

Manchester City Council Report for Resolution

Report to: Schools Forum

Subject: Review of Excessive Schools Balance Clawback

Report of: Directorate Finance Lead – Children Services and Education

Summary

Manchester's Scheme for Financing schools includes a balance control mechanism, which is designed to control and clawback, where appropriate, schools' excessive surplus balances. The clawback mechanism (section 4: Scheme for Financing Schools) is where schools who have held an excessive surplus balance above the allowable threshold for five years will be subject to a clawback, with a right to appeal.

In July 2022, Schools Forum members approved 100% clawback for the ten schools subjected to the clawback mechanism 2022/23 and requested that the Council give consideration for reducing the number of years an excessive balance may be retained before becoming eligible for the clawback mechanism.

This report illustrates the 2022/23 clawback based on different timescales for excessive balances being retained by schools prior to clawback.

Recommendations

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

- Reducing the length of time schools excessive balance can be retained before becoming subject to a clawback.

Maintained Schools Forum members are asked to vote on the number of years that maintained schools can retain an excessive balance before becoming subject to a clawback:

- Option 1: Remain at five years (no change)
 - Option 2: Reduce from five years to four years
 - Option 3: Reduce from five years to three years
 - Option 4: Reduce from five years to two years
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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:

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| 18 July 2022 | Agenda Item 4 – Analysis of Excessive School Balances 2021/22 & Clawback |
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1. INTRODUCTION

- 1.1 The Scheme for Financing Schools (section 4.2) outlines that maintained schools are subject to a clawback of any excessive surplus balances held by the school for a period of five years. Schools' balances are deemed excessive if the surplus is higher than the allowable balance, whereby the allowable balance is deemed to be 8% of the budget share for nursery, primary and special schools, and 5% of the budget share for secondary schools. Schools have the right to challenge this clawback via appeal to a panel, made up of Schools Forum members. An example of how the excessive clawback mechanism works is illustrated in Appendix one.
- 1.2 The rate of the clawback to be actioned in 2022/23 was agreed at 100% in July 2022 by Maintained Schools Forum members, totalling £193k from ten schools (9 primary and 1 special), subject to appeals process in the Autumn term. It is intended that, following approval by the Secretary of State, the 2022/23 clawback will be used towards offsetting the Dedicated School Grant (DSG) deficit of £2.702m.
- 1.3 The DSG deficit is a result of pressures within the high needs sector, as noted in previous report: Agenda item 5 High Needs Block Recovery, primarily due to the exponential growth in the Education, Health, & Care Plans (EHCP) and Post-16. Schools' balances in 2021/22 totalled £19.50m, of which £4.04m are classified as excessive balances.
- 1.4 This report, as requested by Schools Forum, explores the impact of reducing the number of years a school can hold a surplus balance above the allowable threshold before being subject to a clawback.

2. Review the number of years an allowable balance to be retained

- 2.1 Ten schools (9 primary and 1 special) were subject to the excessive balance clawback in 2022/23, with collective excessive balances over the allowable threshold totalling £0.67m, of which £193k had been held for five years. Table one below shows the impact, based on current data, of reducing the number of years from five. Appendix two illustrates how the excessive clawback mechanism would work for option 1 to 4.

Table One: Impact of reducing no. of years

| | Option 1 5 YR | Option 2 4yrs | Option 3 3yrs | Option 4 2yrs |
|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | Excess Balance held for 5 years | Excess Balance held for 4 years | Excess Balance held for 3 years | Excess Balance held for 2 years |
| No of schools | 10 | 15 | 19 | 34 |
| | £'000 | £'000 | £'000 | £'000 |
| Total Excessive Balances | £673 | £1,388 | £1,840 | £2,896 |
| Clawback (at 100%) | £193 | £439 | £737 | £2,322 |
| Excessive Balances after clawback | £479 | £948 | £1,104 | £574 |

- 2.2 Schools budgets are allocated from the DSG, a ring-fenced revenue grant. If funds deemed to be excessive are being held by schools over several years, this means that funds have not been spent on pupils in the time allocated. It is appreciated that schools hold excessive balances to fund capital projects, and in order to support this the Council has an established mechanism to manage funds until such a time that they are required.
- 2.3 The Council acknowledges school concerns on the rising cost of inflation on schools' budgets, but high levels of school balances do not support the City's case for the need for sufficient funding and does not provide long term solutions to financial sustainability.
- 2.4 Gathering data from North-West authorities and core cities on their mechanism for managing school balances is still being collated. So far there have been sixteen responses; eight authorities have a clawback mechanism (most have been suspended at some point due to COVID). Of these eight authorities, four have a control mechanism based on two years' excessive balances above a threshold, one authority has a one-year mechanism, although the threshold is higher than Manchester, set at 12%, and the remainder is either an internal assessment or the process is being reviewed.
- 2.5 If the Maintained Forum representatives' decision is to change the clawback mechanism, the Scheme for Financing Schools will need to be updated. To do this a full consultation will be carried out with all maintained schools in the Autumn term, and the outcome will be reported back to Schools Forum.

3. Recommendations

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

- The review of reducing the number of years to under five years, where schools excessive balance may be retained before becoming subject to a clawback.

Maintained Schools Forum members are asked to vote on the number of years that maintained schools can retain an excessive balance before becoming subject to a clawback:

- Option 1: Remain at five years (no change)
- Option 2: Reduce from five years to four years.
- Option 3: Reduce from five years to three years
- Option 4: Reduce from five years to two years

Appendix One: Illustration of Excessive Clawback mechanism (five years)

Table 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.

| | School A | School B | School C |
|--|--|--|--|
| | Excessive Balance (above 5% or 8% threshold) | Excessive Balance (above 5% or 8% threshold) | Excessive Balance (above 5% or 8% threshold) |
| Year one: 2021/22 | £250,000 | £250,000 | £250,000 |
| Year two: 2020/21 | £8,500 | £150,000 | £780,000 |
| Year three: 2019/20 | £0 | £95,000 | £785,000 |
| Year four: 2018/19 | £0 | £10,000 | £700,000 |
| Year five: 2017/18 | £56,000 | £100,000 | £650,000 |
| Excess Balance held for 5 years | £0 | £10,000 | £250,000 |
| | | | |
| Clawback at 50% | £0 | £5,000 | £125,000 |
| Clawback at 100% | £0 | £10,000 | £250,000 |

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.

Appendix Two: Illustration of Excessive Clawback mechanism Option 1 - 4

| | School A | School B | School C |
|--|--|--|--|
| Option 1: Excessive Balance 5 Years | Excessive Balance (above 5% or 8% threshold) | Excessive Balance (above 5% or 8% threshold) | Excessive Balance (above 5% or 8% threshold) |
| Year one: 2021/22 | £250,000 | £250,000 | £250,000 |
| Year two: 2020/21 | £8,500 | £150,000 | £780,000 |
| Year three: 2019/20 | £0 | £95,000 | £785,000 |
| Year four: 2018/19 | £0 | £10,000 | £700,000 |
| Year five: 2017/18 | £56,000 | £100,000 | £650,000 |
| Excess Balance held for 5 years | £0 | £10,000 | £250,000 |
| | | | |

| Option 2: Excessive Balance 4 Years | School A | School B | School C |
|--|-----------------|-----------------|-----------------|
| | | | |

| | | | |
|--|-----------|----------------|-----------------|
| Year one: 2021/22 | £250,000 | £250,000 | £250,000 |
| Year two: 2020/21 | £8,500 | £150,000 | £780,000 |
| Year three: 2019/20 | £0 | £95,000 | £785,000 |
| Year four: 2018/19 | £0 | £10,000 | £700,000 |
| Excess Balance held for 4 years | £0 | £10,000 | £250,000 |

| Option 3: Excessive Balance 3 Years | <u>School A</u> | <u>School B</u> | <u>School C</u> |
|--|------------------------|------------------------|------------------------|
| Year one: 2021/22 | £250,000 | £250,000 | £250,000 |
| Year two: 2020/21 | £8,500 | £150,000 | £780,000 |
| Year three: 2019/20 | £0 | £95,000 | £785,000 |
| Excess Balance held for 3 years | £0 | £95,000 | £250,000 |

| Option 4: Excessive Balance 2 Years | <u>School A</u> | <u>School B</u> | <u>School C</u> |
|--|------------------------|------------------------|------------------------|
| Year one: 2021/22 | £250,000 | £250,000 | £250,000 |
| Year two: 2020/21 | £8,500 | £150,000 | £780,000 |
| Excess Balance held for 3 years | £8,500 | £150,000 | £250,000 |