

SCHEME for FINANCING SCHOOLS

Report of the Director of Children, Schools and Families

Author:- Simon Pickard
Tel:- 01992 555736
Executive Member:- David Lloyd

1. Purpose

- 1.1 To seek formal approval from the Schools Forum for the implementation of changes to the Scheme for Financing Schools.

2. Background

- 2.1 Prior to March 2007, changes to the Scheme for Financing Schools required the approval of the Secretary of State. New Regulations came into force from 16 March 2007 which now delegate this responsibility to the Schools Forum in each authority.
- 2.2 The new decision making process, like other formal decisions delegated to the Schools Forum by Regulations, empowers the Forum to implement changes to the Scheme for Financing Schools as proposed by the Authority.
- 2.3 The new regulations retain the need to consult with all schools before proposing changes to the Scheme. The Authority, with the support of the Schools Forum, has consulted schools on details of a proposed clawback mechanism. It is therefore possible to implement a scheme in Hertfordshire which differs from the DfES standard model based on the outcomes of those consultations.
- 2.4 The outcomes of the consultation processes were discussed with the Schools Forum at earlier meetings as follows:
- 20 September 2006 – Outcomes of Consultation with Schools regarding Clawback Proposals; and
 - 17 January 2007 – Outcomes of Formula Consultation with Schools.
- Copies of these papers are available on request.

3. DfES Amendments to Scheme for Financing Schools

3.1 During October 2006 the DfES directed a number of changes to the Scheme for Financing Schools which came into effect from January 2007. The directed changes:

- introduced a mechanism to control surplus balances in schools;
- empowered Authorities to require a multi-year budget forecast from schools;
- made it mandatory for schools to meet the requirements of the DfES Financial Management Standard in Schools; and
- created a mechanism (Notices of Concern) through which an Authority can require a school to make specified improvements in its financial management arrangements.

3.2 The clawback mechanism introduced by the DfES is documented in detail on the teachernet web site. Conceptually it is similar to the scheme which has been consulted on in Hertfordshire, in that it specifies a Normal Maximum Level for school balances, above which schools may retain amounts for specified exceptional items if agreed by the Authority. Any balance above the Normal Maximum Level plus agreed exceptional items must be clawed back from the school.

3.3 However, there are aspects of the DfES clawback mechanism which do not fit well with the Hertfordshire context:

- a) The DfES Normal Maximum Level is a percentage of all income to be received by the school in the forthcoming financial year (excluding Standards Funds Grants). This requires estimating the value of non budget share income, which could give rise to unnecessary disputes about the expected value of relatively minor amounts of income.
- b) The DfES scheme permits secondary schools to carry forward 5% of relevant income whilst all other schools can carry forward 8% of relevant income. This appears inequitable between schools of similar size in different sectors, and particularly inappropriate for the Hertfordshire middle schools.
- c) The DfES scheme includes a *de minimis* Normal Maximum Level of £10,000 for the smallest schools, above which the schools need to propose specific schemes in order to justify a balance. This appears inappropriately low for contingency purposes, for example a balance of £10,000 would be insufficient to retain a teacher to the end of the academic year.
- d) The DfES scheme treats Standards Funds balances as exceptional items which need to separately recorded, identified and agreed for carry forward rather than as a routine element of school funding.
- e) The DfES scheme does not include any specific mechanism to carry forward consortium balances (though this could be tackled by proposing a suitable project for carry forward).
- f) The DfES scheme does not include any specific mechanism to protect staffing in respect of a temporary fall in school roll (though this could be tackled by proposing a suitable project for carry forward).

3.4 The DfES clawback mechanism will be implemented in May 2007 unless an amendment to the Scheme is approved by the Forum at the April meeting.

4. Proposed Clawback Scheme for Hertfordshire

- 4.1 The proposals included in the Autumn 2006 consultation with schools all received strong support from schools and were endorsed by the Schools Forum. The attached amendment to the Scheme is therefore in line with those proposals.
- 4.2 An informal view was requested from colleagues at the DfES on the proposed clawback mechanism for Hertfordshire. Contradictory responses were received from different members of the DfES team, and overall there was some doubt that the proposed scheme would be approved. In view of the anticipated change to regulations, which give the Schools Forum powers to amend the Scheme for Financing Schools with effect from March 2007, the proposed changes were not formally submitted to the DfES.
- 4.3 The most significant change proposed for Hertfordshire compared to the DfES scheme is to replace the limit of 5% in secondary schools and 8% in other schools with a single formula of 5% plus £20,000 in all schools. The informal response from the DfES indicated that this would probably be unacceptable, because it enabled secondary schools to carry forward balances above 5% and enabled smaller primary schools to carry forward balances above 8%. Responses from schools to the Autumn term consultation indicated a very strong preference for the Hertfordshire proposal compared to the DfES single percentages. The change to Regulations makes the Schools Forum responsible, if it agrees, for approving the proposal of the Authority. The Authority proposes that the Normal Maximum Level should be based on 5% of budget share plus School Standards grant plus £20,000 in all schools.
- 4.4 The DfES indicated that the formulaic approach to estimating Standards Funds balances, as opposed to maintaining detailed records of the balances, would be acceptable. The Authority proposes that the formulaic estimate of Standards Funds balances should be included in calculation of the Normal Maximum Level. This would enable the Authority to reduce the number of schools asked to provide an explanation for their balances.
- 4.5 The DfES indicated support for other aspects of the proposed clawback mechanism in Hertfordshire.

5. Other Amendments to the Scheme for Financing Schools

- 5.1 In January 2006, following consultation with schools, the Schools Forum discussed changes to the list of approved bankers. The amended list received strong support from schools at consultation and was endorsed by the Forum. However the Secretary of State was not approached to formally approve the change to the Scheme for Financing Schools. It is proposed that the Scheme should be amended to include the updated list of approved bankers. The revised list is attached as Appendix B.
- 5.2 Prior to the commencement of financial year 2005-06, schools were consulted on new formula arrangements which were agreed and put in

place. These new arrangements provide new or amalgamated schools in the primary sector with an opening balance based on the closing balances of predecessor schools. In drafting the proposed clawback scheme, it has been observed that the Scheme was not updated at the same time as the formula change. The second paragraph of section 4.8 currently reads:

“The formal consultation document relating to school re-organisation would set out any arrangements for allocations to schools which have the effect of giving them the benefit of additional sums which are equal to or less than the balances of the relevant closing schools”

This paragraph is inaccurate in view of the formula changes agreed in 2005, and it is proposed that it should be deleted.

6. Publication of the Scheme for Financing Schools

6.1 The key change to the Scheme will depend on the decision of the Schools Forum about the clawback mechanism at this meeting. The other Scheme changes directed by the DfES (with respect to multi-year budgeting, the Financial Management Standard and Notices of Concern) have not been the subject of consultation, therefore must be implemented without modification.

6.2 It is proposed to publish the changes to the Scheme for Financing Schools via the web site. The copy of the Financial Handbook on TheGrid will be updated for the changes. In addition, a section of the School Funding Unit web pages will be set aside for information about clawback arrangements. Schools will be alerted to the new information through the weekly bulletin.

7. Conclusion

7.1 Members are asked to formally approve the clawback mechanism set out in Appendix A as an amendment to the Scheme for Financing Schools. This will replace the existing section 4.2 which set out the requirement to report on the intended use of surplus balances.

7.2 Members are asked to formally approve the list of bankers set out in Appendix B as an amendment to the Scheme for Financing Schools. This will replace the existing Annexe C of the Scheme.

7.3 Members are asked to formally approve the deletion of the second paragraph of section 4.8 of the Scheme for Financing Schools.

7.4 Members are asked to comment on the proposed publication arrangements and to recommend any additional mechanisms which are appropriate.

Draft Section for insertion into the Scheme for Financing Schools

4.2 Arrangements for Control of Surplus Balances in Schools

Control Mechanism

Where a school's revenue balance is identified as being excessive under the terms of this Scheme, the excess will be deducted from the school's budget share for the financial year following the date of the balance.

Closing Revenue Balance

The Authority will calculate by 31 May each year the balance held by each school as at the preceding 31 March. For this purpose the balance will be the sum of all carried forward school revenue balances within the CFR structure.

Balances held in respect of community focussed extended schools services (CFR code B06) will not be counted as revenue balances of the school for the purpose of identifying excessive balances under this Scheme.

All other funds deriving from sources other than the Authority will be taken into account in this calculation if paid into the public account of the school.

Normal Maximum Level

The normal maximum level for a school's revenue balance is calculated as the sum of:

- 5% of the school's initial delegated budget share for the new financial year, plus
- 5% of the School Standards Grant (including Personalisation) for the new financial year, plus
- 5% of the School Development Grant (excluding Specialist School funding) for the new financial year, plus
- 5/17 of the Specialist School funding for the financial year just ended, plus
- the sum of any Standards Fund Grant allocations paid into the school's public account in January, February and March, plus
- £20,000.

Where a school's revenue balance does not exceed the normal maximum level, the Authority will not require an explanation for the school carrying forward this balance.

Where a school's balance exceeds the normal maximum level, the Authority will require the school to set out the reasons for which the excess balance is held, and to provide a three year financial plan.

Exceptional Items

On receipt of those reasons and three year plan from the school, the Authority will deduct from the calculated excess any exceptional items which meet at least one of the following criteria:

- a) Amounts for which the school has a prior year commitment which was not included in the previous year's accounts. The school should explain why these amounts were not included in the accounts and state what steps it has taken to prevent a recurrence.
- b) Amounts held by the school as a consequence of its role as the hub school of a consortium. The school should provide a statement of the balance as agreed by the consortium.
- c) Amounts which the governing body of the school has declared to be assigned for specific purposes, and which the Authority is satisfied are properly assigned. The purposes for which amounts may be assigned must be significant identifiable dated projects for the benefit of current and / or future pupils.¹ Amounts for specific projects must not be retained beyond the period stipulated for the purpose in question without the further consent of the Authority, which will not be unreasonably withheld.
- d) Amounts which the Authority agrees may be held to avoid staff redundancies in respect of a temporary fall in roll or during reorganisation. The school should show why sufficient protection cannot be provided within the Normal Maximum Level of balance, and provide robust evidence of future intakes.

Where a school does not provide timely evidence of exceptional items as reasons for holding revenue balances higher than the normal maximum level, the school's exceptional items shall be set at zero.

Excessive Balances

Where the school's remaining revenue balance after deducting agreed exceptional items exceeds the Normal Maximum Level as set out above, then the excess is deemed to be "excessive".

Where schools have excessive balances, the excess will be deducted from the school's budget share during the new financial year.

Amounts clawed back from school balances will be utilised to increase the Authority's capital programme for schools, except that amounts clawed back from Voluntary Aided schools will be added to the separate LCVAP capital programme for Voluntary Aided schools.

¹ For example, replacement of a small number of computers due to wear and tear would not normally be considered such a project, whereas replacement of a full ICT suite which was purchased as a unit would normally constitute such a project.

Appeals

Schools subject to a clawback will be given sufficient notice of the amount to be deducted and the specific calculation which has been made so that they can, if they wish, make an appeal. Appeals will only be considered on the grounds that either:

- an error has been made in the application of these rules; or
- the Authority has unreasonably refused to recognise a specific purpose declared by the governors as a valid exceptional item.

Where an appeals panel is necessary, it will be convened from three of the following as appropriate to the nature of the appeal:

- A voting member of the Schools Forum;
- Head of School Standards and Effectiveness for the relevant sector;
- Group Internal Auditor for Schools; or
- Head of the School Funding Unit.

The decision of the Appeals Panel is final.

List of Approved Bankers

Banks

Abbey
Barclays
HBOS
HSBC
Lloyds TSB
National Westminster
Royal Bank of Scotland
Alliance and Leicester

Building Societies

Nationwide
Britannia