

## **Initial draft guidance on school balances – December 2009**

### General approach

1. We recognise that local authorities are under financial pressure and therefore may not have the capacity to devote significant resources to supporting the balance control mechanism, especially where there are large numbers of schools. To enable the most effective use of these limited resources, challenge should be targeted at those schools above the threshold with only a light touch approach for others.
2. The use of surplus school balances should not be seen as just an issue for finance teams. There should be close working with other school support services – particularly school improvement and asset management officers. They can then provide a linkage to, and validation of, proposed spending in School Development and Asset Management Plans.
3. Work on surplus balances should not be seen as just a year-end issue. Instead, it should be integrated with multi-year school budget planning and monitoring. To avoid the process of challenge and clawback going beyond the summer term, some local authorities now have a pre-authorisation process whereby schools wishing to retain balances above the threshold have to apply before the end of the financial year. School budget plan templates could be adapted to indicate whether the brought forward balance is above the threshold. If so, there could then be room for the school to explain the proposed use of the surplus at that stage. Schools should also be encouraged to update their future budget plans in the autumn term as pupil numbers become clearer.
4. Most local authorities have found that their Schools Forum is supportive of the need to reduce surplus balances. It is important as well that this “sign-up” extends beyond the Forum to the senior management of the Council and elected members. School funding is a significant part of local authorities’ total expenditure and the relevant Cabinet member/portfolio holder should be involved in agreeing the policy on surplus balances.

### Thresholds

5. Although the guidance specifies 8% for primary and 5% for secondary schools, or £10,000 if greater, it is open to local authorities to amend these with the agreement of their Schools Forum. Many local authorities, for example, have set their own minimum cash threshold. This avoids the inclusion of too many small schools being drawn in for small cash amounts.
6. It is important to note that the 8% and 5% thresholds are not targets, but the maximum percentage which should reasonably be retained to deal with unforeseen circumstances. In practice, most primary schools should be able to manage with balances of, say, 4-5% and secondary schools with 2-3%.

### Defining a “committed” balance

7. Balances should not all be automatically classed as committed, or as uncommitted. Local authorities should define what they consider to be valid reasons for classing a sum as committed, or should allow schools to decide this and then use their own judgement to agree or disagree with schools. Some local authorities define what can be counted as a committed balance very tightly and make this known to schools, so there is less argument from schools later on in the process as to what they can and can not include.
8. Monies should be classed as committed if the school can show they have been set aside for a specific purpose, and will be spent within a defined timescale. A good example of this is projects which are detailed in the School Development Plan.
9. Some specific examples of how a local authority can decide what is committed are shown below in paragraphs 10 to 22.

### *Capital in general*

10. We would not normally expect schools to use their revenue balances for capital projects, but they are able to do so. Schools should be able to provide evidence (such as invoices, orders, quotes, contracts, Governing body minutes) for works that have already been approved and are due to start in the next financial year or are already underway.
11. The LA should be able to check with the relevant team that the work/project has been approved.
12. Evidence should include the time period over which the works are due to be completed and paid for. The local authority should check timescales are adhered to and ask schools to explain any slippage if funds are required to be carried forward beyond the initial timetable.
13. Revenue funding cannot be ‘converted’ to capital in school accounts until it is spent. Surplus revenue balances committed to a specific future capital scheme could, however, be transferred to a local authority reserve for capital schemes in the year end accounts. LAs could also set conditions on the use of a surplus for capital purposes and any subsequent proposed changes to the use.
14. It is legitimate for schools to set aside balances to contribute to BSF capital costs. However, if there are additional ongoing costs related to the unitary charge for PFI projects or other required lifecycle maintenance contributions, then schools need to demonstrate that these are affordable on a sustainable basis rather than relying on balances.

### *Planning for uncertainty over future funding/staffing/rolls*

15. Schools should provide calculations/plans/projections to show expected changes in rolls or staffing, preferably using a multi-year budget planning tool.

16. It is prudent to keep some money aside for contingencies, but this amount should be reasonable and based on proper planning, not guesswork.

#### *Prior year payments/accruals/committed orders*

17. Where schools are awaiting charges for services/goods, they should be able to produce evidence if required such as copies of orders, quotes, delivery notes, or invoices. Reported accruals or commitments should reconcile to what is recorded on the school's financial system.

#### *Single status*

18. Where single status agreements have resulted, or are likely to result, in the backdating of new pay scales or one-off compensation payments, then it is legitimate for schools to hold balances for these purposes. However, schools need to demonstrate that they can fund the ongoing costs on a sustainable basis and not from balances.

#### *Monies held for other schools*

19. Funding held on behalf of other schools, for example as part of extended services cluster provision or 14-19 partnerships, should be accounted for separately within the host school account and should be excluded from the calculation of the school's balance. This should not be used as a means of storing up balances for other purposes.
20. We will be considering, prior to 2011, accounting and reporting issues relating to federations, clusters and other forms of school collaboration in the context of the "21<sup>st</sup> century Schools" White Paper.

#### Standards Fund

21. Current arrangements allowing the expenditure of Standards Funds over 17 months have caused complications in calculating balances. The main allocations of School Development Grant (SDG) and School Standards Grant (SSG) are effectively now annual allocations known before the start of the financial year with some predictability, and are treated by most schools as part of their core budget.
22. Local authorities should move towards making allowances for unspent Standards Funds only where these are ring-fenced and/or allocated part way through the financial year.