

Manchester City Council Report for Resolution

Report to: Schools Forum

Subject: Consultation outcome - Updates to Scheme for Financing Schools (Excessive balance mechanism)

Report of: Directorate Finance Lead – Education and Schools

Summary

The Scheme for Financing Schools sets out the financial relationship between the Council and the schools it maintains. Any changes to the Scheme need to be agreed by members of the schools Forum representing maintained schools.

The Scheme sets out the principles underlying the funding of schools, and the basis for the financial relationship between maintained schools in Manchester and the Council. The proposed two revisions are local changes to ensure the Scheme for Financing Schools reflects current practices and ways of working. The changes include an update to the excessive balance control mechanism (following the review reported to School Forum 14th November 2022) and the provision of quarterly financial information.

Schools' consultation opened 5 December 2022, with the deadline for responses 16th December 2022, this report summarises the responses received by the Council.

Schools Forum (maintained school members only) have the power to approve the local changes to the Scheme for Financing Schools

Recommendations

Maintained School Forum members are asked to comment and decide if they approve the revisions to the scheme, namely:

- Q1. School's quarterly budget monitoring reports to include the updated three-year budget forecast with underlying assumptions on which financial plans are based on (**Scheme Ref: 2.1.1**).
 - Q2. The Council to clawback balances above the allowable threshold that have been held for more than 2 years. Subject to appeals process. (**Scheme Ref: 4.2**). Proposed that this change applies to balances as of the 31 March 2024.
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Contact Officers:

Name: Anne Summerfield
Position: Directorate Lead Education and Schools Finance
Telephone: 0161 234 1463
E-mail: anne.summerfield@manchester.gov.uk

Name: Matthew Hoeksma
Position: Principal Finance Manager - Schools
Telephone: 0161 219 6447
E-mail: matthew.hoeksma@manchester.gov.uk

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 November 2022	Agenda Item 5 – Review of Excessive School Balances Clawback
18 July 2022	Agenda Item 4 – Analysis of Excessive School Balances 2021/22 & Clawback

1. Introduction

- 1.1 December 2022 a consultation with maintained schools was launched for two proposed changes to the Scheme for Financing Schools:
- Update on school's quarterly monitoring reports, which is in line with current practice. (Scheme Ref: 2.1.1)
 - Reducing the length of time schools excessive balance can be retained before becoming subject to a clawback (as per November 2022 Schools Forum) from five years to two years. (Scheme Ref: 4.2)
- 1.2 The Scheme for Financing schools (section 2) does not currently specify that schools quarterly budget monitoring reports must include the updated three-year budget forecast with underlying assumptions. A vast majority of schools already submit this information with their budget monitoring returns. The update to the Scheme is to reflect current practice.
- 1.3 Section 4 of the Scheme for Financing schools includes a balance control mechanism, 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. Following a request from School Forum to review this, a report was presented November 2022. Maintained school representatives voted in favour of reducing the number of years a school can retain an excessive balance, before becoming subject to a clawback, from five years to two years.
- 1.4 The consultation concluded on 16th December 2022; the results have been collated in this report for consideration by Schools Forum.

2. Consultation Responses

- 2.1 Twenty-one (19%) maintained schools formally responded to the consultation. Below outlines the two consultation questions and the answers provided.

Q1. Schools quarterly budget monitoring reports to include the updated three-year budget forecast with underlying assumptions on which financial plans are based. (Scheme Ref: 2.1.1)

Responses: 21
In favour: 20 (95%)
Opposed: 1 (5%)

From the schools in favour, they understood the need for this information, and it was aligned with current practices, including reporting to school governors. Schools also commented, that given the current climate it is pertinent to ensure that assumptions are updated, reflected on budgets and reported on. One of the responses, included a comment that the budget assumption form could be made more user friendly. The Council will review the budget assumption form going forward.

The one school in opposition, expressed concerns that it takes up valuable time

with no real tangible outcome. The school believed, nothing is gained from making budget assumptions for three years in the future, as currently is difficult to make assumptions about three months in the future with any accuracy.

**Q2. The Council to clawback balances above the allowable threshold that have been held for more than 2 years. Subject to appeals process. (Scheme Ref.4.2)
Proposed that the change will apply to balances as of the 31 March 2024. Clawback will continue to be at the percentage rate agreed by Schools Forum.**

Responses: 21

In favour: 15 (71%)

Opposed: 6 (29%)

From the schools in favour of the change, comments included:

- Understand the argument around funding, that it is detrimental to school funding by schools holding high balances (especially for schools which are not holding high balances) as it supports Government's view there is sufficient funding in schools.
- Appreciate that this is not being imposed on schools from March 2023. 3 yr budgets have been proposed using assumptions and school development plan from this year.
- The appeals process should take into consideration: large unconfirmed sums of money that come in close to the end of the financial year and any recent changes in strategic leadership where they intend to resolve the historical issues of excessive balances.
- Believe that the funding for our SEND children would not come through quick enough and school is reliant on the reserve to educate and support SEND pupils.

The six schools opposing the reduction, from five years to two years for schools to retained excessive balances before clawback, cited the following reasons:

- It often takes lengthy periods of time to put analysis of reserves plans in motion, either due to availability of procurement advice from MCC or other advisory boards or due to Governor meetings being too few and far between or discussions not proving fruitful. SBM role is fast paced and pressured, limiting the time in which excess balances can be spent will lead to rushed decision making.
- Five years provides schools with flexibility and gives time to make solid strategic plans instead of rushed financial decisions. Two years is not enough time to forward plan.
- Two years is too short a period to allow for adequate planning for identified key learning stages. Due to the current acknowledged high level of need, schools need to plan for staffing and other eventualities.
- Three years would feel more appropriate than two.
- This should be a gradual process with four years reduced to three in March 2024 and then further reduced to two years in 2025. This will allow three-year budgets plans to be realised before changes are implemented. The percentage rate should be set/agreed as standard and not variable

dependent on school forum

- In these uncertain times fuel and cost of living increases it seems harsh to clawback balances above 8% over 2 years rather than 5

Following up on the comments above, five out of the six opposing schools was sent information detailing the Council's process on holding maintained school funds in a ring-fenced reserve for capital projects. This information will be shared via school circular.

3. **Conclusion and Recommendations**

- 3.1 Maintained School Forum members are asked to comment and decide if they approve the revisions to the scheme, namely:
 - Q1. School's quarterly budget monitoring reports to include the updated three-year budget forecast with underlying assumptions on which financial plans are based on (**Scheme Ref: 2.1.1**).
 - Q2. The Council to clawback balances above the allowable threshold that have been held for more than 2 years. Subject to appeals process. (**Scheme Ref: 4.2**). Proposed that this change applies to balances as of the 31 March 2024.