

4. The Treatment of Surpluses and Deficit Balances Arising in Relation to Budget Share

4.1 Carry Forward of Surplus/Deficit Balances

Schools must carry forward from one financial year to the next any surplus/deficit in net expenditure relative to the school's budget share for the year plus/minus any balance brought forward from the previous year. In the case of Primary Schools this will include pupil number adjustments.

4.2 Scrutiny of surplus balances

The Authority will require a statement as to the use that the governing body proposes to make of a surplus in the school balance which exceeds 5% of the school budget share or £10,000, whichever is the greater.

In addition:

- (a) the Authority *may* direct the governing body as to how to spend a surplus in the school balance for a funding period, if–
 - (i) in the case of a primary school the surplus is £50,000 or more, and
 - (ii) in the case of a secondary school or a special school the surplus is £100,000 or more;
- (b) the Authority will, if the governing body do not comply with such a direction within an agreed timescale, require the governing body to pay all or part of that surplus to the authority to be applied as part of the Authority schools budget for the funding period in question.

4.3 Interest on Surplus Balances

Balances held by the Authority on behalf of schools, outside schools' local bank accounts, whether capital or revenue, will attract interest at the Local Authority 7 day rate.

4.4 Obligation to Carry Forward Deficit Balances

Deficit balances will be carried forward every year by the deduction of the relevant amounts from the following year's budget share.

4.5 **Planning for Deficit Balances**

Schools may only plan for a deficit budget in accordance with the terms of paragraph 9 below. Outside this provision, schools should ensure that total planned expenditure for the financial year should not exceed the budget share, adjusted by amounts carried forward from the previous financial year.

4.6 **Charging of Interest on Deficit Balances**

The Authority will not charge interest on deficit balances

4.7 **Writing Off Deficits**

The Authority has no power to write off the deficit balance of any school.

4.8 **Balances of Closing and Replacement Schools**

When a school closes, any balance (whether surplus or deficit) will revert to the Authority. Where schools amalgamate any balance (whether surplus or deficit) will transfer to the successor school.

4.9 **Licensed Deficits**

Governors have no legal right to set a deficit budget without the consent of the Local Education Authority and should not presume that such consent will be granted. However, the Authority will consider approving a licensed deficit to a school where it agrees that there are circumstances in which it would be unreasonable for that school to balance its budgets in the current financial year. This will be funded from the collective surplus of school balances held by the Authority on behalf of schools.

The detailed arrangements applying to this scheme are set out below:

- (a) the maximum length of time over which a school may repay a deficit is three years. In exceptional circumstances and with the support of the Director of Lifelong Learning and the Head of Finance this period may be extended to a maximum of five years.
- (b) deficit arrangements may be agreed in the following circumstances
 - Falling pupil numbers for one year which is expected to be followed by rising pupil numbers in future years
 - Spreading the cost of cyclical maintenance works over two or more years
 - Other circumstances agreed by the Authority to be reasonable;

- (c) the maximum level of deficit which may be agreed is 10% of a school's Budget Share. Licensed Deficits in excess of 5% of a school's Budget Share will be reported to Lifelong Scrutiny Committee for approval.
- (d) schools' balances will be used to support deficits which will be subject to a ceiling of 20% of available balances'
- (e) Governing Bodies wishing to apply to the Local Authority to set a deficit budget must consult the Schools Accountant in the first instance and should have regard to the advice given if they subsequently choose to apply for a deficit. A higher level of budget monitoring will be required by the school and Authority for the period of the deficit and until such a time afterwards as the Authority is satisfied that the school is maintaining a balanced budget.
- (f) Requests for licensed deficits will not normally be approved unless the school can produce a recovery plan which, in the view of the Authority, is realistic, prudent and does not exceed three years. Schools have a duty to identify potential deficits and to plan recovery action early. The Local Authority expects the Recovery Plan to be submitted by 1 June. The format of the Recovery Plan, and arrangements for its submission, will be specified by the Authority in the Finance Manual.
- (g) Where a licensed deficit application exceeds 5% of budget, where in the opinion of officers repayment is likely to prove particularly challenging, or where it has been identified through the monitoring process that the school is unlikely to meet its repayment targets, the Authority may impose additional restrictions on a school during the term of the license, as part of the license, eg the right of approval of specified staffing appointments or of contracts over a specified value. The need for such restrictions would be assessed on a school by school basis

4.10 **Loan Schemes**

The Authority operates a loan scheme funded by the collective balances held by schools. All schools maintained by the Authority are eligible to apply for a loan facility that can be for the:

- Purchase or replacement of equipment;
- Full or part funding of premises projects;
- fulfillment of maintenance responsibilities;
- energy and environmental improvements;

The normal maximum loan will be up to 5% of the schools budget share. However, subject to a detailed business plan, the Authority may approve a loan in excess of this limit, provided it is satisfied that the school can meet the ongoing commitment.

Equipment loans will normally be for a maximum period of three years. Only in exceptional cases will loans for equipment be extended to a maximum of five years. Loans for property will be up to five years, but may be extended to ten years for larger loans used to create or secure an asset.

Approval Arrangements

Formal application as set out in the Schools Finance Manual.