

## MANAGEMENT OF SURPLUS AND DEFICIT BALANCES

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## **Management of Surplus and Deficit Balances**

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## Management of Surplus and Deficit Balances

### 1 Purpose

- 1.1 The purpose of this guidance note is to advise schools of the Local Authority's policy in relation to the treatment and management of surplus and deficit balances within school budgets

### 2 Surplus Balances

- 2.1 The Birmingham Fair Funding Scheme of Delegation states that all schools can carry forward unspent revenue balances from one financial year to the next, arising from net under spending against their delegated budgets for the current and previous financial years.
- 2.2 The amount of any surplus balance will be shown in the Section 251 Outturn Statement
- 2.3 It is recognised that it may be financially valid and prudent for a school to hold a certain level of reserves to meet unforeseen, emergency or outstanding commitments.
- 2.4 Schools will receive interest on any surplus balances brought forward as at 1<sup>st</sup> April which remain unspent as at 31<sup>st</sup> March at the end of the same financial year. Interest will be paid on a sliding scale based on the average 7 day rate for the year. The full rate will be paid on balances up to 5% of planned budget and a reduced rate (to be determined by the City Council) will be paid on the remainder of any balances over 5%. If some of the surplus has been spent during the year, interest will still be paid but on the reduced sum. Different arrangements will apply for cheque book schools. See '**Full Cheque Book Scheme**' chapter
- 2.5 Surplus balances held by schools, as permitted under the Fair Funding Scheme of Delegation, are subject to the following:-
- The Authority shall calculate by 31<sup>st</sup> May in each year the surplus balance, if any, held by each schools as at the proceeding 31<sup>st</sup> March.
  - Schools are required to complete a Surplus Balance Analysis Form, as issued by the Local Authority, and present these to the Governing Body for discussion. The minutes of the relevant Governing Body meeting should reflect the discussions that have taken place and the decisions that have been made regarding the use of surplus balances

- The balance can be assigned for specific purposes as listed below. To count as properly assigned, amounts must not be retained beyond the period stipulated for the purpose in question
- 2.6 The criteria for balances to be assigned for specific purposes are as follows:
- Prior year commitments – any commitments from the previous financial year where goods and services were ordered but not delivered or paid.
  - Commitments of a ‘capital’ nature – building works, refurbishment work, IT
  - Income generated by sponsorship, donations etc
  - Commitments of a ‘revenue’ nature – school improvement and other planned priorities
  - Changes in demography – reductions in pupil numbers and falling rolls, financing place reductions
  - Effects of other changes – cost for workforce remodelling etc
- 2.7 Funds derived from sources other than the City Council will be taken into account in this calculation if paid into the budget share account of the school.
- 2.8 Schools may enter into commitments that extend into following financial years provided that they can reasonably expect that the costs of any such commitments will be fully funded and completed within the indicated timescales
- 2.9 The Local Authority reserves the right to request information from schools where there are either excessive balances or significant changes in balances year on year
- ### 3 Deficit Balances
- 3.1 The Birmingham Fair Funding Scheme of Delegation states that schools may not intentionally plan for a budget deficit and are required to keep expenditure within their budget share funding. However, it is recognized that, in some cases, schools may not be able to set a balanced budget. See ‘**Budget Planning**’ chapter
- 3.2 Any deficit arising from over spending by a school against its delegated budget will remain with the school and be carried forward from one financial

- year to the next and will be notified to schools on the Section 251 Out turn Statement
- 3.3 Schools will not be charged interest on deficit balances providing they have agreed a formal Deficit Repayment Plan with the Local Authority (Schools Financial Services).
- 3.4 The Local Authority is not able to write off the deficit balance of any school.
- 3.5 Although schools may not intentionally plan for a budget deficit, and are required to keep spending within their school budget share funding, there may be unforeseen circumstances which arise within the school which means that insufficient funding is available either at the start of or during the financial year and as a consequence the school budget goes into a deficit situation. Examples of such circumstances include falling pupil numbers and long term sickness issues.
- 3.6 Where schools are experiencing problems with their budget it is important that contact is made as soon as possible with the Local Authority (Schools Financial Services) in order that a formal Deficit Repayment Plan can be agreed that provides for any deficit to be recovered over more than one financial year. This Repayment Plan is subject to the approval of the Local Authority and to the governing body passing a resolution to that effect and agreeing to comply with the conditions laid out in the Repayment Plan
- 3.7 Schools need to be aware that it is not acceptable to the Local Authority for deficit budgets to be ignored and that corrective action must be taken to address any over spending as well as the repayment of any cumulative deficit from previous financial years.
- 3.8 Schools that have been issued with Directive Academy Orders by the Department of Education will be subject to additional financial monitoring by the Local Authority to ensure that expenditure is curtailed and managed in the period leading up to conversion to an academy to avoid any over spending. Such schools will be required to submit monthly financial returns to Schools Financial Services on dates that will be advised to the Head Teacher and Chair of Governors in advance.