

**Schools Forum 11 December 2007**

**Report of the Director of Children's Services**

**School Balances**

**Purpose of Report**

1. The purpose of this report is to provide Schools Forum with an update on the DCSF 5% claw-back proposal together with future changes to Dudley's Scheme for Financing Schools.

**Budget Working Group Discussed**

2. No.

**Action for Schools Forum**

3. To note the proposed amendments in relation to the controls on surplus balances and advise the Director of the Forum's view before a consultation document is issued.

**Attachments to Report**

4. Scheme for Financing Schools, paragraph 4.2. Controls on surplus balances – Appendix A.
5. Minister of State for School and Learners statement dated 30 October 2007 – Appendix B.

Karen Cocker  
Children's Services Finance Manager  
26 November 2007

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**Purpose of Report**

1. The purpose of this report is to provide Schools Forum with an update on the DCSF 5% claw-back proposal together with future changes to Dudley's Scheme for Financing Schools.

**Background**

2. The local controls in respect of Dudley's surplus balances can be found within the LMS scheme (Scheme for Financing Schools, paragraph 4.2.2). Extract attached at Appendix A.
3. Schools Forum will be aware that the schools' reserve balances for Dudley were £9.4m at 31 March 2007. Of the £9.4m, less than £200k was proposed for claw-back, despite an expectation that a higher level of reserves would be available.
4. In order to identify those reserves available for claw-back at the 31 March 2007, the criteria set down in the LMS scheme for controlling school balances was rigorously applied.
5. Building on the experiences from 2006/07 and the national coverage of rising school balances from the DCSF, it is proposed that Dudley's local scheme for controlling surplus balances is tightened further for a phased implementation, effective from the 2007/08 financial year.
6. Discussions have been held with Forum members in respect of the recent DCSF proposal to prescribe that all local authorities, in addition to their local LMS scheme, introduce a claw-back mechanism amounting to 5% of school reserves. On 30 October 2007, the Minister of State for School and Learners issued a statement relating to schools finances. This is attached at Appendix B. This statement sets out his decision not to proceed at this time with the proposed redistribution of school balances and outlines the reasons why.

7. With the DCSF deferring their proposal to regulate that all authorities redistribute 5% of all surplus revenue balances held by schools, it is even more important that the Dudley LMS scheme for controlling surplus balances is effective. Schools Forum is therefore asked to confirm their commitment to this statement by agreeing that Dudley school reserve balances should be effectively assigned or clawed back.
8. All proposed changes to the LMS scheme would be subject to full consultation. Therefore the proposals detailed below in paragraphs 10 to 14 are for Schools Forum early consideration and comments before the consultation document is circulated during next term.
9. It is intended that the proposal outlined in paragraph 10 will be implemented for the 2007/08 financial year with the proposals outlined in paragraphs 11-14 being implemented for the 2008/09 financial year.
10. **The current provision for payment of interest to schools will be removed for 2007/08 financial year**

Where schools revenue balances are internally invested with Dudley then there is provision within the LMS scheme for interest to be paid. This has the impact of increasing the balances by £250k each year which is benefiting schools that hold excessive balances and adding to the overall impact on the value of the reserves.

Section 3.5 of the LMS scheme covers the operation of external bank accounts for schools.

11. **Schools will be able to profile their reserves over one year only – being the next financial year.**

Currently, schools can set reserves aside for a period longer than the next financial year. Allowing schools to profile their reserves over one year only will ensure that:

- the funding is allocated to pupils currently in attendance at the school;
- the purpose of the reserve is very clear;
- the reserves are assigned and utilised over a shorter term.

12. **Reserves set aside for deficit budgets will not be released until the end of the financial year when the schools budget outturn is established.**

There has been an increasing trend whereby schools set aside reserves to balance the next years budget (for 2007/08 this was £3m), and then at the year end schools do not need the full value set aside. Whilst it is acceptable that some schools might need to set a deficit budget on a short term basis, due to unforeseen issues such as unplanned pupil number reductions, there should not be a continual reliance on balancing the budget from previous year's reserves.

This policy should be seen as a transitional phase until the school is able to bring the budget back into line using current annual funds. With this proposal, the excess funds set aside but not required would be clawed back.

**13. The current scheme does not place a cash restriction on the value of the reserves held by a school.**

There are two options for consideration:

- The school's reserves would be subject to a maximum limit of either 5% for secondary schools, 8% for primary and special schools of their delegated budget. This would typically range from £80k for a primary school with a £1m budget to £150k for a secondary school with a £3m budget. This limit would cover all reserves held by the school including capital; or
- The reserve would be subject to a maximum limit dependent upon the value of the schools delegated budget. This would range from £30k for a school with a £1m budget to £80k for a school with a £3m budget. Due to the cash restrictions placed on the reserve, schools would be able to apply for an ad-hoc extension to this limit if capital works were deemed necessary at the school.

Either way, at the year end a school would not be able to hold reserves in excess of the cash limit imposed. The normal year end accounting rules would still apply – in that of goods and services have been received at the year end but not paid for then the value of these will be centrally accrued for and not count towards the limit imposed on the reserve.

**14. The funds available for investment will be reduced from six to three.**

Currently schools have the option of allocating their reserves over six funds (repairs and renewals, specific contingency, approved capital, general contingency, deficit budgets, long term deposit account). Under the revised proposals the three funds available would be:

- Approved Capital
- Deficit Budgets
- Specific

There would be a strict criteria set before use of any of the three funds is permitted and schools must justify the purpose of their reserves in writing beforehand.

**15. Schools Forum would be advised of the outcomes of the consultation before any final decisions were made regarding the LMS scheme in respect of controlling balances**

## **Finance**

16. The funding of schools is prescribed by the DCSF through the School Finance (Amendment)(England) Regulations 2007.
17. Schools Forums are regulated by the School Forums Regulations 2002 as already amended by the Schools Forums (Amendment) Regulations 2004 and the Schools Forums (Amendment) 2005 Regulations.
18. From 1<sup>st</sup> April 2006, the Schools Budget will be funded by a direct DCSF grant: Dedicated School Grant (DSG).

## **Law**

19. Councils' LMS Schemes are made under Section 48 of the School Standards and Framework Act 1998. The Education Acts 1996 and 2002 also have provisions relating to school funding.

## **Equality Impact**

20. The Council's Equal Opportunities Policy is taken into account when considering the allocation of resources.

## **Recommendation**

21. Schools Forum to:
- Confirm their commitment to the effective use of schools reserves in Dudley, paragraph 7;
  - To consider the proposals detailed in paragraphs 10 to 14 in respect of amendments to the Dudley LMS scheme and advise the Director of their views before the proposals are issued for consultation next term.



**John Freeman**

**Director of Children's Services**

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