

**Title:** Options for a Control on Surplus Balances Mechanism

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**Schools affected:** All maintained schools

### 1. Purpose of this report

- 1.1. This report considers the options available in respect of introducing a control on balances mechanism, as requested by Members at the June Schools Forum meeting.

### 2. Background

- 2.1. Whilst the DfE has removed the mandatory requirement for a balance control mechanism to be included in schemes of financing, the current Buckinghamshire scheme (Section 4.2) does allow for the introduction of a mechanism.

*“Schools that have excessive surplus balances will be required to report to Schools forum on an annual basis. Excessive surpluses are defined as 15% or more (on all the school's income) for the last 5 years and at least £10,000 each year. The authority reserves the right to clawback excessive surpluses following consultation with Schools Forum”*

The majority of authorities have chosen to retain a mechanism for control on balances.

- 2.2. For the financial year 2017/18, the total school revenue reserves totalled £10.876m, as reported to the previous meeting.
- 2.3. Fifteen schools (out of 174 maintained schools) had a year-end outturn for 2017/18 in excess of the 15% threshold. Of these 15 schools, only 5 schools breached the threshold for 5 consecutive years. The revenue balances of these schools amounted to £0.9m and the individual threshold breach was between 16-38% of total income. The reserves of 4 schools showed a year on year reduction as a percentage of total income. Only 1 school returned increasing revenue balances as a percentage of total income.
- 2.4. Under the current procedures any school which breaches the threshold is reported to schools forum. Members can request further information on future commitments if required.
- 2.5. Forum is asked to consider:
  - 2.5.1. Should a control on balances mechanism be introduced in Buckinghamshire?
  - 2.5.2. If a mechanism is introduced, do the members agree with the proposed scheme attached?

2.5.3. Should an alternative to the proposed scheme be implemented?

### 3. Recommendations

***3.1. It is recommended that Schools Forum agree to implement a control on balances mechanism to facilitate good financial planning and allow for an independent review of excessive reserves***

### 4. Detailed proposals

- 4.1. The provisions of the 'Scheme for Financing Schools' only apply to maintained schools within the authority. Therefore if a "balance control mechanism" was to be introduced within the scheme, it would only apply to maintained schools and not academies.
- 4.2. If any funds recouped centrally through a clawback process were reallocated to schools through the school revenue funding formula, this would include allocating this amount to both maintained schools and academies.
- 4.3. If a new "balance control mechanism" was to be introduced into the Scheme for Financing Schools, it will be necessary to consult with all maintained schools within the authority, before final ratification by Schools Forum.
- 4.4. It is recommended that any balance control mechanism is implemented from 31 March 2019.
- 4.5. The funding formula cannot be redetermined during the current funding period. Therefore any reallocation through the school revenue funding formula of balances as at 31 March 2019 could only be actioned in the following financial year i.e. 01 April 2020 to 31 March 2021.
- 4.6. The methodology for reallocation of any surpluses recouped from schools would need to be defined as part of the scheme.
- 4.7. A proposed control of balances mechanism is attached.

## **Appendix 1: Buckinghamshire County Council- Proposed Schools' Control on Balances Mechanism**

Note: This guidance applies to all maintained schools within Buckinghamshire school community. Although academies fall outside the scope of this guidance, Academies may choose to operate their own independent control on balances mechanism.

The Authority appreciates that schools are moving towards greater autonomy and should not be constrained from making early efficiencies to support their budgeting in a tighter financial climate. Schools are encouraged to retain, where possible, a modest balance towards future liabilities and potential need for replacement of equipment. However the Authority reserves the right to clawback significant uncommitted surplus balances over the agreed threshold as defined below and where a redistribution would support improved provision across the local school community. In order to allow the Authority to monitor schools' financial positions, all schools that have surplus balances above the threshold will be required to report to Schools forum on an annual basis.

### **Excessive Uncommitted balances**

Excessive uncommitted revenue balances are defined as those uncommitted balances that are 15% or more (on all the school's income) for the last 5 years and at least £10,000 each year.

### **Surplus Balances**

Surplus balances held by the schools are permitted under the scheme subject to the following restrictions:

- a) The Authority shall calculate the total surplus revenue balance at 31 March of the preceding financial year as defined in the Consistent Financial Framework. Surplus funds held in relation to a school's provision of community facilities under s27(1) of the Education Act 2002 are included within the Authority's definition of total revenue balances. Balances on Devolved Formula Capital are excluded.
- b) If the total revenue balance as a % of all the school's income in that financial year is calculated as 15% or above for 5 consecutive years and at least £10,000 each year then the Governing Body will be required to complete a declaration form for review by Schools forum identifying the anticipated use of the above threshold surplus. Evidence must be provided to show that consideration of future use of this balance has been integral to the budget and financial planning process within the school.

### **Planned use of balances**

Completion of the declaration form should clearly identify planned use of funds. The information provided for specific projects should include

- Details of project and projected impact on pupil outcomes
- Estimated expenditure including additional staffing cost
- Expected timeline of project as well as an expenditure schedule and proposed completion date
- Supplier details if known and contract terms

Some examples of funds accepted as committed are listed below:

Fund	Evidence required
Ring fenced grant balances such as pupil premium or sports grant	Statement of expenditure clearly identifying non allocated spend to be carried forward
Prior year commitments which could not be accrued for at year end	Invoice
Cluster Reserves	Documentation from funding provider identifying cluster schools and allocation of funding / expenditure guidance.
Late funding allocations	Authority to verify amounts
Private funds allocation for specific purpose e.g. PTA donation for resources. Note donations not related to a specific project will be liable to claw back.	Confirmation of donation amount and purpose from donor organisation
Building projects or ICT capital purchases where revenue contribution has been capitalised	Authority to verify amounts – note this is non reversible
Medium term financial planning to negate impact of a projected future deficit due to, for example a temporary fall in pupils on roll.	Three year budget plan
Surpluses arising from non- Budget share funding for example trading activities	Accounting records. However any costs incurred by these activities should not be subsidised by the school budget share for example premises overhead costs( caretaker/ heat and light) for letting activities.

### **Clawback of Surplus balances**

After the deduction of accepted committed balances, should the residual revenue balance still remain above the control mechanism threshold, the Authority reserves the right to clawback excessive surpluses if the school has not provided sufficient evidence of longer term financial planning. For an individual school, total clawback will only be considered if the amount exceeds £5000. Any funds clawed back will be applied to the Dedicated School Grant to support improved provision across the local area.

### **Right of Appeal**

Schools facing a clawback have the right of appeal in person. Appeal meetings will include The Headteacher, chair of governors, the Authority's Director of Children's Services, Head of Finance for Children's Services and a representative from schools forum.

## Key Dates

Actions	Deadlines
The Authority notifies schools with excessive balances at 31 March	15 June
Schools provide full details of projects against which the excessive balances are held and their finance plans to the Authority	31 July
Authority makes decisions on projects and finance plans submitted by schools	30 September
Clawbacks notified to schools	19 October
Appeals	30 November
Clawback applied	31 December

### Use of Clawed back funds

The allocation of any funds clawed back must be agreed in consultation with schools forum. Possible examples of use of these funds include redistribution through the schools revenue funding formula,, an additional contingency pot, support for vulnerable learners or additional transfer of funds to support high needs.