

Manchester City Council Report for Resolution

Report to: Schools Forum

Subject: Excessive Schools Balances Mechanism

Report of: Directorate Finance Lead Children's and Schools

Summary

In July and November 2018, Schools Forum was provided with detailed analysis of schools' excessive balances, which has increased by £2.1m between 2016/17 and 2017/18. Manchester's increasing level of school balances does not support the City's case for sufficient funding for additional need following the full implementation of the national funding reforms, scheduled 2020/21 onwards.

Currently Schools Forum has the right to clawback excess balances under the Scheme of Finance for Schools if they are not deemed to be properly assigned. During the autumn the Council established if individual school excessive balances have been properly assigned. Where resources could not be proven to have been properly assigned clawback of funds was considered. Two schools with excessive balances have voluntarily returned £0.779m back to the Council within the financial year.

At January 2019 Schools Forum requested that the Council reviews the current mechanism and propose revisions to improve its effectiveness in reducing excessive surplus balances. This report seeks Schools Forum comments on a proposed revision to the excessive surplus balance control mechanism and recommends consultation with Manchester maintained schools.

Recommendations

All School Forum members are asked to provide comment on the proposed change to the balance control mechanism prior to consultation with maintained schools.

Contact Officers:

Name: Reena Kohli
Position: Directorate Lead Children and Schools Finance
Telephone: 0161 234 4235
E-mail: r.kohli@manchester.gov.uk

Background Papers

The documents listed overleaf 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.

19th November Schools Forum - Schools Balances Report
16th July Schools Forum - Analysis of Excessive School Balances
14th May Schools Forum - Dedicated Schools Grant and School Balances 2017/18 –
Outturn Report

1. INTRODUCTION

- 1.1 Annually an analysis of schools' reserves is completed for each maintained school that has an excessive surplus balance. 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.
- 1.2 In July and November 2018, Schools Forum was provided with detailed analysis of schools' excessive balances, which has increased by £2.1m between 2016/17 and 2017/18. Manchester's increasing level of school balances does not support the City's case for sufficient funding for additional need following the full implementation of the national funding reforms, scheduled 2020/21 onwards.
- 1.3 At January 2019 Schools Forum requested that the Council reviews the current mechanism and propose revisions to improve its effectiveness in reducing excessive surplus balances. This report seeks Schools Forum comments on a proposed revision to the excessive surplus balance control mechanism and recommends consultation with Manchester maintained schools.
- 1.4 Manchester's current balance mechanism is provided in Appendix One of this report.

2. SCHOOL BALANCES

- 2.1 Manchester maintained schools are projecting an overall revenue surplus balance of £16.97m and capital balance of £0.9m at quarter three. This includes six schools that are reporting deficits.
- 2.2 Many schools are predicting a deficit or low balance by year three of the multi-year budgeting. In the future the Council will request multi-year approved budgets with underlying assumptions on what they have used in preparing their budgets. This will enable the Council to identify and support schools with financial issues sooner.
- 2.3 The Council is also working with the Department for Education who have devised a School Efficiency Tool, this provides a range of key indicators, both financial and performance related.
- 2.4 Actions taken by the Council at the moment to support financial resilience and better planning include:
 - Support and challenge board.
 - Regular briefings/updates at head teachers, school business managers & governors conferences.
 - Detailed budget guidance document going out to schools with their indicative budgets, to support with budget planning.
 - Where a school is causing significant concern the Council have parachuted an experienced business manager in to support and resolve issues.
 - Part of the welcome pack for head teachers includes a schedule of financial tasks which the head teacher needs to have an oversight of.
 - There is continuous communication with finance, quality assurance and audit, although formal Assurance meetings are planned to be rescheduled.Continuously improving the good relationship with schools and their budget

officers.

- 2.5 Based on the latest information provided by schools it is projected at 2018/19 financial year end 52 schools will have a revenue and capital balance above the allowable threshold.

Table one: Balances

	Projected 2018/19 year-end Number of Schools	2017/18 Number of Schools
Deficit	6	2
Allowable surplus balance threshold	57	47
Category A Above 8% (or 5% for secondary) -14%	38	41
Category B 15-19%	6	11
Category C 20-29%	5	10
Category D 30% and over	3	8
Total	115	119

- 2.6 When comparing budget monitoring information provided by individual schools and actual year-end it can be seen historically schools are cautious and can under-project the level of their balances in-year. Given this it is anticipated that surplus balances will be higher than the £17.87m reported to the Council at the end of quarter three.
- 2.7 Schools Forum is asked to note that of the schools with the highest level of balances, 14 were in an excessive balance position for more than 2 years. One Manchester primary school was in the top 10 highest balances nationally and seven primaries were in the highest (revenue) balances in the North West.
- 2.8 The DfE published 2016/17 academy revenue balances information in July 2018, the information can be found by using the link below:

<https://www.gov.uk/government/statistics/academy-trusts-with-a-revenue-surplus-or-deficit-2016-to-2017>

- 2.9 This link above does not provide data for individual academies but provides summaries on the proportion that are in surplus and deficit.

3. PROPOSED REVISION TO THE BALANCE CONTROL MECHANISM

- 3.1 The allowable threshold for surplus balances is 8% of the budget share of individual Primary, Special or Nursery schools and 5% of the budget share for Secondary. Anything above this threshold is subject to clawback by the Council. Under the current mechanism the Council allows deductions from the excessive surplus balance for any sum which the governing body has declared to be assigned to specific purposes permitted by the Council. To count as properly assigned, amounts must not be retained beyond the period stipulated for the purpose in question,

without the consent of the Council.

- 3.2 A large number of schools with larger balances have stated that their balance is retained for capital works or earmarking balances to sustain their staffing levels post implementation of the funding reforms. All these balances were built up over a period of more than two years. Schools should not be building high balances for capital works. Effective and planned use of resources is where the funding schools receive is spent on the children currently in the school. The Council can provide capital loans to schools seeking to finance a capital project scheme which the school cannot fully fund from its own or other resources.
- 3.3 The management of the current mechanism is resource intensive for schools, Schools Forum and the Council and has not been effective in reducing excessive surplus balances. One area of particular difficulty is in relation to identifying 'committed' and 'uncommitted' balances.
- 3.4 The proposed change to the mechanism is for the Council to clawback of balances above the allowable threshold that have been held for more than 2 years. It is proposed that the change apply to balances as of the 31 March 2019 and is phased 50% for 2018/19 excessive surplus balances (to be reviewed in 2019/20) and 100% for 2019/20 excessive surplus balances (to be reviewed in 2020/21).
- 3.5 A revision to the balance control mechanism in the Scheme for Financing Schools requires consultation with the maintained schools within Manchester, before final ratification by Schools Forum. It is proposed that briefings are held with representative groups of governors and schools staff to provide an update on balances and any changes to the scheme.

4. RECOMMENDATIONS

- 4.1 All School Forum members are asked to provide comment on the proposed change to the balance control mechanism prior to consultation with maintained schools.

Appendix One

MANCHESTER'S BALANCE CONTROL MECHANISM

- 1.0 Section 4.2 of 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.
- 1.1 Surplus balances held by schools, as permitted under this scheme, are subject to the following restrictions with effect from 1 April 2007:
- a) The Authority shall calculate by 31 May each year the surplus balance, if any, held by each school as at the preceding 31 March. For this purpose the balance will be the recurrent balance as defined in the Consistent Financial Reporting Framework;
 - b) The Authority shall deduct from the calculated balance any amounts for which the school has a prior year commitment to pay from the surplus balance and any unspent Standards Fund grant for the previous financial year;
 - c) The Authority shall then deduct from the resulting sum any amounts which the governing body of the school has declared to be assigned for specific purposes permitted by the authority as listed at Annex D of the scheme, and which the authority is satisfied are properly assigned. To count as properly assigned, amounts must not be retained beyond the period stipulated for the purpose in question, without the consent of the Authority. In considering whether any sums are properly assigned the Authority may also take into account any previously declared assignment of such sums but may not take any change in planned assignments to be the sole reason for considering that a sum is not properly assigned.
 - d) **If the result of steps a-c is a sum greater than whichever is the greater of 5% of the current year's budget share (secondary schools) or 8% (primary and special schools), or £10,000 (where that is greater than either percentage threshold), then the Authority shall deduct from the current year's budget share an amount equal to the excess.**
- 1.5 For schools that hold balances greater than the Authority's recommended guideline the Authority shall be empowered to deduct from the current year's budget share a percentage of the excess surplus balances (clawback) as agreed following consultation with Manchester's Schools Forum.
- 1.6 The Council has applied the balance control mechanism to all balances and all schools deemed to have an excess balance have confirmed that the balances are held for a specific purpose(s). However, a number of schools have been holding excessive balances for a number of years. In order to establish whether the balance is properly

assigned or not the Council has:

- gathered / requested further confirmation in the autumn term timelines associated with planned spend;
- looked at school outcomes where the budget has not been spent on improving outcomes.