

REGULATORY AND OTHER COMMITTEE REPORT

NAME OF COMMITTEE:	Schools' Forum
DATE OF MEETING:	10 October 2012
SUBJECT:	School Carry Forwards (2011/12)
REPORT BY:	Tony Warnock (Head of Finance – Children's and Specialist Services)
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IS THE REPORT CONFIDENTIAL?	No
IS REPORT EXEMPT?	No

SUMMARY

The purpose of this report is to provide information regarding Lincolnshire school carry forwards at 31 March 2012. The underspendings carried forward by schools have risen significantly in the past year and the likely reasons for that are explained within the report.

DISCUSSION

Introduction

Schools are permitted to carry forward underspendings from one year to the next, subject to the provisions of Lincolnshire's school carry forward policy, which forms part of Lincolnshire's Scheme for Financing Schools.

School carry forwards 2011/12

The overall level of school carry forwards in nursery, primary, secondary and special schools has risen by £8.621m (75.9%), from £11.357m in 2010/11 to £19.978m at the end of 2011/12 (please note that to ensure consistency, the 2010/11 comparator figures exclude the carry forwards of schools that closed during 2011/12 and those that have subsequently become academies).

- Nursery schools' carry forwards have risen by £0.420 (337.9%) to £0.544m.
- Primary schools' carry forwards have risen by £5.754m (62.9%) to £14.899m.
- Secondary schools' carry forwards have risen by £1.479m (270.6%) to £2.025m.
- Special schools' carry forwards have risen by £0.969m (62.9%) to £2.509m.

The sum carried forward each year is largely a matter for individual school governing bodies. However, there are likely to have been a number of factors that have influenced the increase in the overall level of underspendings in recent years. These include:

- Schools have been taking a prudent approach to budgeting in light of the recent, difficult economic climate.
- Although the government's four year Comprehensive Spending Review (CSR) allowed for growth in school funding for the £2.5bn pupil premium, no provision was made for pay awards. Although there is currently a public sector pay freeze, it is not clear how long this will be sustained and as a large percentage of a school's budget finances staffing costs, this is potentially a significant pressure.
- The CSR made no provision for inflation on non-pay budgets and although inflation has been falling in recent times, schools were having to finance the increasing costs of utilities and other expenditure.
- Since 2011/12, the government allocations for Devolved Formula Capital have fallen substantially and some schools are building reserves to finance essential capital items (e.g. information technology equipment).
- The mainstreaming of £67m of grants in 2011/12 gave rise to gains and losses in school funding. This will have created an added degree of uncertainty and caution.
- Previously, those funds were allocated as Standards Fund grants and tended to be spent by schools across the academic year. Historically, the balances that were held at the end of the financial year were not included within the school carry forward figures and so the actual increase in school reserves in 2011/12 may not therefore be as great as the figures above suggest.
- Completely new systems of funding were introduced locally in 2011/12 for nursery and special schools. Some special schools lost significant sums and although transitional protection was put in place, it was planned for this to remain in place for three years only.
- Schools have been aware that for the past eighteen months, the government has been consulting LAs on school funding reforms. They know that this will also give rise to further gains and losses from 2013/14.
- The funding arrangements for sixth forms are also due to change and some secondary schools can expect significantly reduced funding in future years.
- Although successive governments have protected the main element of school funding through the minimum funding guarantee (MFG), in the last two years the continuation of the MFG has been announced on an annual basis and so there has been no certainty that it would continue in to the medium term.
- Furthermore, the MFG has been set at minus 1.5% per pupil in the last two years and so schools were very much aware that they could lose funding.
- Some schools are continuing to build reserves to contribute towards major capital developments.

These and other issues have combined to create considerable uncertainty in schools. That is unlikely to change in the foreseeable future and the prospect is that school governing bodies will decide to continue to retain a healthy level of reserves over the next few years.

Carry Forwards as a % of Budget Share

On average:

- Nursery schools carried forward: 24.54% (2010/11 6.87%).
- Primary schools carried forward: 8.22% (2010/11 5.71%).
- Secondary schools carried forward: 2.18% (2010/11 0.68%).
- Special schools carried forward: 8.32% (2010/11 5.59%).

The LA's school carry forward policy was introduced on 1 April 2004. It allows nursery, primary and special schools to carry forward for any purpose, up to 8% of their budget share, or £30k (whichever is greater). Secondary schools can carry forward 5% of their budget share. The policy states that additional sums can only be carried forward if they are for specific, costed, time limited, capital projects that are consistent with the priorities set out in the school's Asset Management Plan.

It is clear that some schools have exceeded their carry forward limit. In previous years, the LA would have asked those schools to confirm that the excess funds were being held for specific capital projects and hence that they were complying with the LA's policy. However, that has not happened in respect of the balances held at 31 March 2012. That is because in January 2011, the LA was led to believe that the government would cease to allow LAs to claw back 'excess' balances. All schools were advised of that in March 2011. It then transpired that the rules were not to be altered. Schools were therefore advised earlier this year that from 31 March 2013, the LA's policy would once again be fully operational. However, to honour the original statement that was made in March 2011, the LA has not asked schools to explain their planned use of 'excess' balances. The LA will continue to keep its school carry forward policy under review.

School Deficits

The total number of schools in deficit at the end of 2011/12 has decreased by 3, from 22 to 19.

The number of schools with overspends comprises:

- 12 (5%) primary schools (2010/11 – 12 schools)
- 7 (27%) secondary schools (2010/11 – 10 schools)

It is notable that:

- 6 of the 12 primary schools have deficits of <£0.010m.
- 4 of the 7 secondary schools have deficits of <£0.150m.
- The total value of deficits at the end of 2011/12 has decreased by £0.771m to £1.367m.
- There has been:
 - a £0.021m (14.1%) increase in deficits in the primary sector to £0.171m.
 - a £0.792m (39.9%) decrease in deficits in the secondary sector to £1.196m.
- The number of secondary schools with overspends has decreased. One school has a very large deficit, but that has been reduced by £0.118m in 2011/12. Officers continue to work with such schools to help them to remove their deficits in the short to medium term.
- Apart from 2009/10, the number of schools with deficits has fallen every year since a peak of 65 at 31 March 2003 (as stated above, there were 19 at 31 March 2012). Although the conversion of many secondary schools to academies in the last two years will have assisted with that improvement, this is a notable achievement over a long period of time, given the very limited resource that the LA has available to monitor school finances compared to many other LAs.

The national perspective

A detailed analysis comparing Lincolnshire's school carry forward position with other LAs has not been undertaken this year. Historically, such reports have repeatedly shown that the level of reserves and number of schools with overspends are broadly in line with East Midland and national averages. However, the LA is aware that a number of LAs in the region have also seen a sharp rise in their school balances at the end of the last financial year. That data will not be available for many more months and therefore there is little to be gained by comparing school balances held at 31

March 2011, which is the latest data currently available. The reasons for the increase in neighbouring LA's school balances are likely to be similar to those listed above.

The LA's perspective

The LA believes, as a point of principle, that the funding made available to schools each year should be spent on the pupils in school in that year. However, it is also important for schools to retain a reasonable level of reserves, to help smooth out modest fluctuations in income and expenditure from year to year, and thereby help ensure better use of resources by avoiding redundancies wherever possible. The financial climate has been difficult in recent times and there has been a significant degree of change in local funding arrangements too. That has created uncertainty and schools have responded by increasing their levels of reserves. The uncertainty is likely to continue for the next few years as the government introduces significant school funding reforms from 2013/14. The LA expects school governing bodies and leadership teams to act prudently and achieve and maintain strong financial management standards. The LA does not expect them to carry forward an excessive level of reserves. The Finance team will therefore continue to monitor the financial position of all schools and information will be shared through the Schools Causing Concern mechanism.

Advice and guidance

The Finance team will continue to provide advice and guidance to schools. It will continue to monitor the financial position of schools and meet on a regular basis with representatives from those schools that have significant overspendings. The Team's principal aims are to help improve financial management in schools and reduce the number of schools with overspends.

RECOMMENDATIONS

The Schools' Forum is asked to note and comment upon the content of the report.

APPENDICES (If applicable) - these are listed below and attached at the back of the report.
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APPENDIX A	List of school carry forwards at 31 st March 2012.
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BACKGROUND PAPERS

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

PAPER TYPE	TITLE	DATE	ACCESSIBILITY
Report	School Carry Forwards (20010/11) and National benchmarking (1999/00 – 2009/10)	12 October 2011	County Offices, Newland, Lincoln