

**Manchester City Council
Report for Resolution**

Report to: **Schools Forum**

Subject: **Excessive Schools Balance Mechanism – Revised Proposal**

Report of: **Directorate Finance Lead – Children Services and Education**

Summary

Manchester's approved Scheme for the Financing of Schools includes a schools' balance control mechanism, as agreed by Schools Forum, which requests the Local Authority (LA) control and clawback, where appropriate, schools' excessive surplus balances. A consultation on the revisions to the Scheme was launched following the report to Schools Forum on Excessive School balances in March 2019, the deadline for school responses was the 9th May 2019. A summary of the responses was provided to Schools Forum at the meeting held on 13 May 2019. At the May 2019 meeting members voted unanimously to request that officers undertake further work to develop a more detailed clawback mechanism for consideration at a future Schools Forum meeting.

This report details the revisions to the proposed mechanism and the impact at school level.

Recommendations

All maintained Schools Forum members are asked approve:

- The proposed change to excess surplus balance mechanism to claw back 50% of all excessive surplus balances held for more than four years in 2019/20.
- Formation of an appeal panel that considers written evidence from individual schools subject to clawback.

All School Forum members are asked to comment on:

- Plan to review the implementation and impact of the new clawback mechanism for schools before March 2020.

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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.

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

1. INTRODUCTION

- 1.1 Manchester's approved Scheme for the Financing of Schools includes a schools' balance control mechanism that requests the LA control and clawback, where appropriate, schools' excessive surplus balances.
- 1.2 A consultation on the revisions to the Scheme was launched following the Excessive School balances Schools Forum report in March 2019, the deadline for school responses was the 9 May 2019. A summary of the responses was provided to Schools Forum at the meeting held on 13 May 2019. At the May 2019 meeting Forum voted unanimously to request that officers undertake further work to develop a more detailed clawback mechanism for consideration at a future Schools Forum meeting.
- 1.3 This report details the revisions to the proposed mechanism and the impact.
- 1.4 Schools Forum members are reminded that previous National Formula Funding (NFF) proposals indicated Manchester as being ranked 7th as one of the most significant losers (losing the most outside of London), as set out in the table six below. This suggested that in the longer term, funding is likely to be significantly below the protected floor and when transitional protection is removed, there will be a significant loss in funding.

Table one: Top Ten Losses

Local Authority Area	Impact -loss	Ranking
Hackney	-1.393%	1
Camden	-1.391%	2
Lambeth	-1.391%	3
Lewisham	-1.386%	4
Haringey	-1.382%	5
Newham	-1.361%	6
Manchester	-1.360%	7
Southwark	-1.357%	8
Tower Hamlets	-1.354%	9
Hammersmith and Fulham	-1.352%	10

2. REVISED EXCESS BALANCE MECHANISM

- 2.1 At the May 2019, Forum requested:
 - i) exclusion of additional devolved formula capital and supplementary free school meals grant paid to schools in March 2019 from the excess balance calculation.
 - ii) extending the number of years the excess balance can be held for before clawback is considered and actioned.
- 2.2 At the same meeting, sector representatives also proposed that the LA

considers:

- iii) removal of maintained nursery schools (MNS) from the clawback mechanism.
- iv) increasing of the allowable balance threshold, currently 8% for special schools.

- 2.3 The LA has considered the requests above, and in the revised proposed mechanism plans to exclude the additional devolved formula capital and supplementary free school meal grant paid to schools in March 2019 in the excess balance calculation. It is also proposed that the number of years the balance is held for before clawback is considered is raised from 2 years or more to **4 years or more**. The LA is of the view that this gives schools more than sufficient time to plan and appropriately spend balances above the allowable threshold. Appendix one lists balances held by schools for 4 years or more above the allowable threshold of 5% for secondary or 8% for all other sectors.
- 2.4 It is not proposed that MNS are excluded from the mechanism, nor that the allowable threshold for special schools is increased. Given the increased focus on high needs funding pressures and MNS longer term funding sustainability, the LA is of the view that the risk of increasing balances in these sectors will not support the City's case for sufficient funding for additional need.
- 2.5 The revised proposed excess control mechanism is provided below:
- 2.6 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.
- 2.7 Surplus balances held by schools, as permitted under this scheme, are subject to the following restrictions with effect from 1 April 2019:
- a) The LA shall calculate by 31st May each year the surplus balance, if any, held by each school as at the preceding 31st March. For this purpose the balance will be the recurrent balance as defined in the Consistent Financial Reporting Framework;
 - b) The LA shall then deduct from the resulting balance late grants that were received and not previously notified to the school in sufficient time in the financial year. The LA will confirm to schools on an annual basis what grants are identified as late, and these will be excluded from any excess balance calculation. For 2018/19 balances the calculation would therefore exclude additional devolved formula capital and the supplementary free school meals grant announced and paid to schools late 2018/19.
 - c) **If the result of steps a-b is a sum greater than whichever is the greater**

of 5% of the current year's budget share (secondary schools) or 8% (nursery, primary and special schools), or £10,000 (where that is greater than either percentage threshold), then the LA will review how much of the amount above 5% or 8% has been held for more than 4 years.

- d) The LA will clawback balances above the allowable threshold that have been held for more than 4 years, at a rate of 50%. This will apply to balances as of the 31 March 2019. The future operation of the mechanism will be reviewed by Schools Forum before March 2020.

- 2.8 Schools should continue to annually provide analysis of reserves to governors for approval and send to the Local Authority by the 7th June.
- 2.9 If schools are unable to demonstrate sufficient robust plans to commit their balance, clawback will be applied **prior** to the lapse of the allowable balance retention period of more than four years.
- 2.10 Paragraphs 2.11 to 2.15 provides examples of the potential impact of the proposed clawback mechanism. Note in the tables one to four, *Year five excessive balance above the threshold is after deducting late grants as described in para.2.7b above.
- 2.11 School A – Has demonstrated annually their plans to spend the balance above the excess, but would be subject to clawback of £250,000, which is 50% of the excessive balance that has been above the threshold for more than four years.

Table two – School A

	Excessive Balance i.e. above 5% or 8% threshold	Excessive balance held for more than four years	Clawback under proposed mechanism
	(a)	(b)	(c) = (b) x 50%
	£	£	£
Year one: 2014/15	500,000		
Year two: 2015/16	650,000		
Year three: 2016/17	750,000		
Year four: 2017/18	850,000		
*Year five: 2018/19	1,000,000	500,000	250,000

- 2.12 School B – Has demonstrated annually their plans to spend the balance above the excess, but would be subject to clawback of £25k, which is 50% of the excessive balance that has been above the threshold for more than four years.

Table three – School B

	Excessive Balance i.e. above 5% or 8% threshold (a) £	Excessive balance held for more than four years (b) £	Clawback under proposed mechanism (c) = (b) x 50% £
Year one: 2014/15	500,000		
Year two: 2015/16	650,000		
Year three: 2016/17	50,000		
Year four: 2017/18	850,000		
*Year five: 2018/19	1,000,000	50,000	25,000

- 2.13 School C – Has demonstrated annually their plans to spend the balance above the excess in year two to year five, but would **not** be subject to clawback, as there was no excessive balance in year one.

Table four – School C

	Excessive Balance i.e. above 5% or 8% threshold (a) £	Excessive balance held for more than four years (b) £	Clawback under proposed mechanism (c) = (b) x 50% £
Year one: 2014/15	0		
Year two: 2015/16	650,000		
Year three: 2016/17	750,000		
Year four: 2017/18	850,000		
*Year five: 2018/19	1,000,000	0	n/a

- 2.14 School D – The school has not held an excess balance above the threshold for more than four years, but would be subject to clawback of a **maximum of £1m**, due to the school not demonstrating sufficient robust plans to spend the excess balance. In this case, clawback will be applied prior to the lapse of the allowable balance retention period of more than four years.

Table five – School D

	Excessive Balance i.e. above 5% or 8% threshold	Excessive balance held for more than four years	Clawback under proposed mechanism
	(a)	(b)	(c) = (b) x 50%
	£	£	£
Year one: 2014/15	0		
Year two: 2015/16	650,000		
Year three: 2016/17	750,000		
Year four: 2017/18	850,000		
*Year five: 2018/19	1,000,000	0	n/a

2.15 Taking into account the feedback through consultation and previous meetings, table six below compares the overall impact of the proposed revisions (affecting 35 schools) to the previous proposal (affecting 48 schools).

Table six: Impact of proposed revisions (as per para 2.3)

Sector	50% Clawback above threshold held <u>more</u> <u>than 2 yrs.</u>		50% Clawback above threshold *held <u>more</u> <u>than 4 yrs.</u>			
	No.	Total	Total		Range of Clawbacks	
		£000's	No.	£000's	£000's	£000's
Nursery	2	44	2	40	6	34
Primary	39	2,658	28	1,866	6	520
Secondary	2	168	1	58	58	58
Special	5	354	4	289	23	184
Total	48	3,224	35	2,253		

* After deducting late grants 2018/19: additional devolved formula capital and supplementary free school meals.

2.16 The LA recommends the formation of an appeals panel. The panel would be a sub-group to Schools Forum. The terms of reference for the sub-group would be to review any appeals against potential clawback of balances. It is not expected that this group would meet more than twice each year. The group would consider only written evidence from schools subject to clawback. The panel would be made up of three members of Schools Forum and would be supported by an LA officer. In specific situations (i.e. discussion around own

school), it will become necessary for a substitute head teacher or governor to take the place of a colleague on the sub-group.

3. CONCLUSION AND RECOMMENDATIONS

- 3.1 Whilst the DfE has not yet confirmed the timing of full implementation of the NFF, it still maintains and is currently considering the timing of further moves to the 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.
- 3.2 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 this risk to Manchester's funding levels, there is a need to strengthen the current balance control mechanism.
- 3.3 All maintained Schools Forum members are asked approve:
 - The proposed change to excess surplus balance mechanism to claw back 50% of all excessive surplus balances held for more than four years in 2019/20.
 - Formation of an appeal panel that considers written evidence from individual schools subject to clawback.
- 3.4 All School Forum members are asked to comment on:
 - Plan to review the implementation and impact of the new clawback mechanism in the long-term before March 2020.