

AGENDA MANAGEMENT SHEET

Name of Committee Children, Young People and Families Overview and Scrutiny Committee

Date of Committee 27th June 2007

Report Title School Reserves (balances)

Summary This report explains the recent changes to the financial control framework for school reserves and provides an update on Warwickshire’s level of school reserves.

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Would the recommended decision be contrary to the Budget and Policy Framework? [please identify relevant plan/budget provision] No

Background papers

- Cabinet reports 2.11.06 and 11.1.07
- Working papers

CONSULTATION ALREADY UNDERTAKEN:- Details to be specified

Other Committees

Local Member(s)

Other Elected Members For information:
Cllr Heather Timms
Cllr Richard Grant – “agree for scrutiny by the Committee”
Cllr John Whitehouse – “I support the need for a further review, with particular focus on claw-back mechanisms and re-use of funds”

- Cabinet Member For information:
Cllr John Burton

- Other Cabinet Members consulted For information:
Cllr Izzi Seccombe
Cllr Alan Cockburn

- Chief Executive

- Legal Victoria Gould

- Finance David Clarke, Strategic Director of Resources –
no comments to make

- Other Strategic Directors

- District Councils

- Health Authority

- Police

- Other Bodies/Individuals Michelle McHugh, Scrutiny Officer

FINAL DECISION **YES**

SUGGESTED NEXT STEPS:

Details to be specified

- Further consideration by this Committee

- To Council

- To Cabinet

- To an O & S Committee

- To an Area Committee

- Further Consultation

**Children, Young People and Families Overview and
Scrutiny Committee – 27th June 2007**

School Reserves (balances)

**Report of the Strategic Director for Children,
Young People and Families**

Recommendations:

- (1) That the Committee considers the information provided on school reserves and decides whether further review work is necessary following the introduction of the mechanism to control surplus balances.
- (2) If the Committee concludes a further review is required, the recommendation would be to convene a working group in conjunction with the Schools Forum.

1. Purpose

The purpose of this report is to explain the recent changes to the financial control framework for school reserves. This report also provides an update on Warwickshire's level of school reserves, as at 31st March 2007, and the national position for school reserves.

2. Controls over School Reserves

- 2.1 The financial control framework for school delegation is set out in the "Scheme for the Financing of Schools", which is written in accordance with section 48 of the School Standards and Framework Act 1998. The Secretary of State has the power to modify the scheme and must approve the overall scheme.
- 2.2 In April 2006 the DfES consulted on a number of revisions to local authority "Schemes for Financing Schools". Following this consultation local authorities were directed by the Secretary of State to include in their Schemes a mechanism which controls surplus reserves.
- 2.3 Effective and planned use of reserves by schools is a central principle of financial delegation to schools and supports good financial management. The

previous Warwickshire scheme provided for schools to have to report the reasons for reserves above 5% of their budget but did not contain any provision for the removal of reserves.

Mechanism for Control of Surplus Reserves

- 2.4 The new mechanism for the control of reserves, which has been in place since 1st April 2007, means that if a secondary school holds a balance of more than 5% of their new year budget, or a nursery, primary or special school holds a balance of more than 8% of their new year budget, the surplus balance must be 'properly assigned' to ensure reserves are not reduced. The intention is that this funding is properly planned for and will be used to benefit young people. Whether a balance is 'properly assigned' or not is decided by the local authority.
- 2.5 The local authority issued guidance to schools on what expenditure would be classed as being 'properly assigned'. This guidance was developed by considering the legitimate reasons schools hold reserves. If the reasons for holding a reserve above the 5% and 8% limits meets one of the following criteria the amount in reserve would be classed as 'properly assigned':
- (i) A contribution to schools' planned budget spend for the financial year 2007/08. Schools will be required to identify elements of the 2007/08 budget that have been supported or increased through the use of balances. ***(This provision is only included to allow schools a period of transition as the implementation of the scheme was fairly late in the financial year.)***
 - (ii) Expenditure set aside for capital work which accords with the Council's Asset Management Plan priorities and there is an agreed timetable for the work.
 - (iii) Planned investment on furniture and/or equipment clearly identified as a costed priority within the Single Integrated Development Plan, as agreed by the full governing body.
 - (iv) Planned building maintenance clearly identified as a costed priority within the Single Integrated Development Programme, as agreed by the full governing body.
 - (v) The maintenance of staffing levels as set out in a three-year budget plan approved by the full governing body.
- 2.6 If excess reserves do not meet these criteria and reserves are clawed back from an individual school, the funding must still be spent on the school's budget, in accordance with the grant regulations for the Dedicated Schools Grant.
- 2.7 For schools in deficit the "Scheme for the Financing of Schools" sets out the arrangements for licensed deficits. The local authority cannot write off the

deficit balance of any school, but one-off resources can be directed to schools in financial difficulties.

Licensed Deficit Scheme

2.8 Linked to the use of reserves, the local authority operates a Licensed Deficit Scheme to support schools' budgets by allowing the planning of a deficit budget. Schools must meet the following criteria to receive a licensed deficit:

- The purpose of the deficit and the period of repayment are agreed with the authority.
- The planned deficit addresses a short-term, non-systemic problem.
- There must be a budget projection showing how the school finances will improve during the deficit period and how zero deficit will be achieved.
- The minimum amount available for use by all schools will be no more than 40% of the total net school reserves.

3. National Context

3.1 The DfES produces benchmarking information for the level of schools' reserves nationally. The table below compares school reserves nationally with school reserves in Warwickshire.

*Table 1
School Reserves Nationally and in Warwickshire*

	National %	WCC %
Deficit 1% or more	6.4%	5.5%
1% deficit to <5% surplus	35.6%	37.3%
Surplus 5% to <10%	32.9%	30.6%
Surplus 10% to <15%	15.0%	16.5%
Surplus 15% +	10.1%	10.2%
	100.0%	100.0%

3.2 In 2005/06 Warwickshire school reserves were equivalent to 4.5% of the total funding for individual schools. This compared with a national average of 5.3%. Provisional 2006/07 data indicates that local school reserves have increased to £15.7m (including Standards Fund carry-forwards) in total, to 5.4% of the total funding for individual schools. The comparative national figure for 2006/07 has not been published.

3.3 Table 1 shows Warwickshire has fewer schools in deficit than the national average, and more schools with either a very small deficit or small surplus. Warwickshire has a slightly higher proportion of schools with larger surpluses than the national average.

- 3.4 Schools holding reserves indefinitely with no clear plans for use is a concern for the Local Authority. The Authority continues to work closely with schools to reduce the number of schools in deficit and to ensure schools with surplus reserves above clawback limits have clear plans for the use of this funding, and a reduction in reserves is achieved, by following these plans.
- 3.5 Table 2 shows the distribution of schools in Warwickshire with surplus reserves, by school sector. In the last year progress has been made in reducing the number of schools in deficit, and reducing the level of deficit for those schools that remain in deficit. While 23 schools remain in deficit, only two have deficits above 5% of their budget.

*Table 2
2006/07 Distribution of Surplus and Deficit Reserves for
Warwickshire Schools*

Deficit	Nursery	Primary	Secondary	Special	All
0% to 5%	0	12	9	0	21
5% to 10%	0	0	2	0	2
10% +	0	0	0	0	0
Total	0	12	11	0	23

Surplus	Nursery	Primary	Secondary	Special	All
0% to 5%	0	76	17	1	94
5% to 8%	0	34	4	4	42
8% to 15%	3	57	3	1	64
15%+	5	16	2	3	26
Total	8	183	26	9	226

4. Reasons for Reserves

- 4.1 A number of factors have been investigated to determine if they influence whether a school is more likely to have surplus reserves. To determine whether a relationship between individual factors and the level of school reserves exists statistical correlations have been calculated.
- 4.2 A statistical correlation measures the relationship between two variables. Where a correlation approaches to zero the variables are unrelated, if the correlation approaches 1 there is a strong indication the variables are linked.
- 4.3 Table 3 shows the results of calculating the statistical correlation between school reserves and the size of school budget; funding per pupil, and deprivation funding.

*Table 3
Correlation between School Reserves and other Factors*

Factor	Statistical Correlation
Size of School Budget	0.07
Funding per Pupil	0.12
Deprivation	0.06

4.4 This analysis shows that there is no relationship between the level of school reserves and the size of the school budget, funding per pupil or deprivation.

5. Individual School Reserves

5.1 94 schools currently exceed the clawback limits of 5% and 8% as identified in paragraph 2.4. **Appendix A** shows the trend of each individual school's level of reserves and their pupil numbers for the last three years.

5.2 As identified in the guidance issued to schools on the new mechanism for controlling surplus reserves, there are legitimate reasons for schools holding reserves. To ensure the local authority can decide if reserves are 'properly assigned' information will be provided by each school showing how their plans for reserves meet the specific criteria identified above. At the time of writing this report, the detailed information was still being collected from schools, but the returns so far show the following reasons for reserves being retained.

Table 4: Reasons for Holding Reserves

Reason for Holding Reserves	% of Properly Assigned Reserves
Contribution to 2007/08 budget	5%
Planned capital work	6%
Furniture and equipment, including learning resources	9%
Building maintenance	19%
Maintenance of staffing	61%

5.3 This table shows that the single largest reason for schools holding surplus reserves is to maintain staffing levels.

6. Summary

6.1 The recent introduction of a mechanism to control surplus reserves supports the Local Authority in encouraging schools to plan and use surplus reserves. There are currently 94 schools which exceed the DfES definition of excess reserves. These schools will be producing clear plans for their future use of

reserves, which will support a managed reduction in the level of reserves over the medium term.

- 6.2 The overall level of reserves in Warwickshire is consistent with the national position and Warwickshire has fewer schools in deficit than the national average. There is no link between the level of schools funding and whether a school has a surplus reserve.

7. Recommendations

- 7.1 That the Committee considers the information provided on school reserves and decides whether further review work is necessary following the introduction of the mechanism to control surplus balances.
- 7.2 If the Committee concludes a further review is required, the recommendation would be to convene a working group in conjunction with the Schools Forum.

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15th June 2007

Historic Balances of Schools Exceeding Clawback Limit

School Reference	Balance 2006/07	Balance 2005/06	Balance 2004/05	% of Budget 2006/07	% of Budget 2005/06	% of Budget 2004/05	Pupil Numbers 2006/07	Pupil Numbers 2005/06	Pupil Numbers 2004/05
1	256,755	244,332	188,615	5.1%	5.1%	4.4%	1,142	1,106	1,092
2	121,023	77,872	77,986	5.3%	3.5%	3.9%	632	640	633
3	171,573	92,725	-17,249	6.1%	3.8%	-0.8%	646	647	576
4	194,114	152,005	172,763	6.5%	5.3%	6.9%	749	751	788
5	51,443	17,068	-33,558	8.1%	2.8%	-5.4%	218	228	218
6	37,118	43,052	57,853	8.1%	9.9%	14.0%	143	141	149
7	42,534	11,857	-4,171	8.1%	2.4%	-0.9%	181	180	189
8	44,056	51,112	41,230	8.2%	10.2%	8.9%	159	166	170
9	45,359	1,497	346	8.3%	0.3%	0.1%	170	168	159
10	27,912	18,848	11,846	8.3%	5.7%	4.1%	105	102	104
11	37,412	30,147	37,790	8.4%	7.6%	9.9%	118	125	132
12	330,293	339,034	194,757	8.4%	9.0%	5.6%	867	891	905
13	47,376	64,620	93,753	8.5%	12.4%	18.7%	208	213	222
14	28,757	23,838	25,682	8.5%	7.7%	9.0%	98	97	101
15	47,526	26,515	33,031	8.5%	5.1%	7.3%	188	182	182
16	60,185	4,119	-12,614	8.6%	0.6%	-2.1%	200	194	201
17	61,247	64,893	55,542	8.7%	9.8%	9.1%	249	252	248
18	64,769	50,541	17,524	9.0%	7.2%	2.6%	268	271	261
19	348,896	356,282	558,334	9.1%	10.0%	17.5%	452	451	454
20	46,557	21,370	28,666	9.1%	4.2%	6.8%	177	166	168
21	23,052	21,049	9,173	9.2%	8.9%	4.2%	50	50	50
22	68,781	70,761	63,834	9.4%	10.5%	10.2%	266	266	270

School Reference	Balance 2006/07	Balance 2005/06	Balance 2004/05	% of Budget 2006/07	% of Budget 2005/06	% of Budget 2004/05	Pupil Numbers 2006/07	Pupil Numbers 2005/06	Pupil Numbers 2004/05
23	37,989	12,937	14,634	9.5%	3.5%	4.2%	105	108	106
24	88,169	94,681	63,387	9.5%	11.4%	8.2%	301	290	266
25	222,723	239,986	223,998	9.5%	11.8%	12.3%	145	144	142
26	41,082	30,519	-5,201	9.5%	7.5%	-1.3%	107	114	111
27	63,640	72,849	63,578	9.6%	12.1%	11.2%	205	205	210
28	47,751	55,258	45,518	9.7%	11.8%	10.2%	168	175	178
29	70,008	63,661	38,885	9.7%	9.0%	6.1%	240	240	237
30	248,144	149,239	67,397	9.7%	6.3%	3.3%	359	355	338
31	48,317	38,573	26,631	9.9%	8.1%	5.5%	168	168	149
32	59,791	37,388	6,865	10.0%	6.6%	1.2%	187	192	217
33	62,065	46,501	43,965	10.2%	7.8%	8.2%	215	214	223
34	64,980	64,088	18,012	10.3%	10.8%	3.2%	230	223	162
35	32,810	12,610	1,721	10.3%	3.9%	0.6%	98	97	99
36	73,748	68,899	74,230	10.7%	11.0%	13.5%	230	222	212
37	60,401	40,353	11,217	10.8%	7.5%	2.1%	175	182	153
38	73,079	73,474	90,601	11.0%	11.8%	15.9%	261	261	262
39	21,129	16,597	16,084	11.1%	9.6%	10.1%	31	33	37
40	75,998	35,856	12,890	11.2%	5.6%	2.5%	172	153	135
41	124,557	87,884	78,905	11.4%	8.9%	9.1%	393	388	386
42	70,641	54,593	45,982	11.7%	10.0%	9.0%	161	169	175
43	75,358	80,885	60,213	11.7%	13.4%	10.7%	221	221	207
44	43,326	57,771	38,046	11.9%	16.9%	12.0%	121	122	119
45	115,738	112,242	101,402	11.9%	11.3%	11.3%	366	368	363
46	75,798	71,325	35,715	11.9%	12.2%	6.6%	222	226	237
47	55,906	17,620	18,634	12.2%	3.7%	4.7%	165	155	154
48	38,732	21,981	12,095	12.4%	7.6%	4.8%	72	74	76

School Reference	Balance 2006/07	Balance 2005/06	Balance 2004/05	% of Budget 2006/07	% of Budget 2005/06	% of Budget 2004/05	Pupil Numbers 2006/07	Pupil Numbers 2005/06	Pupil Numbers 2004/05
49	76,052	45,209	50,995	12.5%	7.6%	9.9%	221	207	211
50	98,994	78,385	46,561	12.6%	10.0%	6.5%	276	271	270
51	67,958	33,449	9,648	12.7%	6.5%	2.0%	169	175	186
52	69,768	6,587	-1,292	12.8%	1.2%	-0.3%	158	160	164
53	75,344	77,177	50,673	12.9%	13.6%	9.2%	190	195	189
54	59,017	23,856	19,731	12.9%	5.7%	5.8%	138	128	124
55	42,743	31,445	26,656	13.1%	9.9%	8.5%	101	104	96
56	72,753	55,323	73,778	13.3%	9.8%	15.8%	168	157	168
57	29,894	84,151	33,504	13.3%	40.2%	17.4%	40	40	40
58	63,721	85,248	58,562	13.5%	19.5%	14.8%	169	172	173
59	131,180	147,280	130,513	13.5%	16.6%	15.0%	336	358	372
60	49,547	62,302	54,020	13.6%	19.6%	18.8%	94	94	98
61	66,320	35,275	-11,335	13.7%	7.5%	-2.5%	181	189	185
62	46,327	26,189	20,842	13.7%	7.7%	6.5%	76	77	70
63	30,216	77,219	45,305	13.8%	37.1%	23.7%	40	40	40
64	55,941	39,317	27,483	13.9%	10.5%	7.6%	139	142	129
65	105,921	96,669	71,113	14.0%	12.5%	10.0%	307	314	340
66	52,974	21,836	2,906	14.1%	5.8%	1.0%	95	90	79
67	49,672	40,788	36,626	14.4%	12.7%	12.9%	104	102	109
68	99,650	56,897	39,637	14.9%	8.9%	6.8%	250	245	251
69	54,070	64,973	60,645	15.1%	18.8%	19.0%	119	116	114
70	34,073	29,216	15,980	15.5%	14.0%	8.3%	40	40	40
71	67,505	56,035	76,089	15.6%	13.3%	19.7%	157	157	174
72	76,855	17,594	24,956	15.7%	3.6%	5.8%	128	117	110
73	34,634	35,587	30,852	15.7%	17.1%	16.2%	40	40	40
74	91,345	63,682	39,113	15.7%	11.5%	7.7%	196	198	201

School Reference	Balance 2006/07	Balance 2005/06	Balance 2004/05	% of Budget 2006/07	% of Budget 2005/06	% of Budget 2004/05	Pupil Numbers 2006/07	Pupil Numbers 2005/06	Pupil Numbers 2004/05
75	35,112	37,114	32,206	15.9%	17.9%	16.8%	40	40	40
76	460,023	463,468	78,940	16.6%	18.8%	3.1%	193	187	185
77	118,977	102,901	75,489	17.1%	14.4%	11.5%	215	209	202
78	70,488	53,552	28,318	17.3%	13.0%	7.3%	119	116	115
79	63,764	72,697	38,597	17.5%	20.7%	11.6%	114	115	118
80	102,595	112,673	130,882	17.7%	20.1%	27.0%	184	179	216
81	37,516	22,954	15,155	18.2%	11.6%	8.8%	43	42	49
82	507,651	313,054	226,355	18.8%	12.1%	10.8%	607	569	572
83	90,064	40,204	29,726	20.1%	8.5%	6.8%	133	133	120
84	144,563	140,198	107,478	20.5%	20.3%	17.0%	237	240	241
85	286,799	329,707	188,942	20.6%	31.0%	16.8%	86	96	85
86	213,706	100,766	87,870	21.6%	9.9%	9.0%	386	380	217
87	150,280	145,780	36,478	22.8%	23.0%	6.1%	161	162	153
88	173,535	120,090	75,600	23.0%	16.3%	10.9%	270	270	272
89	363,911	1	-49,876	23.1%	0.0%	-4.1%	305	300	296
90	62,574	38,813	124,002	24.9%	16.2%	57.6%	50	50	50
91	249,146	247,794	254,762	25.5%	26.3%	30.1%	273	268	276
92	286,705	180,425	150,376	27.2%	16.6%	16.1%	35	36	40
93	70,540	71,105	79,583	27.7%	29.9%	38.9%	50	46	40
94	92,868	93,359	86,242	28.7%	30.2%	30.1%	99	100	101