, and are treated by many schools as part of their core budget. As a consequence it was proposed to include SSG and SDG within the calculations of the 5% / 8% normal maximum level. This would effectively set the maximum threshold as a percentage of the aggregate of the school's delegated budget plus SDG and plus SSG. This was considered to be an important lever to encourage the use of funds held by schools. This proposal was broadly supported by primary schools but there was a mixed response from secondary schools.

(iii) Transitional Arrangements

In response to requests from schools, and also to ensure that schools with significant balances (which predominantly relate to unspent standards funds) do not utilise them rapidly in a way that could not demonstrate value for money, a proposal to include transitional arrangements whereby this demonstrates a more effective use of resources was incorporated in the scheme. The majority view was that there should be transitional arrangements, with 62% of respondents favouring a transitional period of one year. The proposed scheme makes provision that where a school had unspent Standards Funds (SDG and SSG) in excess of a threshold (£50,000 for primary schools and £200,000 for special and secondary schools) at 31st March 2009, then these schools may retain a maximum of 5/17ths (being the 5 months Summer Term funding out of the 17 months in which Standards Funds may be spent) of their 2010-11 Standards Funds (SSG and SDG) grants, where there are clear plans to utilise these funds during the summer term of 2011. This measure will only apply to a small number of schools and is designed to support these schools if it can be demonstrated that resources can be more effectively deployed for the benefit of teaching and learning over a longer period in a planned way.

(iv) Exemptions related to the Revenue Funding of Capital Projects and BSF

The DCSF (now the DfE) has previously stated that schools would not normally be expected to use their revenue balances for capital projects, but they are able to do so and indeed this was suggested in a recent commentary by the DCSF (now the DfE) on school balances. Revenue funding cannot be 'converted' to capital in school accounts until it is spent. Surplus revenue balances to be set aside for a future capital scheme could,

however, be transferred to a City Council reserve for capital schemes. An interim scheme, which was set out in a letter to schools on 19th April 2010, has been implemented. It is intended to develop a longer term scheme in consultation with Schools Forum and schools. This set of proposals was strongly supported by schools.

(v) **Exemptions under exceptional circumstances related to planning for uncertainty**

In exceptional cases a school may be able to demonstrate that a set of circumstances shows that it is prudent to maintain a reserve over the 5%/8% threshold in the short-term to support short term costs whilst a sustainable budget plan is implemented or a short term change in circumstances occurs. This can assist in the development of long-term solutions for events such as falling levels of pupil numbers or changes in staffing or in addressing matters detailed in the policy relating to schools facing exceptional cost pressures, preferably using a multi-year budget planning tool. This proposal was strongly supported by schools, and it is anticipated that this would be applied in limited circumstances.

(vi) **Exemptions under exceptional circumstances related to committed or planned spending**

In exceptional circumstances a school may have substantial spending commitments over and above the 5% / 8% threshold that justify the need to retain a reserve e.g. a substantial revenue maintenance programme which continues beyond 31st March and the revenue aspects of the BSF “war chest” that the Council has encouraged schools to retain. It is recognised that special consideration will be required for those schools where balances at 31 March 2011 exceed the 5% / 8% threshold due to provisions set aside for any backdating of the new Single Status agreement. This proposal was strongly supported by schools. It is anticipated that this would be applied in limited circumstances and reviewed in the context of government policy related to BSF.

(vii) **Balance Management Process**

The management of surplus balances should not be seen as just a year-end issue. Instead, it should be integrated with multi-year school budget planning and in-year monitoring.

Given the importance of having an understanding as to the level of reserves that schools are planning, and to ensure that this allows sufficient time for schools to change plans under challenge it is proposed that a Balance Management Process be introduced. Schools would provide early in the financial year (prior to 31st May) a Budget Plan approved by the Governing Body (as at present), which would additionally include the intended use of any planned anticipated reserves at the end of the financial year over the Normal Maximum Level, including Standards Funds (NML). Such plans would be reviewed by the City Council and discussed with the school to ensure that the intended level and use of balances will be effective, leading to approval or otherwise of the plans by the Director of Children’s Services.

Additionally, it is proposed that schools will be asked to prepare an in-year budget revision in the Autumn Term prior to 15th October. This will provide a further opportunity for any school that has significant changes to its original Budget Plan to set out a revised year end forecast, which also sets out the intended use of any new or additional reserves over and above the NML anticipated at the end of the financial year. Such plans would be

reviewed by the City Council prior to the end of November, leading to approval or otherwise of the plans by the Director of Children's Services.

After the end of the financial year, schools would submit a statement of how any balances are to be used (whether below or above the NML). Any balances above the NML not approved by the Council in the original or revised budget would be discussed with the school and would potentially be subject to claw-back. Such discussions would encompass the school's entire balance, as required by the DCSF (now the DfE). The majority of schools supported this proposal.

(viii) **Use of clawed back funds**

Schools Forum has agreed that it would expect excessive balances to be clawed back for recycling into initiatives to be agreed by the Council and the Forum. The City Council, in consultation with Schools Forum, will need to ensure that any funds clawed back are spent productively within the scope of the overall Schools Budget in accordance with the requirements of the School Budget Shares (Prescribed Purposes) (England) (Amendment) Regulations 2010. The City Council will be seeking to utilise any clawed back funds to undertake collaborative activity to finance strategies to help address local educational and efficiency priorities, subject to robust monitoring and evaluation by Schools Forum and its Formula Funding Review Group, in consultation with headteachers and Chairs of Governing Bodies. These groups will consider strategic resourcing recommendations that are designed to bring about a step change in children's preparedness for learning and secure improved achievement in City schools. These measures will also improve well being and narrow the performance and well being gaps in and between City Schools. Consideration will also be given to supporting the development of efficiency initiatives (e.g. procurement arrangements, sharing back office functions with other schools and exploring federations and other partnership models).