

SECTION 2: SCHEMES FOR FINANCING SCHOOLS

25. The Government has decided to proceed with the proposed system of controls on schools balances. It will be for each LEA to decide whether it wishes to have this as a feature of its scheme for financing schools, and if so, to consult schools and its schools forum on the necessary scheme revisions.

26. Those revisions are two-fold, and are likely to vary somewhat in nature from LEA to LEA depending on local wishes and circumstances. The system can only be implemented by LEAs which have bound themselves to produce three year indicative budgets for schools. Although Ministers hope that LEAs will attempt to do this from 2003, the balances control system would only be feasible from April 2004, and so the associated scheme provision relating to three-year budgets need not come into operation significantly before that.

27. A suggested text relating to three year budgets is:

At the same time as issuing its budget statement as required by section 52 of the Schools Standards and Framework Act 1998, the Authority will inform each maintained school of its estimate of the school's budget share and central government grant income paid via the LEA for the two financial years following the year for which the statement is being issued. The estimate will be provided in a format determined by the Authority and this format may include provision of information within an electronic budget modelling system. The estimate will use information available to the Authority at the date of preparation and will necessarily be provisional in nature, implying no commitment on the part of the Authority to fund the school at the level shown in the estimate. The Authority may issue additional budget estimates from time to time.

28. Responses to consultation on the balances control system have suggested some adaptations to the model canvassed in the 23 October DfES letter, in regard to the definition of 'balance'; the timing of the process; the purpose of any sums surrendered to the LEA; and the size of the uncommitted reserve for different phases of school. These changes are incorporated in the scheme text suggested below:

Surplus balances held by schools as permitted under this scheme are subject to the following restrictions with effect from [1 April 2004]:

- 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 recurrent balance category [B01] as defined in the Consistent Financial Reporting Framework (*nb this will include the delegated budget share balance, and any Standards Fund/School Standards Grant balances, following the redefinition of recurrent balances within CFR which will take place for 2003-04, when there will cease to be a separate Standards Fund balance within CFR*);
- 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 as listed at paragraph [x] of the scheme, 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 ;
[the last provision is intended to ensure schools can build up reserves towards particular projects but cannot defer implementation indefinitely]

d. if the result of steps a-c is a sum greater than whichever is the greater of 5% of the current year's budget share (secondary schools) or 8% (primary and special schools), then the Authority shall deduct from the current year's budget share an amount equal to the excess.

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.

29. In submitting their own proposals for scheme revisions LEAs may particularly wish to put forward variations relating to the size of the uncommitted reserve (those with excessively low thresholds are unlikely to be approved).

30. If an LEA decides that it wishes to go ahead with linked proposals on these lines it should draft scheme revisions and consult with schools and schools forums on a timetable which would allow submission to the Secretary of State for approval by the end of October 2003. This should allow them to come into force by January 2004. Draft revisions can be sent to the Department's School Funding Unit for comment.