

School Balances Report of the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

1. Recommendations:

- 1.1 That committee members note the position of Devon Schools compared with the LA's in the South West and statistical neighbours group.
- 1.2 That the committee members note the continued use of the capping mechanism within DCC.

2. BACKGROUND

- 2.1 At the request of a member of the Audit Committee this report covers an update on school balances.
- 2.2 From 1990 and the start of local management, schools have had the right to carry forward unspent revenue balances. These balances are scrutinised both locally and nationally with a drive to reduce the overall level of balances to ensure that funds allocated to schools is spent on educating children and young people in the year of allocation.
- 2.3 The most recent comparative statistics available are 2009/10. The summary of averages is covered in Table 1 below.

Table 1 – Summary of Average School Balances

Area	2007/08	2008/09	2009/10
Devon	3.8%	3.3%	3.0%
South West	4.9%	4.6%	4.2%
Statistical Neighbours	4.6%	4.2%	4.2%
England	5.8%	5.2%	4.7%

- 2.4 Attached as Annex A to this report is a full breakdown of the averages shown in the table above. This breakdown highlights the following items:-
 - For 2009/10 out of 16 LA's in the South West only Dorset, Isles of Scilly and Torbay have average percentage balances below Devon.
 - For 2009/10 out of 11 statistical neighbours only Dorset has an average percentage balance below Devon.
 - The summary table above shows that Devon is consistently below the averages for England, the South West and it's statistical neighbours.

3. WHY DEVON SCHOOL BALANCES HAVE INCREASED FOR 2010/11

- 3.1 School balances have increased from £12.1m (3.0%) at the end of 2009/10 to £14.9m (3.7%) at the end of 2010/11. An increase of £2.8m. Table 2 below gives a breakdown of the balances over the different phases. An adjustment has been made to the opening balances for those

schools which converted to academy status during the year. This allows for a consistent comparison of the balances as those school which converted prior to 31 March 2011 will not be included overall total for the end of 2010/11. Once this adjustment has been made the increase in the total amount to be carried forward is in excess of £4m.

Table 2 - Overall School Balances - Maintained Schools

	March 2010 £000	March 2010* £000	March 2011 £000	Variance £000	%
Nursery	29	29	-37	-66	-227.6%
Primary	7,179	6,987	9,128	2,141	30.6%
Secondary	4,300	3,228	5,019	1,791	55.5%
Special	580	580	734	154	26.6%
	12,088	10,824	14,844	4,020	37.1%

* Excludes schools which have converted to academies during the year 2010/11

- 3.2 There are a variety of reasons why schools have worked to increase their balances at the end of the financial year 2010/11:-
- Early planning for reductions in 2011/12.
 - Change in policy of funding school redundancies.
 - Potential back pay relating to JE appeals for special schools.
 - Potential cost implication to schools of the externalisation of DCCS.
 - Level of standards funds included in the year end balances.
 - Other income from internal sources previously excluded from balances
- 3.3 In the autumn of 2010 schools were encouraged to start planning for funding reductions in 2011/12. Schools were advised to start modelling for reductions of between 2% and 10%. This led schools to reduce spending in 2010/11 in order to “cushion” any reductions for the following year and allow for a lead in time for reductions to be achieved. Any staffing reductions would normally only be realised from the September of each year therefore only generating 7/12 of any full year affect. When the settlement was announced funding levels for schools were maintained for 2011/12 in cash terms.
- 3.4 During 2010/11 a change in policy was developed to limit the redundancy liability on the centrally retained redundancy budget in the DSG. The policy relating to the funding of redundancies was amended to state that where a school had employed a member of staff when their financial position was under pressure then any redundancy arising from this appointment in the future would fall on the school. The policy states that advice from finance and HR would be required to approve the recruitment of the position. This policy change was put in place to stop schools replacing on a straight “like for like” basis without due consideration to other factors. The impact of this policy change has resulted in a greater level of vacancy slippage in the revenue spend of schools.
- 3.5 The Special School sector were waiting for an outstanding JE appeal which has now been finalised with minimal financial impact. Initially it was felt that this could result in a large amount of back pay which would fall on the schools. These schools were holding back funds to settle any potential payments.
- 3.6 As members will be aware the Devon Cleaning and Catering Services is being externalised during 2011/12. JE subsidy previously funded by DCC has also been withdrawn for 2011/12. The original agreement was that DCC would fund the increase in the pay bill as a result of JE for a period of three years, 2010/11 being the third year. These two issues caused schools concern over the uncertainty of the potential cost of the cleaning and catering service in 2011/12. Again

schools held back funds in order to be able to pay for the services for 2011/12 whilst planning and implementing any changes to the arrangements that may be required.

- 3.7 Within the balances carried forward there is an increase of £1m which relates directly to the increased amount of standards funds unspent at the year end. This will not occur at the end of 2011/12 as standards funds have now been mainstreamed into the DSG. Similarly some schools have previously excluded from the year end balance funds from internal sources, making an adjustment to take them into the year in which they will be spent. Such internal adjustments have been excluded so far as possible this year. With consistency of treatment in future years this should not create such a year on year change in future.
- 3.8 Academies have provided a further complication to the analysis of school balances at the year end. During 2010/11 ten schools convert to academies. Once a school converts the balance held by that school is transferred out to the academy and does not form part of the school balances reported by DCC.
- 3.9 Tables 3 and 4 below show the balances of those schools that have either converted during 2010/11, or are due to convert in 2011/12. The balances relating to those schools converting during 2011/12 are an estimate at this stage and will be finalised once the school converts. Forecasting the level of balances that will convert to academy during 2011/12 is extremely volatile as the list of schools planning to convert changes almost daily.

3.10 **Table 3 - Schools that Converted during 2010/11 (10 schools)**

	March 2010 £000	Balance on Conversion £000
Primary	192	99
Secondary	1,073	1,662
	1,265	1,761

3.11 **Table 4 - Schools Converted/Proposing to Convert during 2011/12 (12 schools)**

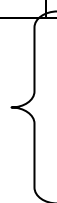
	March 2010 £000	March 2011* £000
Primary	291	410
Secondary	1,473	2,165
	1,764	2,575

*These are yet to be finalised

4. THE CAPPING PROCESS

- 4.1 As reported to the Audit Committee in December 2009 a capping mechanism has been in place since 2004/5 in Devon. The current scheme is outlined below.
- 4.2 School carry forward balances will be subject to capping accordance with the following limits.

Type of	Number on	Allowable maximum



school	roll	%	
Primary	1 - 199	8%	Amounts up to £20,000 allowed automatically
	200 - 349	7%	
	350 - 499	6%	
	> 500	5%	
Secondary		5%	
Special		8%	

There are allowable exceptions to the above limits. Schools may request carry forwards in excess of the proposals only in those exceptional circumstances defined below. The request shall be considered by a Committee consisting of a senior CYPS officer and two members. Any appeals shall be considered by the Appeal Committee that has a similar constitution.

The school plans to utilise the excessive balances to

- o prevent redundancy **during the following two financial years** or
- o enable the implementation of the School's Asset Management Plan (AMP) and is supported by Strategic Planning.
- o meet any other exceptional circumstance for which the Committee agrees a valid case has been made.

After March 1st the grounds for considering an excessive carry forward shall be

- o the school can demonstrate to the Committee that the carry forward exists due to a significant accounting error and the Director of Finance supports this view or
- o the school can demonstrate that there is significant external income in the school accounts, correctly accounted for but relating to a specific purpose that affects the carry forward or
- o that there is a significant unforeseen event that has created an excessive balance.

4.3 In total, for the year 2010/11, 41 schools exceeded the limit with 12 having no approval. The capping panel dealt with the following numbers of requests:-

- 47 requests (5 Secondary, 41 Primary and 1 Nursery).
- 8 were declined.
- 6 were agreed with restrictions.
- 33 were agreed a full waiver.

4.4 The schools that did not request approval to exceed the capping limit are being considered separately. This consideration will look at individual circumstances. Table 5 below outlines the balances relating to schools that have exceeded the capping limit.

Table 5 - Schools Exceeding the Capping Limit

	Excess over Capping Limit £
41 schools exceeded the capping limit	1,281,054
29 schools have approval to exceed	815,985
12 schools have exceeded with no approval	465,069

4.5 The capping scheme exists to promote sound budget management and to ensure that funds are used for the benefit of children in the school at the time and not saved for the benefit of future children. The arrangements have been reviewed and revised over time and are broadly

understood and accepted as being supportive of schools medium term planning.

5. CONCLUSION

- 5.1 Although there has been a rise in the level of school balances this still places Devon below the average for England for 2009/10. It is unfortunate that data is not available for 2010/11 at this stage.
- 5.2 This is an area where the Schools Finance Group and the Devon Education Forum have request further data so that individual balances can be scrutinised.

Mary Davis

Electoral Divisions: All
Local Government Act 1972

List of Background Papers

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Background Paper	Date	File Ref
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Nil

There are no equality issues associated with this report