

Balance Clawback Mechanism 2007/08

Report of the Director of Children, Schools and Families

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1. Purpose

- 1.1 To inform members about the outcome of applying the balance clawback mechanism for 2007/08.
- 1.2 To seek members approval for variation on the scheme to be applied for individual cases where the appeals panel overturned the clawback decision

2. Summary

- 2.1 At March 2007 182 schools held revenue balances in excess of the Normal Maximum Level defined by the clawback mechanism. The total of the excess balances was £7.927 million.
- 2.2 Following consideration of the high balance plans submitted by schools, a large number of exceptions were approved by the authority. However clawbacks were notified to 34 schools totalling some £614 thousand.
- 2.3 16 schools made appeals against the notified clawbacks, and provided further information and new project proposals. Following the appeals process the total value of the clawbacks was reduced to £264 thousand.
- 2.4 The authority now holds some 180 detailed project action plans which will be monitored rigorously to ensure the projects are completed.

3. Recommendations

- 3.1 It is recommended that Schools Forum should:
 - note the outcomes of the initial application of the clawback mechanism as at March 2007 and comment on the experience gained;
 - ratify the exceptional treatment applied to four schools in circumstances outwith the clawback mechanism;

- comment on any further measures which could be taken to reinforce the message to schools that school balances must be brought down;
- advise whether consideration should be given to changes to the clawback mechanism in future years to emphasise the importance of prior planning for projects;
- approve the exemption of four special schools from the clawback mechanism at March 2008

4. The Balance Clawback Scheme

- 4.1 Schools with balances above the Normal Maximum Level defined by the scheme were divided into 2 groups:-
- Group 1: - Schools which had previously been required to produce a high balance plan based on their balance at March 2006.
 - Group 2: - Schools which had not previously been required to produce a high balance plan.

	Group 1	Group 2
Total excess balance above the Normal maximum level held at 31 March 2007	£3,675,327	£4,251,330
Number of schools	42	140
Total excess balances	£7,926,657	

- 4.2 The excess balances at these schools represented 20.59% of the total revenue balances carried forward at March 2007 of £38,491,501
- 4.3 Schools were required to complete a Balance Analysis Form detailing any projects that the school wanted to apply for as exceptional items and therefore exclude from the balance clawback mechanism, accompanied by a finance plan detailing the project spend and demonstrating continuing sustainability for the following two years. Allowable exceptions were:
- Planned Projects
 - Adjustments to the previous year's accounts
 - Consortia balances
 - Amounts which the Authority agreed may be held to avoid staff redundancies in respect of a temporary fall in roll or during a reorganisation
- 4.4 Schools were asked to provide evidence of planning in the form of documents such as School Improvement Plans, copy invoices and quotations, Governing Body meeting minutes. Only one school failed to provide a high balance plan prior to the Appeals Process. A large percentage of finance plans were initially rejected as they did not demonstrate the school remaining in a balanced position throughout the three year period.

4.5 Additional information used when considering school's proposed exceptions included the schools Asset Management Plans and Sustainability Survey's, information from the Admissions service and Planning teams and previous high balance plans and ABR's.

5. Exceptional Items

5.1 23 schools applied for exceptions for adjustments to the previous years accounts totalling £ 312,670. All of these proposed exceptions were agreed and excluded from the clawback mechanism.

5.2 24 schools applied for exceptions for consortia balances totalling £2,310,086. This included 4 secondary schools who are SAPG holders with SAPG balances totalling £1,342,694. All of these proposed exceptions were agreed and excluded from the clawback mechanism.

5.3 171 schools applied for exceptions for proposed projects. The projects totalled £ 7,713,901 which was in excess of the remaining Normal Maximum Level under investigation. Each project was tested to ensure it was:

- Exceptional
- Declared by the governing body
- Specific
- Significant and identifiable
- Benefiting current / future pupils

5.4 Proposed projects totalling £642,755 were rejected. Common reasons for project rejection included:

- Recurring expenditure, for which we would not expect a schools to carry forward monies in excess of the Normal Maximum level (e.g. leases);
- Projects were not significant in the context of the school;
- No evidence of advance planning available.

5.5 26 schools have had approval for projects totalling £466,581 that span future financial year ends. These projects will be added to the Normal Maximum Allowance when assessing whether the school is in a high balance position at March 2008.

5.6 All schools have received an individually tailored letter detailing the decision on each exception applied for. Once the exceptional items had been agreed 34 schools received letters detailing a clawback.

Sector	Number of Schools	Clawback before Appeals
Primary	23	£410,823
Secondary	2	£93,491
Nursery	5	£68,360
Special	4	£42,368

5.7 Schools where a clawback decision was made were given the opportunity to appeal against the decision.

6. Appeals Process

6.1 The appeals hearings were held for Group 1 schools in October and for Group 2 schools in December. Representatives from the schools were invited to attend and approximately half of appellants attended the Appeals Panels.

The Appeals panel comprised of:

- Nigel Studley – Group Internal Auditor (Chair)
- Ros Cooper – School Effectiveness (*Kate Smith Secondary school appeal*)
- Michael Taylor – School Forum Representative

6.2 All cases considered by the Appeals Panel were minuted in detail, the minutes are available to members of Schools Forum on request. The Appeals Panel considered the high balance plans submitted by the schools, the reasons that the authority had rejected proposed projects, and the school's responses. In the majority of cases further information was provided by the schools, and in some cases new projects were proposed.

6.3 Following the Appeals Panel deliberations, the notified clawbacks were amended as follows:

Sector	Group 1 No Of Appeals	Total of Appeals Granted	Group 2 No Of Appeals	Total of Appeals Granted
Primary	4	96,353	7	142,141
Secondary	1	55,000		0
Nursery	3	59,087		0
Special		0	1	21,580

6.4 A small number of schools were in circumstances not fully envisaged when the clawback scheme was drawn up. The authority has agreed specific treatment of these circumstances with the Appeals Panel. Schools Forum is asked to ratify these specific exceptions to the clawback mechanism.

6.4.1 A school submitted a plan resulting in a £39,315 clawback. The appeals panel heard that the school had recently taken back ownership of a building from private use and could not previously obtain quotes to bring the building back to school use. The school was permitted to retain the excess balance subject to providing a costed plan at March 2008.

6.4.2 A school submitted a plan resulting in a clawback. However, the school is listed high on the Authority's list of kitchens which are in need of replacement. This would not have been known to the school at the time of

submission of their plan. The decision was taken to allow the school to retain the funds to address the kitchen refurbishment.

- 6.4.3 A school had misinterpreted the wording of the reorganisation exception and felt this should apply to a staff reorganisation which needed to be undertaken. No plans or costings for this reorganisation were available. The Appeals Panel decided to allow the school to retain the balance at March 2007, subject to providing a costed plan at March 2008.
- 6.4.4 A school provided an unacceptable high balance plan but has not been able to update this due to lack of a substantive Headteacher. The clawback mechanism has not been applied because a number of financial management issues have been identified at the school.

7. Outcomes

- 7.1 Following the Appeals process a total of £263,576 has been recovered from schools. Of this £5,990 was recovered from VA school.

Sector	Total Clawback after Appeals
Primary	£172,329
Secondary	£38,491
Nursery	£28,947
Special	£23,809

- 7.2 The authority has agreed almost 180 detailed plans for use of excess balances which will reduce balances at those schools to the Normal Maximum Level over the forthcoming three year funding period. Most of the expenditure is planned to take place before 31 March 2008, however where the projects span the financial year end approval has been agreed at future year ends.
- 7.3 Administration of the balance clawback mechanism has proved to be a significant burden both to schools and the authority. It is hoped that schools have heard the message that balances need to be reduced. Schools Forum is asked to comment on any further measures which could be taken to reinforce this message amongst schools.

8. Future Actions

- 8.1 The authority has recently requested an update on progress of agreed projects, which is due back by 29 February 2008.
- 8.2 The authority has recently published via the web site a process by which schools can request prior approval for project balances which will be outstanding at March 2008. This will be documented in the Year End Guidance which will shortly be published to all schools.

- 8.3 Schools Forum is asked to advise whether the clawback scheme should be amended to make prior approval of projects mandatory in future, potentially from the March 2009 year end. This proposal would need to be included in the consultation with schools during Autumn term 2008.
- 8.4 A special school has approached the authority to request exemption from the clawback mechanism at March 2008 in view of the significant impact the change to formula funding arrangements might have on the school. There are four special schools which are anticipated to be significantly affected by the change to the formula, two of which would be expected to hold excess balances at March 2008. The authority proposes that the four schools should be exempted from the clawback mechanism at March 2008 in order to allow time for the schools to plan for the impact of formula changes. However those schools which had produced high balance plans as at March 2007 would still be required to show progress against those plans. Schools Forum is asked to approve the exemption of the four said special schools from the clawback mechanism.