

**Manchester City Council  
Report for Resolution****Report to:** **Schools Forum****Subject:** **Excessive Schools Balance Clawback Review****Report of:** **Directorate Finance Lead – Children Services and Education**

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**Summary**

Manchester's approved Scheme for Financing Schools includes a schools balance control mechanism, which is designed to control and claw back, where appropriate, schools' excessive surplus balances. The automatic clawback is based on excessive balances above the allowable threshold that have been held for more than four years.

Schools Forum decided that for 2019/20, the first year of the automatic clawback mechanism would be at a rate of 50%. This report seeks School Forum's opinion on the rate of the automatic clawback mechanism for 2020/21.

**Recommendations**

All maintained Schools Forum members are asked to note and comment on:

The two options for the schools automatic clawback for 2020/21:

- Option one: 50% of all excessive surplus balances held for more than four years in 2020/21
- Option two: 100% of all excessive surplus balances held for more than four years in 2020/21

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**Background documents (available for public inspection):**

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

**Previous Reports:**

14 May 2018	Schools Forum - Dedicated Schools Grant and School Balances 2017/18 Outturn Report
16 July 2018	Schools Forum - Analysis of Excessive School Balances 2017/18
19 November 2018	Schools Forum - Schools Excessive Balances update Report
18 March 2019	Schools Forum – Excessive Schools Balances Mechanism
13 May 2019	Schools Forum - Dedicated Schools Grant and School Balances 2018/19 Outturn Report
13 May 2019	Schools Forum – Consultation Outcome for the changes to the Scheme for Financing Schools
17 June 2019	Schools Forum – Excessive School Balance Mechanism Revised Proposal
18 November 2019	Excessive Schools Balance Clawback Update and Consultation on the arrangements of DSG Deficits and use of Local Authority General reserves.

## **1. INTRODUCTION**

- 1.1 The Scheme for Financing Schools stipulates that schools may 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. School balances are part of the City Council's general reserves and may be used to support the overall financial requirement of the City Council but subject to the absolute undertaking that the balances will always be available for the use of school governing bodies when required.
- 1.2 In November 2019 the Local Authority (LA) confirmed an intention to review the impact of the excessive surplus balance mechanism criteria.

## **2. SURPLUS BALANCE CONTROL MECHANISM**

- 2.1 The approved schools' balance control mechanism, as agreed by Schools Forum, which requests LA control and claw back, where appropriate, of schools' excessive surplus balances. The clawback mechanism applied to last year's cumulative balance was:
- 50% clawback of all excessive surplus balances held for more than four years in 2019/20.
- 2.2 Schools can appeal the application of the approved mechanism via an appeal panel that considers evidence from individual schools subject to clawback.
- 2.3 In 2019/20 in total, 34 of 114 schools maintained by the Council were subject to the automatic clawback, which totalled £2.12m. Out of the 34 schools subject to clawback 29 appealed the clawback, the outcome of the appeals were provided in November's Schools Forum. As previously reported and approved by the Schools Forum, the clawback has been used to offset high needs block pressures.
- 2.4 The DfE has re-confirmed that it is currently considering the timing of further moves to the National Funding Formula (NFF). Given the potential impact of these funding revisions, it is imperative that urban areas like Manchester do not undermine their case for adequate funding pre-implementation of the NFF and given this the Council recommends that the excess surplus balance mechanism remain in place.
- 2.5 After taking account of feedback from previous consultations and Forum meetings, Forum is asked to consider whether the clawback for 2020/21 is:
- Option one: 50% clawback of all excessive surplus balances held for more than four years in 2020/21.
- Or
- Option two: 100% clawback of all excessive surplus balances held for more than four years in 2020/21.

- 2.6 Table one below gives an illustration of the automatic clawback calculation at school level. All three schools have demonstrated sufficient robust plans to spend the excess balance, and all have the same excessive balance of £250k at the end of the current financial year. Each school is subject to a different clawback due to the lowest excessive balance over the five years.

**Table one**

	<b><u>School A</u></b>	<b><u>School B</u></b>	<b><u>School C</u></b>
	Excessive Balance (above 5% or 8% threshold)	Excessive Balance (above 5% or 8% threshold)	Excessive Balance (above 5% or 8% threshold)
Year one: 2019/20	£250,000	£250,000	£250,000
Year two: 2018/19	£8,500	£150,000	£780,000
Year three: 2017/18	£0	£95,000	£785,000
Year four: 2016/17	£0	£10,000	£700,000
Year five: 2015/16	£56,000	£100,000	£650,000
<b>Excess Balance held for 5 years</b>	<b>£0</b>	<b>£10,000</b>	<b>£250,000</b>
<b>Option 1: Clawback at 50%</b>	<b>£0</b>	<b>£5,000</b>	<b>£125,000</b>
<b>Option 2: Clawback at 100%</b>	<b>£0</b>	<b>£10,000</b>	<b>£250,000</b>

- 2.7 Where a school has not held an excess balance above the threshold for more than four years, like school A in the table above, but also has **not** demonstrated sufficient robust plans to spend the excess balance, the clawback will be applied prior to the lapse of the allowable balance retention period of more than four years. In this example, the school would be subject to clawback of a maximum of £250k.
- 2.8 The appeals panel will continue under both options as this gives schools subject to a clawback an opportunity to present evidence of their extenuating circumstances which have led to individual schools holding excessive balances over five years.
- 2.9 At period 9 2019/20, the revenue balance for schools reported to the Council forecast total £9.4m, which is a reduction £12.5m compared to 2018/19 revenue balances. Based on maintained schools budget monitoring returns to the Council, 11 schools would be subject to the automatic clawback in 2020/21, ten primary and one secondary school. The estimated possible clawback of all excessive surplus balances held for more than four years in 2020/21, using school's projected year-end balances at period 9, under each option would be:
- Option One: 50% = £204k
  - Option Two: 100% = £408k

- 2.10 Maintained schools historically traditionally under-project their year-end balance and it is likely that school balances will be higher than what has been reported to the Council at this stage.

### **3. RECOMMENDATION AND CONCLUSION**

- 3.1 Schools Forum has previously expressed concerns regarding the level of school balances in the City. It has been previously recognised that the current level of school balances could incorrectly signal capacity to manage funding shortfalls through schools finding further efficiencies. Given the current risk to Manchester's funding levels, there is a need to continue to maintain the recently strengthened current balance control mechanism.

- 3.2 All maintained Schools Forum members are asked to note and comment on:

The two options for the schools automatic clawback for 2020/21:

- Option one: 50% of all excessive surplus balances held for more than four years in 2020/21

Or

- Option two: 100% of all excessive surplus balances held for more than four years in 2020/21