

**Process for the Management of School Surplus Balances**

**1) Principles**

1.1 This protocol outlines the Authority’s process for the management of intended uses of excess revenue balances. It is sound financial management for maintained schools to retain a reserve from year to year. It is important that school budgets remain resilient. However, this must be balanced against a duty to maximise the spending of resources, targeted correctly, to improve outcomes for children and young people. The approach outlined in this document is based on a clear definition of what constitutes an acceptable level of reserve and, above this, a definition of an excess balance.

1.2 The holding of an ‘excess’ revenue balance i.e. a balance above what is deemed to be a normal level of acceptable reserve, should be an exceptional, rather than a recurrent, feature of a school’s budget management. The key purpose behind the Authority’s approach is to require schools to maximise the spending of their revenue resources in the year in which these are allocated.

1.3 It is sound financial management however, for schools to plan their budgets over more than one year, and to be given the flexibility to manage their finances in such a way as to be able to:

* Progress capital works of a significant value, that are linked to improving pupil outcomes, where capital resources are not sufficient and where revenue balances may have to be earmarked over more than one year to enable works to take place.
* Progress works that are linked to ‘spend to save’ strategies, including expenditure related to energy efficiency schemes.
* Manage costs associated with the review of contracts of a significant value, where expenditure is not even year on year.
* Support costs associated with expanding pupil numbers, and with protecting standards, during a period of uncertainty and change.
* Provide protection in transition, where a school is reducing in pupil numbers, or where funding is known to be reducing in the following financial year (s), or where there is an identified budget pressure in the following financial year (s), where to not smooth the impact of this will demonstrably have a negative impact on standards at the school.
* Manage exceptional circumstances in such a way as to avoid significant financial turbulence that may impact on standards.

so long as:

* the Governing Board of the school has made deliberate decisions to allocate (and to retain) revenue funding for these purposes, with a clear understanding of the timescales for spending and the impact of this expenditure.
* these decisions do not detract from maximising the in-year spending of revenue resources on the school’s key priorities.

1.4 How successful a school is in maximising resources is significantly influenced by the quality of a school’s budgeting and the monitoring of this budget. To ensure compliance with the Authority’s approach to the management of surplus balances, every school will find it necessary to monitor effectively their revenue budgets, and to take decisions on spending where budgets change in year, rather than waiting until the end of the financial year to decide how to allocate unforeseen excesses.

1.5 ‘Clawback’ may be actioned, where individual schools do not comply with the Authority’s approach. The clawback mechanism is important in enabling the Authority, with the Schools Forum, to redistribute funding that is not being used by schools and as a final ‘encouragement’ for schools to maximise their resources. All funding clawed back will be returned to the Schools Budget for re-allocation to schools by the Schools Forum. This paper outlines under what circumstances clawback may take place, and how decisions will be taken.

1.6 The approach seeks to avoid penalising schools for ‘technical infringements’. In terms of reporting of schemes by schools, however, the approach does require schools to be clear about timescales, and the values of expenditure, before approval is given.

**2) The Definition of an Acceptable Level of Reserve**

2.1 A ‘reserve’ is a balance, not necessarily earmarked for any specific purpose, but it may be, which is held to enable a school to manage unplanned circumstances and fluctuations in expenditure. In its report in March 2010, the DfE stated, “it is important that schools understand that the 8% and 5% thresholds are not targets…but the maximum percentage, which might be retained to deal with exceptional circumstances…In practice, most primary schools should be able to manage with balances of, say, 4-5% and secondary schools with 2-3%”.

2.2 The tables below show the (approximate average) values of reserves that could be held by different sizes of schools, when calculated using different percentages of funding. Please note that the actual values for individual schools will vary according to the characteristics of the attending pupils, as these influence levels of funding e.g. values of Pupil Premium Grant:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Primary Schools** | **8%** | **6%** | **5%** | **4%** |
| Primary 1 Form of Entry | £80,000 | £60,000 | £50,000 | £40,000 |
| Primary 2 Form of Entry | £144,000 | £108,000 | £90,000 | £72,000 |
| Primary 3 Form of Entry | £212,000 | £159,000 | £133,000 | £106,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Secondary Schools** | **5%** | **4%** | **3%** | **2%** |
| Secondary 6 Form of Entry | £300,000 | £240,000 | £180,000 | £120,000 |
| Secondary 8 Form of Entry | £365,000 | £292,000 | £219,000 | £146,000 |
| Secondary 10 Form of Entry | £475,000 | £380,000 | £285,000 | £190,000 |

2.3 For the purposes of this Protocol, an acceptable level of revenue reserve is defined as:

* **Primary and Nursery schools: the greater of 6% of the total of I01 to I05 funding allocated to the school in that financial year, or £60,000.**
* **Secondary schools: 4% of the total of I01 to I05 funding allocated to the school in that financial year.**
* **Special schools and Pupil Referral Units: the greater of 6%, £60,000, or 85% of 1 month’s average payment + £20,000.**

2.4 A £60,000 cash minimum enables smaller schools to retain an appropriate level of cash reserve to remain resilient.

2.5 The thresholds have been set recognising that schools will wish to build in some ‘room’ in their planning to avoid the risk of clawback. In reality therefore, schools are likely to hold balances lower than 6% / 4%.

2.6 To provide certainty for schools, a school’s maximum revenue balance (‘threshold’) will be calculated on the Section 251 funding figure, published in March each year, and will not be subsequently adjusted. This means that every school will be clear at the beginning of the financial year, and before the school’s budget is set by governors (in May), what the maximum revenue balance is that the school can hold at the end of that year without this balance being defined as an ‘excess’ balance. To support schools, the Authority will pre-populate each school’s ‘threshold’ within the template that is used by schools for submitting to the Authority governor approved budgets and quarterly budget monitoring returns. These templates are published each year in February and June respectively.

2.7 Schools that hold revenue balances at year end that are equal, or are lower, than the value of their threshold will not be required to take any additional action or to submit any additional information to the Local Authority. Schools that hold revenue balances above their threshold must submit schemes to be approved by the Authority, which commit the value of the excess balance above the threshold. Where a school’s balance is above the threshold and the school does not submit schemes, or submits schemes that do not comply with the Protocol, a proposal for clawback will be pursued.

**3) Reporting Deadlines**

3.1 The very FINAL deadline for the submission of schemes relating to excess balances to the Local Authority is 31 March each year. This continues the emphasis on schools being required to accurately monitor their income and expenditure during the year.

3.2 The budget and monitoring templates that schools use have been adjusted, so that position and use of a school’s balance can be better monitored, by governors and by the Authority, and so that schemes can be submitted within these reports during the year. Therefore, schools can submit schemes for approval at any point i.e. they do not have to wait until 31 March. Schools may wish to leave a final submission until the 31 March. However, this final submission should, in the majority of cases, simply confirm what has been planned by governors and identified in their previous budget and monitoring returns. Schools should discuss schemes with the Authority as early as possible, to avoid any risk of non-compliance.

**4) Balances Calculation and Adjustments**

4.1 The balance that will be used to calculate the position of a school against the threshold will be the revenue balance that is recorded on the Council’s ledger, following the completion of the financial year-end i.e. including all assets, liabilities and other year-end adjustments. At the point these balances are available, the Local Authority will publish a statement for schools on Bradford Schools Online, which will show the school’s revenue balance position compared against the school’s threshold.

4.2 It is not the Authority’s intention to catch schools out. In comparing the value of the surplus revenue balance that is held by a school at year-end, against the school’s threshold, the following will be removed from the school’s balance (these are known as ‘adjustments’):

* Additional I01 – I05 funding that is allocated by the Local Authority to a school in the March advances update.
* The value of ‘internal’ liabilities that are recorded in a school’s year-end return (subject to checking), where these haven’t been posted to a school’s account as part of the year-end process.
* The value of any ‘Payroll Equalisation Adjustment’ at year-end, where the result of this is to increase a school’s revenue balance.
* Any balance at year-end that relates to a business rates adjustments (usually made in March).
* Any other year-end adjustments, where the school can evidence that these were not within the school’s control and / or the school has not previously received warning. The school will be required to discuss the circumstances of these adjustments with the Authority on an individual basis. We would not normally expect to make adjustments for Revenue Contribution to Capital (RCCO) transactions, as these are requested by schools, or BSF (PFI) transactions, as schools are notified of these adjustments on a monthly basis.
* The balance that is held by host schools on behalf of a cluster or a collaboration. The host schools will need to evidence this balance separately, as this will not be automatically identifiable from other school reports.
* A balance (sustainability reserve), up to the equivalent of 6 months of annual turnover (or grant funding) for a school’s childcare business, or other business or function, that is dependent on private income or on external ring-fenced grant funding. The school will need to specifically evidence this balance and the value of its turnover / grant separately, as this will not be automatically identifiable from other school reports.
* A balance that relates to a ring-fenced or an earmarked DfE, or other external, grant, that has specific spending and reporting requirements, and that may also have an academic year rather than a Local Authority financial year spending requirement. This includes ring-fenced COVID-19 pandemic grants (such as the School-Led Tutoring Grant) and the PE and Sports Premium (primary phase). Schools will be required to evidence this balance separately, as this will not be automatically identifiable from other school reports. This however, DOES NOT include the Pupil Premium Grant, the Teacher’s Pay / Pensions Grants or the Universal Free School Meals Grant (UIFSM – but please see the next point).
* A balance that relates to the difference between the initial payment of the Universal Infant Free School Meals grant, and the school’s calculation of the final UIFSM grant figure, where take up of meals has been lower than estimated. In this circumstance, the school will be holding onto an amount of UIFSM grant, which will be ‘repaid’ back to the DfE in the next financial year. How this balance is calculated will need to be separately evidenced by the school, as this will not be automatically identifiable from other school reports.

4.3 In seeking also to avoid ‘penalising’ schools for small differences, and to keep the focus of attention on the main purpose of the mechanism, the Authority will allow a school to be a maximum of £3,000 over the defined threshold, without proposing clawback. In these circumstances, a letter will be sent to the Headteacher & Chair of Governors alerting them to this situation. Having taken the items in 4.2 into account, where a school is still more than £3,000 over its threshold, and has not submitted schemes or has submitted schemes that do not comply with the Protocol, clawback will be proposed for the value above the defined threshold minus £3,000.

**5) Circumstances in which Excess Revenue Balances can be held & the Evidence Required**

5.1 The circumstances under which a school can hold an excess revenue balance above the defined threshold are:

* A revenue contribution to an agreed capital scheme.
* A revenue contribution to a ‘spend to save’ scheme, including energy efficiency schemes.
* Balances earmarked to support the costs incurred by the review of contracts of a significant value, where expenditure is not even year on year.
* Managing the costs (and impact) of the expansion of pupil numbers.
* Managing financial difficulties (pressure) associated with a budget reduction in the following financial year, resulting either from a significant reduction in pupil numbers, or from a loss or significant reduction of a specific funding stream.

This provision is interpreted, for balances held at 31 March 2023, to include, more generally, the school’s management of a forecasted significant in-year spending deficit in the following financial year (s), which is caused by another reason, provided that this reason is clearly evidenced by the school and is based on a reasonably constructed budget forecast. This might include managing the impact of energy costs, where these remain high or further increase.

* Managing exceptional circumstances in such a way as to avoid significant financial turbulence that may impact on standards. This may include, for example, managing the outcomes of curriculum review or of HR processes.

Schools that anticipate seeking to submit schemes at 31 March 2023 under the ‘exceptional circumstances’ heading should discuss this with School Funding Team at the earliest opportunity.

For balances held at 31 March 2023, this provision may include the school’s on-going management of the impact of the COVID-19 pandemic, where the school evidences its retention and subsequent deployment of its revenue balance in support of the pandemic’s financial and educational consequences.

An example of this might be retaining balances at 31 March 2023 in support of continuing to meet the additional cost (on a one off basis) of extended pupil catch up activity in 2023/24 that has been agreed as part of the School’s Development Plan.

Another example might be retaining balances to compensate for (and to cover fixed costs) where a private income stream may not yet have returned to pre-pandemic levels and where further time is needed either for income to recover of for governors to review the school’s longer term structural budget arrangements (as the school’s income base may now be lower on a more permanent basis).

The Authority would expect the retention of balances for these purposes to be limited both in time and in value. The Authority also expects schools to explain in detail, with reference to specific schemes, how balances are being used. The rationale for retention at 31 March 2023 must also be clearly evidenced and must be based on a reasonably constructed budget forecast.

5.2 All schemes will be subject to approval by the Local Authority, and must be appropriately evidenced, by:

* An extract from Governing Board or Finance Committee minutes, support by additional verification of at least one of the following:
  1. an extract from the school’s Development Plan
  2. an architects drawing or plan
  3. a letter seeking quotations from prospective contractors/suppliers or tenders received
  4. a letter or email outlining the details of contract liabilities and / or review
  5. a letter or email from the Local Authority, which outlines contributions within an agreed capital scheme
  6. a 3-year budget forecast (specifically necessary for all schemes related to budget difficulties / protection)
* The two primary purposes for requesting this evidence are:
  1. So that the Authority can verify that the schemes the school has submitted have been fully discussed and agreed by governors. Minutes must contain wording that clearly states that governors have approved the schemes at the values that have been submitted.
  2. So that the Local Authority can verify how the school has calculated the cost of the schemes they have put forward.
* Schemes related to the management of the costs of expansion, budget reduction / pressure or exceptional circumstances, may require some additional verification from a party independent from the school e.g. confirmation of pupil numbers from admissions, confirmation of HR processes from the school’s HR supplier, a letter from a grant provider stating the ceasing of funding etc. This evidence will be independently verified by the Local Authority, prior to approval. This is a key reason why it is important for schools to identify schemes and to check the compliance of schemes with the Local Authority as early as possible.

The Protocol enables schools to manage their budgets, and to retain budget for the protection of the school’s financial position, or for managing the costs of change, over more than one year, provided that the school’s plan to do so is well considered and is appropriate. For this, we would expect schools to request schemes either under the ‘Managing Financial Difficulties’ or the ‘Exceptional Circumstances’ provisions outlined in paragraph 5.1. In submitting schemes of this nature, the Authority expects schools to specify what aspect (s) of the school’s budget are being supported and the timescale of spend e.g. *£20,000 to continue Key Stage X group sizes to September, with restructure from this point’* *(acceptable);* *‘£20,000 to support next year’s budget’ (not acceptable).* All submissions of this nature should include a copy of the school’s latest 3-year budget forecast, which should clearly evidence the need to hold a balance to support the school’s future financial position.

5.3 As a minimum, schools must evidence prior-year commitment by governors to these schemes i.e. evidence that the commitment has been made on or before 31 March (governors have agreed the schemes in a meeting that has been held on or before 31 March).

5.4 The default position will be that spending on these schemes must be completed by the end of the next financial year. However, the Protocol does allow schools to save for schemes over more than one year, subject to agreement by the Local Authority. The Protocol does not set a maximum number of years. However, in submitting schemes, schools will be required to be clear on the timescale for spending and on the values of funding that will be earmarked each year.

5.5 The approach contains no specific provision for ‘prior-year commitments’ i.e. for orders placed by schools, where the goods / services have not been received before the end of the year. We would expect schools to manage these commitments within the defined allowable reserve.

**6) Capital Schemes**

6.1 We would only expect revenue balances to be saved for capital schemes where:

* Revenue funding is used alongside, not instead of, available capital resources.
* The use of revenue funding will progress essential works more quickly than the saving of capital funds over a number of years will allow.

6.2 In this regard therefore, we would expect a school to discuss the financing of a capital scheme with the Authority as part of their budget setting or Q1 / Q2 / Q3 monitoring processes, where the school is planning to hold an excess revenue balance at the end of the year to fund this. As stated, schemes can be submitted by a school at any point in the year. Any final submission by schools at the very end of the year should just be a confirmation of schemes already planned for and discussed with the Local Authority. Schools that submit a capital scheme at 31 March, without previous discussion with the Authority, may face challenge, where the circumstances outlined in 6.1 are not applicable e.g. where a school submits a revenue contribution to capital but has uncommitted capital balances that are sufficient to meet the cost of this scheme.

**7) Process for Verifying & Approving Schemes**

7.1 The scheme approval / clawback processes are managed by the Local Authority (School Funding Team), overseen by the Schools Financial Performance Group (SFPG), where applicable. The SFPG is a subgroup of the Schools Forum.

7.2 Most schemes are scrutinised and approved by the School Funding Team. In doing this, School Funding Team may engage with other teams where relevant e.g. admissions (for pupil numbers) and asset management (for capital schemes). Following initial submission, it may be necessary for School Funding Team to collect further information from the school.

7.3 The following schemes may be referred to the SFPG for consideration:

* schemes submitted by schools that plan an excess balance to be held over more than 1 year.
* schemes related to exceptional circumstances.
* where a school has submitted, or is planning to submit, new schemes in consecutive years.
* where the rationale / evidence submitted for a capital scheme does not meet the expectations listed in 6.1.
* where, following further information collection, a scheme submitted is deemed by School Funding Team not to comply with the Protocol.

7.4 The SFPG will meet, where required, on a quarterly basis following the submission of school budget and monitoring reports. This will allow the Authority to respond to schools quickly, enabling a school to alter its plans in good time where the school submits a scheme during the year that does not comply with the Protocol and is not approved. This does not detract from the school’s responsibility to ensure that they comply with the Protocol.

7.5 Where schemes are approved, a letter will be sent to the school confirming approval and explaining what action the school will need to take were these schemes to change. This is especially important where a school submits an initial outline of scheme early in the year but may wish to amend this before the 31 March. The Authority would base any action on the last submission received.

7.6 Where schemes that do not comply with the Protocol are submitted during the year, the school will be notified of this. Cases where schemes that do not comply are submitted for the first time at 31 March will be referred to the SFPG for recommendation to be made on clawback.

**8 Clawback**

8.1 Decisions on clawback will only be made following the confirmation of the year-end position. This is normally in May each year. Schools at risk of clawback will be notified at this point and will be informed that their case will be considered by the SFPG. The school has the right to attend the SFPG meeting at which their case is discussed and / or can provide additional information in support of their case.

8.2 Following consideration, the SFPG will make a recommendation on whether to apply clawback or not. The school will be notified of this recommendation. The Schools Forum will also be notified of the recommendation and will be asked to ratify this. However, the school will not have the right of appeal to the Schools Forum. The SFPG’s recommendation will go to the Council’s Executive Committee for a final decision.

8.3 Schools will be at risk of clawback where:

* A revenue balance in excess of the defined reserve threshold is held at year-end and where no schemes have been submitted or where the value of schemes does not fully cover the value of excess (following the adjustments outlined in paragraph 4 and with a £3,000 allowance.
* A revenue balance in excess of the defined reserve threshold is held at year-end where the school has submitted schemes that do not comply with the Protocol.
* A revenue balance in excess of the defined reserve threshold is held at year-end where a scheme for a revenue contribution to capital is submitted where uncommitted capital resources held by the school are sufficient to meet the costs (paragraph 6.1).
* A school does not subsequently spend on an approved scheme and where the school does not satisfactorily evidence that this is the result of circumstances beyond the school’s control.

8.4 Where agreed, clawback will be actioned at the next available funding update, by reducing the funding allocation for the school. The school will be notified of the final decision and of the date this adjustment will take place.

**9 Monitoring, Scheme Changes & Verification of Spending**

9.1 Once a scheme has been approved, it is the school’s responsibility to ensure that the scheme is completed according to the timescales and costs outlined in the school’s submission.

9.2 The budget monitoring template, used by schools, is pre-populated with approved schemes, for schools to record the progress of spending during the year.

9.3 Schools with approved schemes will be required, as part of year-end reporting, to confirm that these have been fully spent.

9.4 Where, in the view of the governing board, a scheme cannot go ahead or is required to be changed in content, value or timescale, it is the responsibility of the school to notify the Local Authority immediately. Where a scheme is proposed to be cancelled altogether, the school must also evidence alternative arrangements for the spending of the excess balance. Such cases may be referred to the SFPG for consideration, where the SFPG will decide whether the circumstances outlined by the school justify approval of a change to the scheme.

9.5 In assessing this, specifically, the school will be required to evidence that change is necessary for reasons beyond the control of the school. Schools that fail to do this, and fail to spend the agreed amounts on the approved schemes, may be subject to clawback.

9.6 Where a school submits a scheme, but where the school’s actual balance at 31 March is lower than the defined reserve threshold, the school will still be committed to this scheme. This is because this scheme should have already been built into the school’s medium term budget plan and should have already been agreed by governors as a priority for the school.