

Appendix 2

DfES Recommended Guidance – Scheme for Financing of Schools **Controls on surplus balances**

The scheme must include a provision that allows a LA to place a control mechanism on surplus balances.

A model text for such a mechanism is provided below but the Secretary of State will be willing to consider variants.

Surplus balances held by schools as permitted under this scheme are subject to the following restrictions with effect from 1 April 2007:

- a. the Authority shall calculate by 31 May each year the surplus balance, if any, held by each school as at the preceding 31 March. For this purpose the balance will be the recurrent balance as defined in the Consistent Financial Reporting Framework;
- b. the Authority shall deduct from the calculated balance any amounts for which the school has a prior year commitment to pay from the surplus balance and any unspent Standards Fund grant for the previous financial year;
- c. the Authority shall then deduct from the resulting sum any amounts which the governing body of the school has declared to be assigned for specific purposes permitted by the authority, and which the authority is satisfied are properly assigned. To count as properly assigned, amounts must not be retained beyond the period stipulated for the purpose in question, without the consent of the Authority. In considering whether any sums are properly assigned the Authority may also take into account any previously declared assignment of such sums but may not take any change in planned assignments to be the sole reason for considering that a sum is not properly assigned.

The condition outlined here is intended to ensure schools can build up reserves towards particular projects but cannot defer implementation indefinitely. In deciding whether a sum is properly assigned a scheme may make explicit the right of an Authority to take account of a school's previous plans for any surplus balances in the event that such plans have changed. However, an Authority may not take a change in the plans of a school as the only criterion by which it can consider a sum to be properly assigned or not.

- d. if the result of steps a-c is a sum greater than 5% of the current year's budget share for secondary schools, 8% for primary and special schools, or £10,000 (where that is

greater than either percentage threshold), then the Authority shall deduct from the current year's budget share an amount equal to the excess.

The thresholds set out in paragraph (d) above are the maximum permitted. The department will accept (a) lower thresholds or (b) higher thresholds for particular types of schools where local authorities can justify them

Funds deriving from sources other than the Authority will be taken into account in this calculation if paid into the budget share account of the school, whether under provisions in this scheme or otherwise.

Funds held in relation to a school's exercise of powers under s.27 of the Education Act 2002 (community facilities) will not be taken into account unless added to the budget share surplus by the school as permitted by the Authority.

The total of any amounts deducted from schools' budget shares by the Authority under this provision are to be applied to the Schools Budget of the Authority.