

## 2.6 SCHOOL BALANCES

### Introduction

Schools are expected to manage their resources to avoid either a deficit budget position or the accumulation of balance beyond a modest contingency for which there is no planned use or for which plans are not implemented within a reasonable timescale to the benefit of pupils. Revenue funding in the form of the School Budget Share and Pupil Premium Grant are primarily intended to be spent for the benefit of pupils in the year for which they are allocated. Capital funds are provided with a view to the provision of assets that will benefit pupils over many years and requires planning and use over a longer timeframe.

Schools are expected to have annual and medium term financial plans linked to Improvement/Development Plans and Asset/Premises Management Plans to achieve their educational objectives. They are expected to prepare Forecasts of Year-End financial position to ensure they are able to adjust plans in the light of resources available.

### Appropriate Level of Balances

This is currently no clause relating to the claw-back of surplus balances, but schools should be mindful of the need to demonstrate use of available revenue resources in delivering the best possible educational opportunities for current pupils.

However previous requirements were for schools to justify revenue balances in excess of 8% of Budget Share for Nursery, Primary and Special schools and 5% for Secondary schools and any uncommitted balances in excess of this is likely to be regarded as excessive.

The level of contingency/uncommitted revenue balance is a matter for each school according to its assessment of financial risk but unless its pupil numbers are uncertain the amount should be modest.

Schools should undertake sound annual and medium term financial planning which enables it to commit and spend resources to maintain education standards and specific developments. Schools should have realistic plans that allow for the lead in time for many capital projects. This should obviate the need for large balances which appear to be surplus to the schools needs.

A committed contingency made be made for an end of year Formula Allocation adjustment re loss of Statemented pupils. The balance of contingency will be regarded as uncommitted.

Where a school has a specific development(s), planned for a future year(s), to be funded from the balance carried forward into the next financial year, this should be included under Revenue Projects – Future Years in the budget.

### Scheme Requirements

The Scheme for Financing Schools has provision for schools to carry forward deficit and surplus balances. It has three paragraphs relating to Balances:

- 4.1 Right to carry forward surplus balances

- 4.2 Reporting on the intended use of Surplus Balances
- 4.3 Interest on Surplus Balances

Under section 4.2 of the Scheme “each governing body is required to report to the LA on the use which the school intends to make of its balance brought forward, in cases where the balance exceeds 5% of the school’s budget share”.

The format of the required report is the Planned Use of School Balances form, which is both a planning tool for schools and a means of reporting to the LA. Schools should make a conscious decision about the deployment of all resources available to it in a given financial year, even if that involves setting aside sums as a contingency or for projects in future years.

The Planned Use of Balances statement is not required every year and may be sent to schools early in the summer term for completion by a set date to be notified. It is sent in an electronic form (Excel) by email and should be completed in electronic format.

## **Guidance on the use of Balances and completion of the Form**

### **Revenue**

The allocation of a balance to a particular type of expenditure is technically notional. This is because the school consolidates its resources (formula allocation, underspend brought forward and various sources of income) to give the “Total Resources Available” for the year. The school then prepares and approves a budget, which consists of various types of expenditure and any sums for contingency and special projects, the total of which must equal the resources available.

It is essential that the school has made a decision to commit these “extra funds” beyond the annual income or to hold them as contingency or funds for specific future year’s projects.

An easy way to identify where these have been applied is to compare:

- the school’s approved budget plan incorporating the actual balances with
- a notional budget plan based on a nil brought forward balance

Any difference between the actual Balance Brought forward and that included in the approved Budget should be included as a variation to contingency. Any “technical” corrections agreed with the LA should also be included in the Approved Budget and Notional Budget as applicable.

The Planned use of Balances Form ([Appendix 1](#)) is laid out to facilitate this comparison and isolate where the school intends to apply its brought forward balance. It is sent out annually to relevant schools in the summer term with guidance notes for its completion. These guidance notes should be read with reference to the example of a completed planned use of balances form ([Appendix 2](#)). Possible uses of balances are likely to be:

- maintenance or development of existing staffing structure

- specific developments for the current or future years
- provision of contingency for the current or future years

Where a school is using a balance brought forward to support the current level of staffing then the “Actual Budget” column should include the planned expenditure for that financial year. If the school had no balance brought forward with the consequence of reductions to staffing levels being necessary (either through redundancy or non renewal of fixed term contract) then the “Notional Budget” column would show what this expenditure would have been. The “Difference” column will show the value of the b/fwd balance that has been applied to this area. The “Comments” column should give a brief description as to how the ‘difference figure’ is made up e.g. Loss of 0.5 teacher and 2 teaching assistants avoided.

Where a school has a specific development for the financial year that is funded from the balance brought forward, it should be included in the appropriate expenditure category. An example would be the refurbishment of a library. Funds for redecoration would have been included under Building Maintenance (code E12) for redecoration and for books under Learning Resources (code E19) for the purchase of books beyond its normal expenditure level. The cost to be included in the Planned Use of Balances notional budget would be the cost of normal maintenance and the normal level of Learning Resources. The “Difference” column then shows the cost of this development financed by the school’s balance.

### **Capital**

The nature of capital expenditure in the acquisition of land, buildings, plant or machinery, ICT equipment or the construction or enhancement of buildings means that school managers should be engaged in planning for more than one financial year. Schools should prepare plans for a 3 or 5 year period. Balances arising from devolved capital grants can therefore be expected at certain points in the school’s planning cycle and these can be included in “Capital Resources held for future years”.

The example given is that a nil balance reduces the resources available for Renovation work and thus this has to be deferred until sufficient funds are accumulated.

VA schools are unlikely to have a capital buildings works budget because VA Governing Bodies are wholly responsible for all premises capital work and are funded separately for this responsibility by direct grant from the DfE. As such related income and expenditure should go through the governor’s accounts and not the school’s delegated budget.

### **Queries**

Queries concerning the completion of the form should be made to the Schools Accountancy Section or your School’s Accountant.