

Report To: Performance Scrutiny Committee

Date of Meeting: 6 September 2012

Report Author: Head of Internal Audit Services

Title: Monitoring of Schools' Financial Position

1. What is the report about?

This report provides assurance to the Committee on the procedures in place within Education Finance and schools to manage their financial position to prevent them going into financial difficulty or to identify and act promptly if a school encounters financial problems.

2. What is the reason for making this report?

This report is in response to the Committee's request at a previous meeting. The Committee requested a review and report on how Education Finance monitors schools' financial positions to ensure that they manage their budgets effectively and to identify any school in financial difficulty at an early stage to allow the problem to be escalated and for schools to develop and implement robust recovery plans where needed.

3. What are the Recommendations?

Members accept the Head of Internal Audit's assurance that robust procedures are in place and any improvements needed are being implemented.

4. Report details

Internal Audit's overview of the processes in place found that there has been a significant improvement in monitoring of schools' financial performance and that proactive work is in progress to improve the service further and deal with any improvement areas identified during the transition period.

Key outcomes from our review are:

- The new Collaborative Planning system provides up to date data, although there is work in progress to improve forecasting and to develop 3-year budget forecasting, which is currently carried out separately due to pending changes to the system functionality.
- Appointment of School Finance Managers employed directly within clusters has improved communication, allowing Education Finance to be informed more promptly of issues. It also provides schools with more focused and targeted support and training and greater capacity to test the market to ensure value for money and identify external funding.

- Changes to the budget process and proposals for a new funding formula provide schools with a more realistic budget and helps budget planning. New financial planning processes are encouraging schools to be more engaged in the budget management processes and are promoting greater buy-in from schools. Work done and planned in this area is minimising the risk of schools opting to become chequebook schools and has seen another school moving back to the local authority after previously being a chequebook school.
- The Education Finance team produces a monthly school balances report that provides forecast outturn figures for each school, including the forecast variance, prior month's forecast variance and movement on the variance.
- RAG (Red, Amber, Green) criteria are used to categorise schools' financial position and then to categorise those in financial difficulty. Two schools are currently categorised as Red, but both schools have achieved the actions set out in their recovery plans and will have cleared the historic deficit within 2 years.
- Performance is reported to the Chief Accountant and Education senior management (including Lead Member for Education) to keep them informed of any problems and potential issues to allow intervention where necessary.
- A revised policy for the use of surplus balances has been discussed with the School Budget Forum and will be further explored in 2013-14. One option being discussed is having a local policy based on a % of the school budget and any claw back going into a central pot to be used to support Schools in Financial Difficulty where the situation has been caused by external factors.
- Schools in Financial Difficulty have to apply to Finance for a licenced deficit. This is an informal process at the moment, but a formal 'Challenge and Intervention Framework' for Schools in Financial Difficulty' is being worked on, which will include a formal application form for a licenced deficit, which the Headteacher and Chair of Governors will sign.
- All schools that are categorised as being a 'School in Financial Difficulty' have to produce a financial recovery plan using a template that Education Finance provides. The financial recovery plan sets out what the budget forecast is likely to be for the next 5 years, including the current year, if no action is taken. Schools list what mitigating action they are planning to take to address their budget deficit and to cost out the effect this will have on the future budget forecasts. The Finance Team scrutinises the recovery plans and discusses them with the relevant School Finance Manager in order to validate them.

5. How does the decision contribute to the Corporate Priorities?

The report provides assurance of sound financial management in schools, supporting the raising and maintaining of levels of attainment and achievement, which contributes to the priority of Modernising Education.

6. What will it cost and how will it affect other services?

N/A

7. What consultations have been carried out and has an Equality Impact Assessment Screening been undertaken?

Internal Audit work carried out in consultation with Education Finance

9. What risks are there and is there anything we can do to reduce them?

Sound financial management and controls are essential to schools because they provide an effective framework for financial planning and accountability and safeguard the use of public funds.

If budgets are not effectively managed, it could lead to:

- a school not being able to achieve its targets and objectives and potentially affecting the level of attainment of pupils;
- deficit school balances, which remain as a liability to the school until they are paid back and cause reputation damage to both the school and the Council; and
- unintentional surplus balances that may be subject to claw-back.

The report shows how the risks are being managed in Section 4.

10. Power to make the Decision

The Denbighshire Scheme for Financing Schools and the Schools Funding Regulations govern the financial management arrangements in schools and give local authorities the power to intervene where necessary.