

Process for Financial “Closedown” of Academy Conversions

This is a process outline for how School Funding Team (the ‘Local Authority’) manages the closedown and transfer of surplus balances, where a Bradford maintained school converts to academy status during the financial year. This is a locally determined process and is based on the requirements of the national Regulations.

The 3 key priorities in managing a conversion are:

- To comply with the Regulations on the time frame for determining and paying a surplus balance (both revenue and capital) across to the converting school.
- To ensure that the Local Authority’s ledger accurately reflects income and expenditure relating to the proportion of the financial year the school was maintained by the Local Authority (LA); but recognising however, that the LA is likely to be required to manage a large number of conversions simultaneously. Where a school is determined to hold a reasonably sized surplus balance on conversion, the LA will normally look to account simply on a receipts and payments basis (a cash basis). Where a school initially determines to hold a deficit balance on conversion, the LA will look to investigate the position instead on a full income and expenditure basis (an accruals basis).
- To minimise the risk to the Dedicated Schools Grant (the Schools Budget available to the District’s schools and academies), and to the Local Authority’s budget, from schools converting with deficit budgets. Where a school has the potential for closing with a deficit balance, the Local Authority may place further requirements on the school.

The main legal requirements / provisions are:

- Existing ‘school’s budget’ bank accounts for the maintained school must be closed and all cash balances must be paid back to the Local Authority. This is because the cash ‘belongs’ to the Local Authority until it is paid across to the academy. The academy must then open new bank accounts and should notify the LA as soon as possible of the new account details, as the LA continues to pay some elements of funding to the academy on an on-going basis e.g. SEN Top Up funding.
- The Local Authority has 4 months from the date of conversion to determine the surplus balance to be transferred, and to formally notify the academy of this. The academy has the right of appeal to the Secretary of State, if it does not agree with the Local Authority’s determination. Determination is normally a process completed by the LA with the input of the converting school (so the final figure is not a surprise). Our process outlined here seeks to determine within 3 months, allowing a month for any further work or discussion or earlier payment of the agreed surplus balance across to the academy.
- The Local Authority then has 1 month, from the date either of receiving agreement from the academy, or from the date of the Secretary of State’s judgement following appeal, to physically pay the surplus balance (as a lump sum) into the academy’s new bank account.
- The Local Authority will be required to submit to the DfE, on the behalf of the converting school, a final CFR Return via COLLECT, recording the income and expenditure for the proportion of the financial year the school was maintained by the LA. The LA will use the transactions and balances recorded on the Council’s ledger to do this.
- The Local Authority has provision, through the Scheme for Financing Schools, and the School Standards and Framework Act, to place additional restrictions on a maintained school and, ultimately, to withdraw financial delegation from the governing body, in seeking to protect the financial position of the Authority and the Dedicated Schools Grant in the lead up to conversion.
- The DfE’s guidance on the treatment of balances on conversion can be found [here](#).

1) Preparation Prior to the Conversion Date

a) LA Funding and Advances:

- School Funding Team (SFT) will re-calculate the school's I01 to I05 funding, to pro-rata this for the period prior to conversion. SFT will instruct Council Corporate Finance to adjust the converting school's I01 to I05 funding on the Council's ledger.
- For BSF schools, the advances re-calculation will include a reconciliation of the amount deducted for unitary charges and the continued liability for the current financial year.
- The converting school will not receive any bank advances from the LA after the conversion date, other than reimbursements for VAT (until the bank account is closed). The final advance will be the one immediately prior to conversion, following the dates already published in the advances schedule. The school should contact SFT if this causes any cash flow issues (for expenditure items relating to the maintained school only). Any cash remaining unspent in the school's bank account will be recovered by the LA when the bank account (s) is closed.

b) Action items for the school:

- Ensure all contracts and leases have been transferred to the new academy or cancelled, as appropriate (including adjustments for rates or SLA charges with Bradford Council).
- Ensure all suppliers have been notified of the change in status and payment arrangements / bank account details.
- Transfer or cancel all standing orders and direct debits on the existing maintained school bank account at a time it is appropriate to do so i.e. after the last payment relating to the period prior to conversion.
- Cancel on the school's finance system any orders that will not be received by the conversion date.
- Ensure that the maintained school's finance system is up to date and has been reconciled to the most recent TABs.
- Schools that use Bradford Council Payroll (either part or full budget share), notify Payroll of the date of conversion.
- For schools that act as hosts for cluster funding e.g. for the LAPs, discuss with the schools in the cluster arrangements following conversion e.g. whether the school will continue to be the host school. Arrange for the transfer of balances / funding if applicable.
- Closely monitor the position of the school's budget on a regular basis. Notify SFT as early as possible where the school forecasts that a deficit balance may be held on conversion.
- Identify (list)
 - Transactions (payments in advance) that have been paid out of the maintained school's account but where the goods and services, or a proportion of these, will not be delivered or used until after conversion. This includes payment of annual fees, policies, licences and subscriptions (including exam fees).
 - Transactions (liabilities) where activities have taken place (or goods or services used) but where the bills have not yet been paid by the maintained school.
 - Transactions (assets) where activities have taken place but where income has not yet been collected e.g. school trips, lettings income, refunds or credits.
 - Transactions (receipts in advance) where income has been collected for an activity for which the expenditure has not yet been incurred e.g. school trips.
 - Any external ring-fenced grants that will be unspent on conversion that have specific reporting requirements (and should be separately identified in the balances-determination process).

c) Additional actions for SFT:

- Instruct the BSF team to reconcile deductions for the current financial year and to make arrangements to recover charges directly from the school following conversion (variable deductions are processed in arrears so will need to be taken into account separately in determining the surplus).
- Notify Council Corporate Finance – warning to ensure that outstanding central transactions relating to the period prior to conversion not yet on the Council's ledger are processed asap e.g. rates, school meals, reversing year end transactions and that the school's cost centre is effectively closed following conversion.
- Contact School Funding Team to identify any outstanding devolved formula capital funding not yet paid to the school or where the school may have drawn down DFC from future years. This will form part of the payment of surplus balance across to the converting school.

- Contact payroll to check the position of the PEA adjustment for part budget share schools, where applicable.

2) At Conversion

(Assumes that the conversion will take place on the 1st of the month)

a) Converting school to submit to SFT within 2 weeks of the conversion date:

- A balanced bank reconciliation return covering the period up to the end of the last day of the month prior to conversion, with required paperwork as normal (copies of bank statement etc).
- An updated budget monitoring report (using the SFT monitoring template), showing the school's forecast of the surplus revenue and capital balances position at the conversion date (incorporating the re-calculation of I01 to I05 funding received from SFT). To help the school do this, SFT will send to the school the SAP reports at conversion day.
- The following prints from the school's finance system (taken at end of the day prior to conversion):
 - Proposed CFR Report (showing actual spend to date – which should match the budget monitor).
 - Cost Centre Commitments Report (showing commitments – which should match the budget monitor).
 - List of Outstanding Orders.

b) School Funding Team will then meet with the school to:

- Discuss and check the school's budget monitoring report and the latest position shown on the Council's ledger (and investigate any differences in the ATD figures), to identify an approximate surplus revenue and capital balances position.
- Discuss any issues with the bank reconciliation return, including any control account differences that will need to be cleared prior to finalising the school's surplus balance.
- Check commitments / outstanding transactions, the timescale for clearing these, and also be clear what transactions will be processed through the schools bank account vs. central transactions to be processed by the Council.
- Discuss the process for finalising the surplus balance, including the timescales for closing the maintained school's existing bank account (s).
- Discuss post conversion advances & get new bank account details from the school (SFT to process set up on Council payments system).

3) Finalising the Surplus Balance Following Conversion

(The process refers to month 1, month 2, month 3, month 4 following conversion – for a school that converts on 1 September, for example, month 1 is September, month 2 is October, month 3 is November, month 4 is December)

a) Action items for the converting school:

- Chase all outstanding income and invoices and process these asap through the maintained school's existing bank account.
- Ensure any invoices, for goods or services delivered after conversion, are paid by the academy and not paid from the maintained school's bank account.
- If petty cash for the maintained school was not reconciled and paid back into the bank account before conversion then do so asap.
- Continue to submit VAT returns (by the 10th) for the month prior to conversion and then for month 1 and month 2. The reimbursements for the month prior to conversion will be paid into the maintained school's existing bank account; later reimbursement will be dealt with centrally.
- Continue to check the SAP reports sent by SFT and investigate any issues.
- Within 2 weeks of the end of month 2 * the converting school must have:
 - Submitted to SFT a final bank reconciliation return, which balances to a final bank statement for a closed account (s). This final bank reconciliation therefore, should not include any uncleared transactions.

- Submit to SFT a final VAT return from the school's finance system (where this is different from that submitted at the beginning of month 2).
- To be able to submit a final bank reconciliation return the school, in advance of this, must have:
 - Closed the bank account (s) for the maintained school, returning all unused cheques to the bank.
 - Instructed the bank to:
 - Credit the account before closure with any interest due (the school should code this income to I08 in the final bank reconciliation account).
 - Send a cheque for the value of the remaining balance, in the name of "Bradford MDC", to School Funding Team, Bradford Council, 1st Floor, Britannia House, Hall Ings, Bradford, BD1 1HX, or arrange for a BACs transfer.
 - Send SFT a copy of the final bank statement.

* This timescale is in place to ensure the 4 month requirement to determine the surplus balance is met. We would anticipate that the majority of outstanding transactions will have been processed by the school within roughly 1 month of conversion. The deadline of 2 weeks after the end of month 2 should leave enough time for the school to close the bank account and then to submit a final bank reconciliation return to SFT. The converting school will need to instruct the bank to close accounts in good time to enable a final return to be completed and submitted by the required date. If there are still outstanding transactions to be processed by the school at the point the bank account is closed, these will become the responsibility of the academy. SFT cannot finalise the surplus balances until all bank accounts are closed and a final bank reconciliation return is posted, based on a final bank statement for a closed account. SFT will not pay the surplus balance across to the academy until the cheque (or BACs transfer) for the value of the remaining bank balance has been received from the bank and reconciled.

b) Action items for SFT:

- Check and post the bank reconciliation return and VAT returns received from the school.
- Send to the school SAP prints:
 - following the posting of the bank reconciliation return at conversion.
 - at the end of month 1 and month 2.
 - following the posting of the final bank reconciliation return (mid month 3).
- Work with Council Corporate Finance to ensure all central transactions, as far as possible, are posted to the school's cost centre on the Council's ledger by the middle of month 3 i.e. at the same time the final bank reconciliation return is posted.
- Work with the BSF team to ensure that all BSF unitary charge deductions applicable for the period prior to conversion have been charged to the school's cost centre on the Council's ledger (including variable deductions).
- Following the posting of the final bank reconciliation account, complete a final VAT reconciliation and a final bank adjustment reconciliation, and discuss any issues with the school.
- Calculate the school's surplus balance position (revenue and capital), incorporating any known transactions that have not yet been processed. Agree the calculation of the surplus balance with Council Corporate Finance, prior to meeting the school.

4) Agreeing and Paying the Surplus Balance to the Academy

a) Once the final bank reconciliation return has been received and posted, the bank account closed and cheque received from the bank, and any issues dealt with, before the end of month 4 (or earlier if possible), SFT will meet with the school to agree and sign off the final surplus balance to be paid across to the academy.

b) If the surplus balance is agreed, this will be paid within 1 month of the agreement into the academy bank account.

c) If the school does not agree with SFT's calculation of the final surplus, the school has the right of appeal to the Secretary of State. The payment of the surplus will then be made within 1 month of notification of the Secretary of State's determination.

5) Where the Maintained School Holds a Deficit Balance

a) Where it is determined, accounting on a receipts and payments basis, that the final balance is a deficit, further work will take place with the school to calculate the school's balance on a full income and expenditure basis i.e. to include appropriate accruals.

6) Responsibility for Expenditure & Income items that appear after the surplus balance is paid

a) The academy will take responsibility for any expenditure, or will receive the benefit of any income, relating to the maintained school, that comes to light after the balance has been paid across to the academy. This includes:

- income and expenditure, relating to goods and services procured both by the school and on the school's behalf (following an agreed SLA), that would have been processed
 - through the school's bank account,
 - by the Local Authority via journal. In these instances, the Council will directly invoice the academy.
- Adjustments to Local Authority funding where the total allocated for the period prior to conversion was based on an estimate, which is then confirmed after the surplus balance has been calculated e.g. Early Years Single Funding Formula allocations, where funding is based on an estimate until confirmed following the collection of the termly census.
- The cost of 1st generation equal value claims, not settled and charged to the school prior to conversion.

7) Funding Arrangements Post Conversion

a) Following conversion, an academy, receives the vast majority of its funding directly from the EFA.

b) However, the Local Authority, under current arrangements, is still responsible for allocating the following to each academy following conversion on an on-going basis. Allocations are calculated in the same way for Academies as for schools maintained by Bradford LA:

- Funding for children with Statements of Special Educational Needs,
- Funding for the provision of the free entitlement to nursery education, allocated via the new Early Years Single Funding Formula.
- Termly payments for Looked After Children (Pupil Premium).
- Growth Fund allocations (expanding schools).

c) Depending on timing of conversion, the Local Authority may be required to pay, on a one off basis, certain grant allocations a period after conversion e.g. for a conversion on 1 January, the LA is required to pay Pupil Premium allocations to the academy up until 31 March. This is because the DfE has already paid across to the LA the full year grant value for the maintained school.

c) Payments from the LA will be made via monthly advances (as currently for maintained schools). The academy will need to submit to the LA the relevant bank account details so that payments can be made.

Timetable of the Process & Key Actions for the Converting School

Date	Key Actions (Converting School)
Prior to Conversion	<ul style="list-style-type: none"> • See actions listed in the guidance.
Conversion Date (1st of the Month)	<ul style="list-style-type: none"> • Within 2 weeks of conversion date: converting school to submit to SFT a bank reconciliation return (up to previous month end) & updated budget monitor & other Finance System prints (see guidance). • Meeting between school & SFT to discuss above reports & conversion process.
Conversion Month 1 & Month 2	<ul style="list-style-type: none"> • School to continue to process & close maintained school transactions (see actions in paragraph 3). • School to close 'maintained' bank account (s) and instruct bank to send a cheque for the balance to Bradford MDC
Conversion Month 3	<ul style="list-style-type: none"> • Within 2 weeks of the end of the month school to have submitted to SFT a final bank reconciliation return & VAT return, based on a closed bank account. • Following this - meeting between school & SFT to finalise the value of balance to be transferred.
Post Conversion	<ul style="list-style-type: none"> • SFT will pay the balance across to the academy within 1 month of date of agreement, • Academy will continue to be responsible for outstanding items that come to light after agreement, • Bradford LA will continue to allocate funding for Growth Fund, SEN Statements and the free entitlement to Nursery provision (EYSFF) and publish a new advances schedule. LA will also continue to allocate Pupil Premium Grant funding for Looked After Children (LAC) <u>only</u>.