

MANAGING SCHOOL BALANCES

REPORT BY MANAGER OF LMS AND PLANNING

HEREFORDSHIRE SCHOOLS FORUM

9TH JUNE 2005

Schools Affected

All schools

Purpose

1. To review the Audit Commission data on school balances and in light of the school balances at March 2005 consider the options available as part of the introduction of three-year budgets for schools.

Financial Implications

2. No immediate implications but school funding regulations provide for large balances to be recovered from schools and spent on budget headings within the Schools Budget. Subject to consultation with schools, the Authority is minded to recover large school balances from April 2007.

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3. The Audit Commission has launched a new management toolkit to support councils' work in managing school balances. The toolkit presents overall school balances, by council, at 31st March 2003 and 31st March 2004, by sector and allows benchmarking against education statistical neighbours, similar authorities, and regional and national comparators. Detailed comparisons are attached as an Appendix.
4. In summary, the net revenue school balances (including Standards Fund) as a percentage of Planned Budget is as follows;

Financial Year end	Herefordshire Schools		Family Average	English Counties	England Total
31 st March 2003	3,955,205	7.0%	6.8%	6.2%	6.2%
31 st March 2004	5,578,804	9.6%	6.4%	6.4%	6.4%

School Revenue Balances as at 31st March 2005 are £7.2m equivalent to 11.8%. Capital balances are a further £1.5m, equivalent to an additional 2.4%. These percentages are averages for all schools, some schools will have balances greater than above and some will be below average.

5. The overall balance as at 31st March 2004 as a percentage of Planned Budget by phase is as follows;

Further information on the subject of this report is available from Dr Eddie Oram, Director of Education on 01432 260801

School sector	Herefordshire Schools	Family Average	English Counties	England Total
Primary	13.0%	8.9%	N/a	7.9%
Secondary	5.7%	5.0%	N/A	4.7%
Special	14.5%	5.8%	N/A	8.6%

6. Not unsurprisingly the percentage of schools in deficit is virtually nil and much lower than other authorities.
7. If School Balances were reduced to the levels recommended by the Audit Commission and DfES this would release immediately £1m from balances to benefit current pupils in schools And potentially an additional £2m recovered from the amounts set aside for workforce reform and job evaluation if not spent by March 2009.
8. The 2005/06 financial year school budgets have been determined on the basis that significantly more funds (estimated at £1.8m) has been delegated at the beginning of the year. In general schools will not in future receive in-year distribution of funds, (other than targeted Standards Funds) and will be much more able to set budgets in line with expected income. This will help to avoid the build up of large unplanned balances.

FUNDING REGULATIONS

9. Nationally, the DfES is concerned at the level of balances held by schools and has designed a system of controls on school balances linked to the adoption of three year budgets which can be adopted locally. Three year budgeting for schools is to be introduced nationally for all schools from April 2006 as part of the proposals for the Dedicated Schools Grant and so it will be possible for a balances control system to be introduced in Herefordshire. The outline of the formal amendments to the Scheme for Financing Schools is attached as Appendix 2. It would be sensible to warn schools of this intended change so that they have maximum notice.
10. Worcestershire has introduced such a scheme with effect from April 2006.
11. Given the continuing increase in school balances it is proposed to consult schools formally as part of the LMS consultation about the introduction of such a scheme with effect from April 2007. Given approval by the Council and the DfES, the amounts deducted from school's budget shares will be applied in determining the 2007/08 Schools Budget. It is intended that all excess balances recovered will be allocated to Capital expenditure (funded from revenue) and spent on capital improvements in schools.
12. Within the scheme regulations schools are able to assign balances for specific purposes permitted by the Authority and listed within the funding scheme. The list of permitted purposes will be subject to consultation however it is intended to include unlimited amounts for minor capital schemes over say a four year period and to permit limited balances for Workforce Reform, Falling Rolls, Job Evaluation and a small amount to provide end of year flexibility for Standards Fund to cover planned commitments. It is intended that the job evaluation and workforce reform categories will be reduced gradually to zero by March 2009. Such an approach will encourage

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schools to transfer their property improvement savings to capital, whereas currently such savings are included in revenue balances.

13. It is recognised that it is essential for schools to keep limited balances to help manage the budget variability faced from falling pupil rolls, the introduction of workforce reform and the staff protection required by job evaluation over the next few years. The maximum proposed limits for these balances are set out below as a percentage of the school budget.

Balance Category	Primary	Special	High
Minor Capital Works including ICT	Unlimited but restricted to 4 years	Unlimited but restricted to 4 years	Unlimited but restricted to 4 years
Workforce Reform	2% in March 2007 reducing to 1% in March 2008 and 0% from March 2009	2% in March 2007 reducing to 1% in March 2008 and 0% from March 2009	1%
Falling Rolls	2%	2%	2%
Job Evaluation	2% in March 2007 reducing to 1% in March 2008 and 0% in March 2009	2% in March 2007 reducing to 1% in March 2008 and 0% in March 2009	2% in March 2007 reducing to 1% in March 2008 and 0% in March 2009
Standards Fund (5/17ths)	1%	1%	1%

After reserving funds against these permitted categories, schools would be limited to a general balance of 8% or a minimum of £30,000 for primary schools, 5% or a minimum of £30,000 for special schools and 5% or a minimum of £50,000 for high schools.

14. Schools Forum previously considered an item on claw back of balances in June 2003 and decided not to pursue such a scheme. At that time revenue balances were £3.5m, equivalent to 6.62%. Revenue Balances have now grown to £7.25m, or 11.8% and action needs to be taken to ensure that this money is spent for the benefit of pupils and not simply accumulated without purpose.

RECOMMENDATION

THAT:

- (a) **That the LMS consultation with Schools for the 2006/07 budget includes the changes to the Scheme for Financing Schools as set out in Appendix 2.**
- and
- (b) **Headteachers be advised before the end of term that the Authority is minded to implement such a scheme as set out above.**

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