

**Manchester City Council  
Report for Resolution****Report to: Schools Forum****Subject: Excessive Schools Balance Clawback 2021/22****Report of: Directorate Finance Lead – Children Services and Education**

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**Summary**

Manchester's approved Scheme for Financing Schools includes a school's 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%. In 2020/21 it was decided not to action the excessive clawback mechanism due to the unknown impact of COVID on schools. This report seeks School Forum's decision on the rate of the automatic clawback mechanism for 2021/22.

**Recommendations**

All maintained Schools Forum members are asked to comment and vote on the two options for the school's automatic clawback for 2021/22 only:

- Option one: 50% of all excessive surplus balances held for more than four years in 2021/22

Or

- Option two: 100% of all excessive surplus balances held for more than four years in 2021/22

The Local Authority intends to review the level of clawback 2022/23 onwards and period that excess balance without it being subject to clawback next spring.

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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.
16 March 2020	Excessive School Balances Clawback Review

## 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 The approved schools' balance control mechanism, as agreed by Schools Forum is included in the Scheme for Financing schools, which allows the authority to clawback balances above the allowable threshold that have been held for more than 4 years, at the percentage rate agreed by Schools Forum.
- 1.3 Schools balances 2018/19 was at £24.2m, following the surplus balance control mechanism was introduced in 2019/20 schools' overall balances have reduced by £9.4m, to £14.8m as at 31 March 2019/20. The projected balance 2020/21 based on school's period 9 monitoring is £14.1m.

## 2. SURPLUS BALANCE CONTROL MECHANISM

- 2.1 The clawback mechanism was first applied in 2019/20 at an agreed rate of 50% against all excessive balances held for more than four years. The mechanism was not applied 2020/21 due to the uncertainty schools faced with the impact of the pandemic and the corresponding funding available from Department of Education (DfE).
- 2.2 Under the mechanism schools can appeal the application of the approved control mechanism via an appeal panel that considers evidence provided from individual schools subject to clawback.
- 2.3 The DfE has re-confirmed that it is committed to moving to the hard National Funding Formula (NFF) 2025/26, by progressively restricting control over the local funding formula. The first of two DfE consultations on the hard NFF is expected early June 2021. 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.
- 2.4 The excessive clawback is based on balances held for more than four years (examples in appendix one), there are 85 schools (76%) where they have not held an excessive balance since 2016/17, therefore will not be affected by the automatic clawback mechanism in 2021/22. Using school's period 9 monitoring returns as an indication for balances at year end, 15 schools (thirteen primary and two special schools) could be subject to the mechanism, with an estimated clawback of £785k at 100% or £393k at 50%, as shown in table one below.

Table One: Estimated Clawback based on School's Period 9 monitoring

<b>Excessive Balances - Projections as at Period 9 2020/21</b>			
	No. of Schools	Total Clawback 100% £'000	Total Clawback 50% £'000
Above £300k	1	£301	£151
Between £100k - £200k	1	£174	£87
Between £50k - £99k	3	£199	£100
Between £20k - £49k	1	£30	£15
Less than £20k (includes two special sch.)	9	£81	£41
<b>TOTAL</b>	<b>15</b>	<b>£785</b>	<b>£393</b>

2.5 Where schools have not been able to progress with capital schemes, the Council can hold these funds in a reserve on behalf of the school.

2.6 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 and recognising the impact of the pandemic on school's ability to spend as planned at the start of the financial year. Therefore, the Council would recommend continuing with a 50% clawback of excessive balances held for more than four years as at 2021/22.

3.2 All maintained Schools Forum members are asked to comment and vote on the two options for the school's automatic clawback for 2021/22:

- Option one: 50% of all excessive surplus balances held for more than four years in 2021/22

Or

- Option two: 100% of all excessive surplus balances held for more than four years in 2021/22

3.3 The Local Authority intends to review the level of clawback 2022/23 onwards and period that excess balance without it being subject to clawback next spring.

**Appendix A: Illustration of Excessive Clawback mechanism.**

Table one below gives an illustration of the automatic clawback calculation at school level. All three schools have demonstrated 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.

	<b>School A</b>	<b>School B</b>	<b>School C</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>

Where a school has not held an excess balance above the threshold for more than four years, like school A in the table above, and has demonstrated robust plans to spend (Analysis of Reserves) there will be no clawback. But if School A 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.

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.