

**Retained School Balances 2009/10****SUMMARY**

- 1.1 At the Committee meeting on 2 December 2010, Members requested a report giving details of the 8 schools which were above the threshold and what action was being taken to reduce the overfunding. This report sets out details of schools' planned use of surplus financial balances, where these exceed the threshold set out in the Council's Scheme for Funding Schools.

**RECOMMENDATIONS**

- 2.1 To note the levels of schools' balances in Derby and the actions taken for the 2009/10 balances.
- 2.2 To note the changes in the DfE guidance from April 2011 in relation to school balances.

**REASONS FOR RECOMMENDATIONS**

- 3.1 The Audit and Accounts Committee is responsible for providing assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.

**SUPPORTING INFORMATION**

- 4.1 The Council's ability to claw back surplus balances came into effect from 1 April 2004. Surplus balances are those which exceed 8% of the budget in the case of primary, nursery and special schools (previously 10%), and 5% in the case of secondary schools. Council Cabinet set conditions on the use of surplus balances at its meeting of 20 July 2004 with an amendment to introduce circumstances where an automatic claw back of balances will apply at its meeting of 8 June 2010.
- 4.2 Information was requested from schools with balances above the threshold as to how they planned to use the balances in accordance with the list of approved reasons set out in Appendix 2. Responses from those schools are set out in Appendix 3. Where a school is proposing a capital project, it needs to comply with the requirements set out in the Scheme for Funding Schools relating to notification to, and consultation with the Council.

- 4.3 The total of revenue balances has fallen from £5.6m in 2008/09 to £5.3m in 2009/10 and the number of schools above the threshold has reduced from 23 to 8. Although Derby's level of balances has been well below the national average for a number of years, there will be national intervention if local authorities and schools do not succeed in reducing balances by 2011. Derby have been relatively successful in suppressing the levels of schools balances; this has been achieved by;
- naming individual schools who have exceeded the threshold and making this part of a public Cabinet document, very often attracting media interest
  - having a very well established Council finance service with a high level of buy back from schools also ensures that schools have support in effectively monitoring their budgets and managing their balances
  - having most of our schools using the Council's core financial system, Oracle, which means that a great deal of process time is eliminated and schools can focus more on strategic issues.
- 4.4 The Council's Scheme for Funding Schools has been amended after consultation with the Schools Forum and approval by the Council Cabinet on 6 June 2010 to introduce an automatic claw back mechanism. Balances that exceed 11% in primary, special and nursery schools and 8% in secondary schools are clawed back subject to very limited reasons. No schools have exceeded these balances.
- 4.5 It should also be noted that the guidance on local authority schemes for financing schools has been amended with effect from 1 April 2011 in relation to school balances. The guidance states *"The scheme may contain a mechanism to clawback excess surplus balances. Any mechanism should have regard to the principle that schools should be moving towards greater autonomy, should not be constrained from making early efficiencies to support their medium-term budgeting in a tighter financial climate, and should not be burdened by bureaucracy. The mechanism should, therefore, be focused on only those schools which have built up significant excessive uncommitted balances and/or where some level of redistribution would support improved provision across a local area. LAs should, therefore, consider removing or relaxing their existing mechanism with effect from 1st April 2011."*

## OTHER OPTIONS CONSIDERED

- 5 There are no other options to consider.

**This report has been approved by the following officers:**

<b>Legal officer</b>	n/a
<b>Financial officer</b>	n/a
<b>Human Resources officer</b>	n/a
<b>Service Director(s)</b>	Martyn Marples, Director of Finance and Procurement
<b>Other(s)</b>	Roger Kershaw, Strategic Director - Resources

<b>for more information contact:</b>	Alison Parkin, Head of Finance for Children and Young People
<b>Background papers:</b>	01332 716872 e-mail alison.parkin@derby.gov.uk
<b>List of appendices:</b>	Schools Responses, Scheme for Funding Schools
	Appendix 1 – Implications – Extract from Sept 10 Cabinet Report
	Appendix 2 – Scheme for Funding Schools Extract, approved reasons for use of balances
	Appendix 3 – Summary of school responses and recommendations – Extract from Sept 10 Cabinet Report

<b>IMPLICATIONS</b>
---------------------

**Financial and Value for Money**

- 1.1 The Scheme for Funding Schools allows the Council to claw back surplus balances where these exceed 8% of the delegated budget in the case of primary, nursery and special schools, and 5% in the case of secondary schools, and where the planned use of balances does not comply with an approved list of uses. The Council believes that, in general, funding allocated to schools should be spent for the benefit for the pupils who are in a school in the year the funding is allocated. Accumulation of balances without good reason could disadvantage current pupils in favour of future cohorts.
- 1.2 An automatic claw back mechanism has therefore been introduced for the first time for 2009/10 financial year. School balances in total have fallen and the number of schools with surplus balances has fallen significantly from 23 to 9.
- 1.3 It is recommended that surplus balances are clawed back from:
  - Pear Tree Infants - £2,967

These balances are to be put into a general schools' reserve and the use of these balances and any reserves will be considered by the Schools Forum at their budget consultation meeting later in the year and then subsequently a further report to Council Cabinet. It should be noted that where balances are withdrawn from schools they must remain for the use of schools related activity as defined by the Schools Funding Regulations.

- 1.4 It is recommended that the surplus balances at Shelton Junior of £2,001 are clawed back and placed in an earmarked capital reserve.
- 1.5 It is recommended that the surplus balances clawed back from St Andrew's and St Martin's Special school is earmarked to fund costs associated with the Building Schools for the Future (BSF) project. The claw back is £36,352 for St Andrew's and £28,910 for St Martin's.

**Legal**

- 2.1 The Scheme for Funding Schools forms the legal basis for the Council's financial relationships with schools.

**Personnel**

- 3.1 Staffing costs form the largest single part of an individual school's budget. Governors are responsible for making staffing decisions, taking into account the budget available.

## **Equalities Impact**

4.1 None.

## **Health and Safety**

5.1 None directly arising.

## **Environmental Sustainability**

6.1 None directly arising.

## **Asset Management**

7.1 None directly arising.

## **Risk Management**

8.1 None directly arising.

## **Corporate objectives and priorities for change**

9.1 The proposal comes under the Council's objective of "To build ambition, aspiration and achievement."

### Summary of approved reasons for holding large balances in schools budgets

Balances of 11% and above within nursery, primary and special schools and 8% and above in secondary schools will be automatically clawed back unless they fall within any of the following categories:

- there is expenditure which has been committed by the end of the financial year by placing orders or employing staff prior to that date, but has not been charged to the previous financial year.
- income from specifically devolved or ring fenced standards funds, School Development Grants and Schools Standards Grants are exempt from this clause as these are annual allocations and in essence treated as core budgets in schools.
- a balance relates to earmarked external funding which has been received but not yet spent.
- expenditure has been set aside to meet necessary additional costs of an approved scheme within the capital programme, such as furnishing a new classroom.
- expenditure has been set aside for capital work which accords with the Council's Asset Management Plan priorities and there is an agreed timetable for the work.

Balances in excess of 8% in nursery, primary and special schools and 5% in secondary schools are subject to the following conditions:

- funding has been set aside to meet the costs of maintaining curriculum organisation for a single year group with reduced pupil numbers as it progresses through the school.
- it is planned to avoid staffing reductions for the summer term so as to provide stability for pupils for the remainder of the academic year.
- a balance relates to earmarked external funding which has been received but not yet spent.
- there is expenditure which has been committed by the end of the financial year by placing orders or employing staff prior to that date, but has not been charged to the previous financial year.
- income from specifically devolved or ring fenced standards funds, School Development Grants and Schools Standards grants are exempt from this clause as these are annual allocations and in essence treated as core budgets in schools..

The list would not include:

- Retaining significant funding to cushion the budget against future falls in pupil numbers, where balances would remain above the threshold at the end of the following financial year.
- Unplanned additions to revenue budgets where these arise from a higher than expected carry forward and do not comply with any of the categories listed above.

- Capital projects which have not been clearly defined and/or do not comply with Asset Management Plan priorities.

**Comments on school responses**

The figures in brackets show the total balances carried forward and are also shown as a percentage of their 2010/11 delegated budget.

**Nursery Schools****Harrington Nursery £ 26,204 (9.79%)**

Permitted balances £21,420

Excess balance £4,784

The school has earmarked revenue funding towards a capital build at the school that commenced in March 2010, it had slipped from the original planned start date of January. Because of this slippage there are items of expenditure that were not ordered in time to be charged to the 2009/10 accounts.

This is a valid use of surplus balances.

**Stonehill Nursery School £18,233 (9.33%)**

Permitted Balance £15,642

Excess balance £2,591

The school has £2,043 of extended services funding within its revenue balances on behalf of other schools as the school operates as a hub for its local cluster of schools in terms of financing the extended schools activities in the local area. The school has also been allocated £1,000 of ring fenced funding (SEN disability funding) that needs to be carried forward.

These are valid reasons for retaining surplus balances.

**Primary schools****Ash Croft Primary School £56,390 (9.19%)**

Permitted balance at 8% £49,104

Excess balance £7,286

There are unpaid items outstanding to the value of £10,000 including vertical blinds, a kitchen refit and a water boiler/coiler that have not been charged to the accounts.

This is a valid reason for retaining surplus balances.

**Breadsall Hill Top Junior £53,241 (8.57%)**

Permitted balance £49,689

Excess balance £3,552

The school has two low intakes in years 3 and 6 but the predicted next two years are around the 'normal', comparable with other year groups. The school wants to maintain staffing at current levels.

This is an approved use of balances in that it wishes to maintain curriculum organisation for a single year group with reduced pupil numbers as it progresses through the school.

**Pear Tree Infants £85,776 (8.29%)**

Permitted balance £82,809

Excess balance £2,967

The school has requested that excess surplus balances are transferred into a reserve to meet some outstanding costs arising from a fence and container unit for the foundation unit. It has now been confirmed that there are no outstanding costs, it is therefore proposed that the excess balance of £2,967 is clawed back.

**Shelton Junior School £70,753 (8.23%)**

Permitted balance £68,752

Excess balance £2,001

The school is considering building works to create additional space for curriculum activities. It is proposed that £2,001 is clawed back from the school and placed in an earmarked reserve for this purpose. Should the scheme not come into fruition then the balance will be made available for other school related capital works as part of the capital programme.

**Special Schools****St Andrew's balance £204,056 (9.73%)**

Permitted balance at 8% £167,704

Excess balance £36,352

The school has expressed concern about the increasing complexity of their pupils and the associated costs of meeting their demands and have been using their balances to secure additional staffing for more intensive contact in school. Whilst this is a concern of the authority the use of surplus balances in this way is not a sustainable solution as the balances are only one off funding and a more permanent solution needs to be identified.

As this is not an approved use of surplus balances it is recommended that £36,352 is clawed back from the school and placed in an earmarked reserve to use towards a capital project for the school to address some of the building issues that would have been resolved through the Building Schools for the Future Programme .

**St Martin's balance £135,634 (10.2%)**

Permitted balance at 8% £106,724

Excess Balance £28,910

As St Martin's is one of the successful Building Schools for the Future sample school projects it is proposed that the surplus balance of £28,910 is used towards Building Schools for the Future delivery costs.