# Appendix

# A POLICY FOR THE TREATMENT OF SURPLUS BALANCES

# Luton council logo

# LMS Finance Team

**May 2014**

# CHALLENGE AND SUPPORT PROCESS FOR SCHOOLS/PUPIL REFERRAL UNITS WITH SURPLUS BALANCES

### 1. Introduction

1.1 This document is designed to explain:

* The background related to the large surplus balances process;
* The duties and responsibilities of the Local Authority and the school/Pupil Referral Unit (PRU);
* The legislation or guidance behind the process and
* The process that will be undertaken.

### 2. Background

2.1 Schools may carry forward from one financial year to the next any surplus in net expenditure relative to the school’s budget share for the year plus or minus any balance brought forward from the previous year.

2.2 In 2004/05 Luton Borough Council, in line with The Department for Education (DfE) guidelines, introduced a new provision regarding excessive balances. The guideline provides a mechanism to remove excessive surplus balances from schools/PRU’s where it cannot be demonstrated that it has properly assigned any surplus balance it holds above a certain threshold.

2.3 In consultation with schools, Luton adopted the following approach to implementing the monitoring and handling of surplus balances:

At the end of the financial year schools/PRU’s are required to provide an analysis of how and when balances are to be used. Establishments are being monitored to ensure balances are spent on the specified areas and within the timescales listed. Failure to meet these criteria will result in any excessive balance as determined by the Scheme for Financing Schools being clawed back except where there are agreed exceptional circumstances.

**3. Scheme for Financing Schools**

3.1 To support the Authority’s monitoring role the Scheme requires:

1. Schools/PRU’s to show all revenue balances as either committed, uncommitted or as a Community Focused balance on their annual CFR (Consistent Financial Reporting) return.
2. Schools/PRU’s are required to report on the use of these balances held at year-end, quantifying and qualifying the balances and indicating when the balances are to be utilised.
3. The surplus balances process will be used by the Authority to provide an appropriate level of challenge to ensure that delegated funds are properly spent on the pupils currently in education to optimise their learning opportunities. Requirements will be placed on both the Authority and schools/PRU’s as follows:

* The Authority will be required to:
* Inform each maintained school/PRU of its Budget Share and central government grant income paid via the Authority for the next financial year prior to the beginning of each financial year.
* Provide details of specific schemes/projects/reasons where the a balance may be carried forward
* Challenge establishments about carrying forward excessive surplus balances and on the provision of supporting evidence.
* Deduct excessive balances from schools/PRU’s if the reason does not satisfy the Authority’s criteria.
* Schools/PRU’s will be required to:
* Allocate revenue balances as either committed, uncommitted or community focused extended schools balances
* Return a schedule (the Analysis of Revenue Balances form), as part of the year-end process, identifying balances and when they are expected to be spent.
* Report to Governors/Management Committee on how the balances are to be utilised.
* Provide supporting evidence to the Authority regarding surplus balances.

3.2 Schools/PRU’s will have to provide evidence that balances are not excessive and where committed are properly assigned e.g. school development plan, governing body /management committee minutes, correspondence with the Local Authority, quotations and tenders. ***This means that establishments with excessive revenue balances that are not properly assigned will have these balances clawed back*.**

3.3 The school/PRU must be able to evidence the commitment by referring to an Asset Management Plan or by reference to the LA’s Capital and Asset Management team for any building works or the School Improvement/Development Plan for any resource related commitments.

3.4 The school/PRU will be required to report to the governing body/management committee on how the balances are intended to be spent and the proposed use of these balances should be set out in the minutes of the governing body/management committee meeting.

3.5 The Authority’s Support, Challenge and Intervention Service will also review the use of large balances to ensure they are being used appropriately for the needs of the school/PRU.

3.6 The current legislation relating to the control of surplus balances is included within the Luton Scheme for Financing Schools at paragraphs 4.1 and 4.2.

## 4. Process For Schools/PRU’s With Surplus Revenue Balances

### Step 1 – Notification of a the Threshold for Uncommitted Surplus Balances

Prior to the start of the financial year the Local Authority will inform schools/PRU’s of the value of the surplus uncommitted balance that can legitimately be carried forward into the next financial year. This will be based on either 10% (secondary schools) or 15% (primary and nursery schools) or 25% (special schools and PRU’s) if the budget share for the following financial year, or £10,000 if this is greater than either percentage threshold. ***Note if the balance is above this threshold value then the school/PRU may have this balance clawed back.***

For the purpose of this calculation Budget Share is defined as the amount of funds to be delegated by the Local Authority in the following year under the terms of the funding formula.

### Step 2 - Assessing the Size and Recording of the Uncommitted Revenue Balance

The flow chart on the following page shows when the school/PRU will need to justify holding large revenue balances:

Is the school a Secondary School?

**YES**

Is Balance more than 10% of Budget Share?

**NO**

Is the school a special school or PRU?

**NO**

Balances are below the threshold for querying. However, the school should ensure that balances are not increasing year on year without knowledge of how they will be spent.

**NO**

**YESSSS**

Is Balance more than 15% of Budget Share?

**YES**

Is Balance more than 25% of Budget Share?

Balances are above the threshold and the school will need to justify why this is the case

**YES**

**NO**

Balances are below the threshold for querying. However, the school should ensure that balances are not increasing year on year without knowledge of how they will be spent.

**YES**

**NO**

Balances are below the threshold for querying. However, the school/PRU should ensure that balances are not increasing year on year without knowledge of how they will be spent.

Balances are above the threshold and the school/PRU will need to justify why this is the case

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**Step 3 - Justifying Surplus Committed Balances**

When identifying and allocating committed balances the establishment should refer to its Improvement/Development Plan and Asset Management Plan. This should ensure that surplus balances are being spent in line with the establishment’s priorities.

It is recommended that balances should only be used on non-recurring expenditure. Allocating balances against recurring expenditure items may distort future year spending plans and may hide potential problems.

Complete the ‘Analysis of Revenue Balances’ pro-forma at the year end, indicating how much of the balance is to be spent and when the balance will be spent. An example of how the Local Authority expects this to be completed is shown at Appendix A.

### Step 4 – Reporting on Surplus Balances to the Governing Body/Management Committee

Establishments are required to report to their Governing Body/Management Committee on how they intend to spend ***any*** revenue balances, indicating the amount and timescale of this expenditure. The minutes of the Governing Body/Management Committee meeting should clearly record any decisions taken.

### Step 5 – Checking the Validity of Committed Balances

On receipt of the ‘Analysis of Revenue Balances’ form the Local Authority will check it against the agreed criteria for carrying committed balances forward. Consideration will be given to the following:

* **Capital/Building and ICT Works** – is the Capital and Asset Management team aware of the work listed, are the works scheduled on the Asset Management Plan and are the costs and timescales quoted reasonable? ***Any funds allocated for Capital and Building Works will automatically be transferred to capital as a Revenue Contribution to Capital in the new financial year.***
* **Unspent Pupil Premium** – since establishments are not obliged to spend all of the pupil premium in the financial year in which it is allocated, they can carry forward unspent pupil premium as a committed balance
* **Outstanding Orders** – establishments should provide a list from FMS6 of all orders being transferred over to the new financial year and any relevant copy invoices. Orders over 3 months old should not be included unless there is a valid reason for doing so. ***In any event the total value of orders will be not allowed to exceed the values in the table below depending on the number of funded pupils/places in the new financial year’s formula allocation:***

|  |  |
| --- | --- |
| ***No of funded pupils/places at 01 April*** | ***Maximum value of outstanding orders*** |
| ***<601*** | ***£20,000*** |
| ***601- 800*** | ***£35,000*** |
| ***801+*** | ***£50,000*** |

* **Unspent voluntary income/specific grant balances/balances relating to defined activities/parental donations** – establishments should provide FMS6 cost centre reports, copies of grant conditions, copies of paying in slips etc to prove these balances.
* **Unspent partnership funding** – where ***fundholder*** schools are holding funds on behalf of a partnership, any unspent funds can be recorded as a committed balance

The Local Authority may, at this stage, ask for additional information to justify the carry forward of surplus balances.

### Step 6 – Clawback of Balances

Where the specific purposes quoted do not meet the Authority’s criteria, or where there is insufficient evidence available, then the establishment will be contacted and notified of the amount of potential clawback.

The school/PRU will then be required to provide further evidence/justification to prove that balances are properly committed, if this cannot be provided then the clawback mechanism will be implemented, following consultation with the school/PRU and governing body/management committee.

In the event of an establishment challenging the amount to be clawed back then their case will be heard by an appeals panel, made up of members of the Schools Forum.

#### 7. SUPPORT FOR SCHOOLS/PRU’s WITH SURPLUS REVENUE BALANCES

If an establishment has any queries regarding what will be deemed an acceptable purpose for carrying forward a surplus balance they can seek advice from their School Financial Adviser. Further advice may be obtained from the Support, Challenge and Intervention Team.

This document together with the analysis of revenue balances form can be downloaded from the Local Authority’s web site at the following address:

www.learning.luton.gov.uk

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Appendix A**  **Analysis of Revenue Balances for XXXX** | | | | | | | | | | | | | | | | | | |
|  |  | |  |  | |  | |  |  | | |  | |  | | |  | | |
| **SCHOOL:** | | | | |  | | **COST CENTRE:** | | | | | | | |  | | | |
|  |  |  |  |  | |  | |  |  | | |  | |  | | |  | | |
|  |  | |  |  | |  | |  |  | | |  | |  | | | **£** | | |
| **TOTAL REVENUE BALANCES FOR 20XX/XX** | | | | | | | | | | |  | |  | | 140,000 | | | |
|  |  |  |  |  | |  | |  |  | | |  | |  | | |  | | |
| **B01 COMMITTED REVENUE BALANCES** | | | | | | | | | | |  | |  | |  | | | |
|  |  |  | | |  | |  | | | |  | |  | |  | | | |
| 1 |  | Capital/Building and ICT Works ***(funds will automatically be transferred to capital in the new financial year)*** | | | | | | | | |  | | 45,000 | |  | | | |
|  |  |  | | | | | | | | |  | |  | |  | | | |
|  |  |  |  |  | |  | |  |  | | |  | |  | | |  | | |
| 2 |  | Unspent amount of current financial year pupil premium | | | | | | | | | | | 36,000 | |  | | | |
|  |  |  | |  | |  | |  |  | | |  | |  | | |  | | |
| 3 |  | Prior year commitments e.g. outstanding orders  Example | | | | | | | | |  | | 9,000 | |  | | | |
|  |  |  |  |  | |  | |  |  | | |  | |  | | |  | | |
| 4 |  | Specific grant balances/unspent voluntary income | | | | | | | | |  | | 15,000 | |  | | | |
|  |  |  | | | | | | | | |  | |  | |  | | | |
| 5 |  | Unspent Partnership funding | | | | | | | | |  | | 5,000 | |  | | | |
|  |  |  |  |  | |  | |  |  | | |  | |  | | |  | | |
| **Total for B01 Committed Revenue Balances** | | | | | | |  | | | |  | |  | | 110,000 | | | |
|  |  |  | |  | |  | |  |  | | |  | | |  | |  | | |
| Balance remaining | | | | | | | | | | | | | | | **30,000** | | |  | |
| Of which | | | |  | |  | |  |  | | |  | | |  | |  | | |
| **B02 UNCOMMITTED REVENUE BALANCE** | | | | | | | | | | |  | |  | | 25,000 | | | |
|  |  |  | |  | |  | |  |  | | |  | |  | | |  | | |
| **B06 EXTENDED SCHOOL BALANCES** | | | | | | | | | | |  | |  | | 5,000 | | | |
|  | | | | | | | | | | |  | |  | |  | | | |
| **Signed** | | | | | | | | | | Signed | | | | | |
| **Headteacher** | | | | | | | | | | **Chair of Governors** | | | | | |
| **Date** | | | | | | | | | | **Date** | | | | | |

Please submit working documents in respect of items 2 – 4 and complete the next section of this form in respect of item 1.

**Committed Revenue Balances – Capital/ Building and ICT Works**

Specific Purpose for Balance: **Library Refurbishment**

Amount of Balance related to this Purpose: **£ 35,000**

Timescale by which balance will be spent: **August 20XX**

Brief Description: **Refurbishment of Library – recommended in Ofsted Action Plan and agreed by governors (see minutes attached). Capital Accountant in Finance Team has copies of completed approval for project form. Total cost is £50,000 and a further £15,000 will be allocated from Devolved Formula Capital.**

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Example

Specific Purpose for Balance: **Planned Mini Bus Replacement**

Amount of Balance related to this Purpose: **£ 10,000**

Timescale by which balance will be spent: **August 20XX**

Brief Description: **The school is planning to replace its mini bus in 20XX.**

Headteacher’s Signature: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Chair of Governors’ Signature : \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_