

Review of School Balances at Derby City Council

September 2010

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Background

The National Context

- 1 Schools in England are sitting on a cash reserves totalling nearly £2 billion. Two out of five schools are holding balances above the recommended limits. The Audit Commission has been encouraging Councils to work with schools to reduce the amount of balances carried forward and prevent such balances building up. Its School Balances tool was created to help Schools improve their performance in this area by providing benchmarking information against relevant comparator groups. It covers all 150 Local Authorities in England and provides important information about how effectively school balances are being managed.
- 2 Overall during 2007/8 net balances held by schools increased in cash terms, and in percentage terms from £1.618 billion (6.4 per cent) to £1.859 billion (7.1 per cent) by the end of that year (March 2008). Since the Audit Commission's Schools Balances tool began in 2004, Derby City Council's actual total schools balances had been increasing year on year, reaching a total of approximately £7m in the financial year ending 31st March 2008. 2008/09 balances have not been published yet by the Audit Commission but Derby's own published figures have demonstrated a reduction in the total school balance to £5.7m. Indicative benchmarking figures show that Derby's schools continue to retain lower balances than those in both the East Midlands group and the rest of England.
- 3 Notwithstanding the fact that levels of balances in Derby remain below average and have fallen in the past year, the issue is a nationally prominent one and there is the risk that the Department for Schools, Children and Families (DCSF) will take action, affecting all Local Authorities, if balances have not fallen substantially enough by 2011. It is therefore important for this issue to remain a priority for the Council. Our review did, however, find considerable examples of good practice within the Council, which should stand it in good stead for facing these future challenges.
- 4 The Audit Commission states that schools should maintain maximum surplus balances equivalent to 5% of secondary school total budgets and 8% for primary, nursery and special schools. The guidance states that the local authority should satisfy itself that the reasons for surpluses are sufficient and have policies and procedures to guard against a build up of balances in the first place.

Use of this report

- 5 This report has been prepared to advise you of matters arising from our review and should not be used for any other purpose or be given to third parties without out prior written consent.

- 6 Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking your own specialist advice as appropriate.
- 7 We accept no responsibility in the event any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

Acknowledgements

- 8 We would like to record our appreciation for the assistance and co-operation provided to us during our review by the Council's staff.

Grant Thornton UK LLP

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Derby's Current Position

- 1 At present Derby has 110 schools. Of these, 16 primary schools, two secondary schools, three nursery schools and two special schools have balances in excess of the recommended amount.

	Total Balances	Balances as a % of Budget			Percentage of Schools with Excess Surplus Balances		
	£m	Derby	East Mids.	All Eng.	Derby	East Mids.	All Eng.
2003/04	6.0	4.8	4.6	5.1	32.3	36.7	38.4
2004/05	5.0	3.7	5.2	5.5	25.7	40.9	40.9
2005/06	5.8	4.0	5.4	5.3	27.9	41.1	38.6
2006/07	5.4	3.5	5.5	5.3	24.0	42.8	38.4
2007/08	7.0	4.2	6.1	5.8	31.4	44.1	38.3
2008/09	5.7	3.4	6.2	5.2	15.1	40.8	32.7

Source: Derby City Council

- 2 The table shows Derby's results over the period monitored by the Audit Commission. In terms of excess balances and numbers of schools holding such balances, Derby's results are lower than both the local East Midlands group and England as a whole. However they do represent a significant amount of unspent budget which is acknowledged and being addressed by the Council as a priority.
- 3 We are satisfied that secondary schools in Derby do not pose major difficulties in terms of excess balances. It is the primary and nursery schools where a build up of balances is more prevalent, exacerbated by the higher staff- to-child ratio in the schools as staff costs make up the vast majority of spending in schools. However, officers predict that balances will start to reduce in coming years as a new formula is being introduced for funding of pupils. A single formula is required by 2010 in all schools, which has already been implemented by Derby and the DCSF has also provided benchmark data to assist schools in this area.

Key Message

Derby has lower balances than its benchmarking comparators and balances have begun to reduce with predictions that these will decrease further in forthcoming years. Therefore it is in a relatively strong position. However, the Council is conscious that this issue still must remain an area of priority.

Derby's Policy and Procedure for Monitoring Balances

- 1 The Schools Forum is used as a means of tackling the issue of school balances at Derby. Information is provided by the Council's Schools Finance team and feedback from this group has been sought when deciding on appropriate courses of action. One example of decision making in this forum is the enforcement of automatic clawbacks of excess balances from schools which fail to meet the criteria set for holding excess balances although only one instance of clawback has taken place to date at Derby. However the Council anticipates that this will change when, from next April, automatic clawbacks will be introduced where any school exceeds the defined limits. The procedures still currently allow the majority of balances to be carried forward.

Year End Balances

- 2 At the end of the school year the returns are produced by each of the 110 schools within the City. When the Council receives the returns, it writes to any schools over the defined limits. It asks in the first instance for a response and explanation with an opportunity to provide plans regarding how the school will reduce the balance. These surpluses must be approved by the Council if they are to be retained. Failure to do so puts them at risk of an immediate clawback. This aims to ensure that all schools have an incentive to respond with an explanation of how the balance has arisen and what plans are in place for this excess balance to be reduced to an acceptable figure. In 2008/09 all schools in excess of the defined limits provided documentary analysis of the surplus and plans to use these in the forthcoming year. The target date for review of plans is the following year when schools balances are revisited, rather than on an interim basis.
- 3 Each return with balances over the defined limits is investigated and reasons provided compared to the list of those approved by Cabinet as valid for retaining an excess balance. Schools must comply with the allowable reasons in order to be able to retain their balances.
- 4 The allowable reasons are:
 - where the balances have been taken into account in setting the following year's budget plan and the projected balance at the end of that year falls below 8% of the delegated formula budget (for primaries and special schools) or 5% for secondary schools. Any actual balances above the assumed level would not be approved unless falling within another of these categories;

- there is expenditure which has been committed by the end of the financial year by placing orders or employing staff prior to that date, but has not been charged to the previous financial year;
- income from a standards fund which has not been spent within the 12 month period but will be by the end of the current academic year;
- expenditure has been set aside to meet necessary additional costs of an approved scheme within the capital programme , such as furnishing a new classroom;
- expenditure has been set aside for capital work which accords with the Council's asset management plan priorities and there is an agreed timetable for the work; and
- funding has been set aside to meet the costs of maintaining curriculum organisation for a single year group with reduced pupil numbers as it progresses through the school.

5 The following are not allowable by the Council:

- retaining significant funding to cushion the budget against future falls in pupil numbers, where balances would remain above the threshold at the end of the following financial year;
- unplanned additions to revenue budgets where these arise from a higher than expected carry forward and do not comply with any of the categories listed above; and
- capital projects which have not been clearly defined and/or do not comply with the asset management plan priorities.

6 In addition to this checking process, the Council arranges a meeting with the school to ensure that the explanations provided are bona fide and acceptable according to the Council's criteria. The most detailed and time consuming element of the approval process is the detailed checking of evidence provided by the school to support its explanation. This includes cross referencing to other schemes (such as capital balance schemes) to make sure there is no double counting taking place. The Council also contacts school improvement officers to check that plans correspond to their objectives and the impact on attainment. Where a school has a proposed capital project, it must comply with the rules set out in the Scheme for Funding Schools relating to notification and consultation with the Council. The majority of excess funds are destined for capital projects, so this checking process is relatively straightforward, although time consuming.

7 The Council also considers the capital project plans quoted in the context of the school's budget plans. These should correspond to agreed capital expenditure plans in order to be approved.

8 The Council will then approve the surplus balance if appropriate to do so. The Schools Finance team produces a report which lists each school with an excess balances, the reason given for it and the approved reason for the balances to be carried forward rather than clawed back. Once approved, the Schools Finance team monitors the position and requests a progress report if there are any delays. This means that there are no surprises at the end of the following year if they

discover that the planned project using the these balances has not gone ahead for some reason.

- 9 The table below shows two schools that have held significant surplus balances for the past four years, to illustrate the nature of balances and the extent to which they are carried forward. Some projects span across the years, meaning that balances earmarked for these are retained unspent during this time. They are required to submit evidence such as purchase orders or quotations to support the claim. In the sample we reviewed these were present although the level of detail provided varied between schools and depending on the nature of the project, some being more specific than others.
- 10 The examples shown below demonstrate cases of surplus balances carried forward year on year and are exceptional cases. However, such cases demonstrate that delays in capital projects commonly occur and, in our opinion, some proposed uses of balances are not clearly defined e.g. 'general repairs and maintenance'. This leads to difficulty in assessing the progress of such projects and whether the sum requested is reasonable.

	2006 Surplus Balance/% of Budget	2007 Surplus Balance/% of Budget	2008 Surplus Balance/% of Budget	2009 Surplus Balance/% of Budget
Oakwood Junior	£104,594 11%	£130, 506 14%	£111, 762 11.6%	£122,609 12.1%
Approved Use of Balances	Approved use of balances for £23k on ICT improvements	£16k earmarked for ICT improvements still outstanding. Also window replacement project and installation of interactive whiteboards planned.	Interactive whiteboards project outstanding and window project put on hold due to constraints around buildings with asbestos.	Five year replacement window scheme contributes £45k to work taking place in summer holidays. Delays due to CLASP buildings.
Gayton Community Junior School	£133, 300 14.5%	£166,339 17.1%	£101, 707 10.4%	£91,833 9.2%
Approved Use of Balances	Alterations to toilets to create a workspace. Replacement windows.	£63k on capital work including the project from last year. Emergency	Plans for a servery area capital project to take place in this year.	Delays in building work to create more teaching space-was

	General repairs and maintenance.	heating project scheduled. £40k retained to support revenue budget.	Agreed by asset management.	intended to be completed in the summer holidays.
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Monitoring of Balances

- 11 The process starts at the beginning of the year with budgetary planning. The Council ensures that budgets are issued by 31 March. The Council circulates:
 - a checklist for schools budgets to ensure the data quality is sufficiently good;
 - letters to Headteachers giving advice on budgets, explaining what the school should provide in terms of monitoring statements on a monthly basis and that they must obtain appropriate authorisation on all paperwork. Included is a form for adjustment notification and a budget virement template for ease of amendments and to ensure documentary evidence is gathered; and
 - copies of budget plans, which must be signed by the Boards of Governors.
- 12 The budget is now set. Now the planning and monitoring begins. Schools can choose from an eight visit package, six, three one or none. If they choose three or less they must provide evidence of monitoring (these are normally the schools operating at arms length).
- 13 At each monthly budget meeting a full forecast is reviewed. As a large proportion of costs is payroll, detailed level comparisons are made at each meeting between forecasts and budgets. Variances are reviewed. Forecast pupil numbers are also considered within the general context of the school's position e.g. Asterdale Primary has a surplus balance yet the roll is falling. In this case it was noted that by December the surpluses were not reducing. The school together with the Head of Schools Finance examined pupil numbers more closely to understand the underlying issues and a plan of action agreed. It was identified that pupil numbers could increase due to an amalgamation of other schools in the area. On that basis the balances were approved.
- 14 There is a contact record of every meeting which assists the school improvement officers and includes notes of all actions taken such as virements. If an item is not spent in year, it will be added to forecast. We viewed a sample of these and found that these had been completed satisfactorily, from which we conclude that the documentation is comprehensive and is a useful tool in assisting the Council in managing school balances.

- 15 At every meeting the Council provides an estimated carryforward to the school so that they may act at the earliest opportunity to tackle any potential surpluses. This is documented in the contact record. The forecast is reviewed in detail to assess if the carry forward will exceed the percentage above the recommended DCSF limits.

Key Message

Derby has procedures in place to ensure that balances are monitored and controlled throughout the year, notwithstanding the fact that it is a time consuming process for both schools and the Council and that the rules still allow the majority of carried forward balances to be agreed.

Factors Contributing to the Reduction in Balances

- 1 The successful reduction in balances over the past year may be attributed to the following factors:

Single Accounting System

- 2 The Council uses Oracle as its financial system and e-procurement system. 98% of Derby's schools also use this system. This gives the advantage of time saved not having to do reconciliations and enabling more time to be devoted to balance reduction and the reasons behind them. The other advantage is that efficiencies are made in procurement such as taking advantage of group discounts, e-ordering and the development of an online catalogue. However as staff costs account for 80% of total schools' expenditure, there is limited scope for savings on the remaining 20%. The remaining eight schools who do not use this system have their own Bursar who performs the finance function. This is a legacy from a time when these schools were independent but the Council hopes to encourage these remaining schools to adopt Oracle as this considered to be the most efficient way of working. We are therefore satisfied that the large majority of schools produce accurate data, which can be reviewed at any time by Council through the integrated system. This means that issues may be identified and tackled at the earliest opportunity and the Council can work with any schools experiencing balance increases to come up with a solution.

Support

- 3 Various types of support are offered by the Council to schools to help them manage budgets. Financial training, including full training on the Oracle system, is provided, tailored to the audience i.e. heads, deputies, clerks and governors. Induction programmes for new staff are provided to ensure that standards are clear from the outset.

Communication

- 4 Our review found evidence of the close communication channels which exist between the Council and the schools to ensure there are no surprises at the year end when the checking process above is carried out. Face to face reviews with head teachers keep an open dialogue and identify support required on an ongoing basis.

Purchased Services

- 5 There is a high take up (98%) among schools of purchased services by schools. This entitles them to access the helpdesk which increases their ability to manage their own finances. Those choosing not to are monitored more closely by the

Council. Where the Council has concerns regarding a particular school's financial management, it has the power to insist that sufficient services are purchased to provide the required improvement, otherwise that school's ability to retain balances is in jeopardy.

Schools Forum

- 6 The Council and its schools actively participate in the Schools Forum, which acts as a mechanism for good dialogue, advice and decision-making to keep the issue of school balances uppermost in the minds of head teachers.

Publicity

- 7 The Council relies on a variety of methods, rather than simply the publication of the Section 52 Statement, to raise the profile of this issue. It uses publicity to keep the issue high profile by various means including local media coverage. Publicly 'naming and shaming' those schools whose balances are above the limit is used by the Council as a warning to others, which they believe has been fundamental in achieving reductions in balances. The Section 52 statement is published in the local press (Derby Evening Telegraph). Papers are also tabled on surplus balances at the Schools Forum; for example proposed changes to clawback arrangements. Additionally, benchmarking data is tabled at the Schools Forum from the DCSF comparing Derby to East Midlands and the rest of England in terms of total balances and surpluses as a percentage of budget. These all add to peer pressure and the promotion of a culture of good stewardship.

Support

- 8 All parties in the process, including the schools themselves, are supportive of the moves to reduce balances, which means that the Council does not have to deal with resistance to its initiatives on this issue.

Key Message

Some good progress has been made in reducing balances to date. There are a number of factors contributing this, in particular the co-operation from schools to work with the Council in striving to reduce balances.

Current issues

- 1 We consider that the checking process performed at the year end by Schools Finance staff at the Council is time consuming and lengthy, given that there are still significant numbers balances to review and numbers of schools in surplus, some of which have been carried forward for up to four years. This is a significant investment of time and going forward may become increasingly difficult as staff resourcing becomes more challenging to manage. Care has to be taken to ensure that proposed projects will benefit the current cohort of pupils and deliver value for money, rather than just ways to use up surpluses.
- 2 Despite rigorous and time consuming checking of schools' proposals for carryforwards, the criteria against which balances are scrutinised are, in our opinion, generous and allow the schools a wide degree of scope for retaining the balances. In 2008/09 all requests for carry-forwards were allowable under the published guidelines. This has meant that all requests were granted notwithstanding the fact that some have been carried forward for a number of years. Aligned to this is the issue that schools are only required to account for balances above the accepted limit, rather than all of their surplus. This casts doubt on the extent to which clawbacks will actually take place when automatic clawbacks come into force in April 2010 resulting in balances remain relatively high. The Council is not obliged to follow DCSF guidance on limits and therefore by imposing stricter limits it could result in a greater reduction in balances, in our opinion.
- 3 Whilst the Council is undertaking a number of initiatives to reduce existing balances and prevent the build up of balances, schools find planning ahead difficult given the uncertainty of funding at the start of each year. This is exacerbated by fluctuating pupil numbers in some cases. However, pupil numbers in general are predicted to increase which, officers believe, could mean that surplus balances would naturally reduce without significant additional effort required, as overall levels of expenditure consequently increase.

Key Message

Derby follows standard DCSF guidance on the percentage of budget each school is allowed to carry forward. Additionally, the criteria against which applications for retaining balances allow the majority to be accepted. This limits the likelihood of clawbacks taking place. The key to reducing balances by any significant amount is likely to lie in the restriction of rules on carryforwards and/or setting of lower limits for accepted surpluses.

Conclusions and Recommendations

- 1 We consider that the Council has taken a wide range of steps to reduce excess balances with the aim of bringing these within the accepted limits, combined with a clear message to schools that balances held in excess of these limits are not acceptable and the use of prevention methods to reduce the likelihood of surplus balances from building up. The blend of ongoing activities appear to be showing positive results given the fact that in the past year balances fell, but it remains to be seen whether this will become a true reversal of the trend.
- 2 However, despite the fact this figure is reducing and is lower than the East Midlands and all England averages, the latest published balance of £5.7 m still represents a significant amount of Council funding that has not been spent for the purposes provided by the Council. The number of schools above the threshold is still 23 in 2008/09 (reduced from 41 in the previous year) and it remains to be seen to what extent automatic clawbacks will reduce balances, once these come into force.
- 3 Additionally, there is a risk that the reduction in staff numbers within the Council may cause a resourcing constraint on the task of verifying carry forward balance requests which may make checking more difficult to complete within the timescales as it is such a lengthy and detailed process.
- 4 A factor which may assist schools in reducing balances without need for action is the growth in pupil numbers. As these rise, more funding will be required and balances should be called upon to help meet these additional resource requirements.
- 5 We were, however, satisfied that Derby City Council is aware of the continued need for focus on what is an inherently difficult matter, despite its relatively strong position.

Way Forward: Key Recommendations

Key Recommendation 1

As Derby has adopted a policy of automatic clawbacks from 2009/10 onwards, we recommend that a bidding process should be considered whereby schools to apply for funds from this clawback pool. This would promote an equitable approach to project selection and address the issue of carried forward balances year on year as projects do not progress. The information supplied by schools in support of their requests would not be additional to that currently provided. This would also

address the Council's concern that schools may be submitting bids for projects in order to utilise balances to avoid losing the funds, rather than those which have a bone fide benefit for pupils. It would also mean that schools would have to account for the whole surplus balance they have, rather than the proportion above the limit. Schools should also be encouraged to ensure that their objectives are aligned to the wider strategic objectives of the Council as a whole, when considering using funds for particular projects.

Key Recommendation 2

We recommend that the Council considers reducing the limits for allowable surpluses rather than continuing to follow those recommended by the DCSF. This would enable more potential clawbacks. The DCSF indicates that a surplus of 2-3% for secondary schools and 4-5% for other schools is sufficient to cover contingencies.

To illustrate the impact that these measures could have for primary schools, in 2008/09 these schools held a combined surplus balance of £2.7m. If automatic clawbacks were in force this would have resulted in a surplus of just under £2m. If the limit were reduced to 4.5% from 8%, this would have resulted in a further reduction to £1.1m which would be significant.

We recognise that the Schools Finance Team wish to wait until single status and job evaluation work has been concluded before considering implementing the above as schools will be required to fund these from their own resources.



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