

Southwark Schools Forum

Date: 05 October 2023	Item 14	Type of report: For Discussion / Decision
Report title: Balance Control Mechanism		
Author name Tim Gibson / Aron Brown and contact details: Aron.Brown@southwark.gov.uk		
Officer to present the report: Aron Brown and Eniko Nolan		

Executive Summary

This report reviews the operation of the existing Southwark Balance Control Mechanism and makes recommendations about implementing changes to the operation of the mechanism. This paper is not asking for recommendations about the balances of individual schools but rather about what the principles of the mechanism should be going forwards and how the scheme should be operated in the future.

Schools Forum Actions

That the Schools Forum (**Maintained sector members only**):

Agree to carry out a consultation with all maintained schools on proposed changes to the Southwark Balance Control Mechanism as set out in paragraph 3.

1. The Existing Southwark Balance Control Mechanism

- 1.1 Southwark operates a Balance Control Mechanism (BCM) on behalf of the Schools Forum which is set out in the Southwark Scheme for Financing Schools (the Scheme) at clause 4.2.1. This mechanism is focused on those schools which have built up significant excessive balances over the years. In calculating whether a school has an excess surplus balance, the balance is taken from the end of financial year accounts. The most recent decisions to cap balances was based on the year ending 31 March 2022, as there has not (yet) been any further capping of balances in this financial year.
- 1.2 The calculation is based on the schools revenue balance (A) and school budget share funding (B). The surplus balance calculation is, (surplus balance %) = $(A) / (B) \times 100$.
- 1.3 For this purpose, the revenue balance (A) is the sum of B01 (committed revenue balances) and B02 (uncommitted revenue balances), as defined in the consistent financial reporting framework. The school budget share (B) is the sum of I01 (fund delegated by the LA), I02 (funding for sixth form students), I03 (SEN funding), I04 (funding for minority), I05 (pupil premium), as defined in the consistent financial reporting framework.

- 1.4 Where the level of surplus balance held by a school exceeds the BCM thresholds, schools are required to report on how the school intend to make use of the balances.
- 1.5 The Scheme (clause 4.2.2) also sets out the BCM threshold that applies at 5% for secondary schools and 8% for nursery, primary and special schools. These percentages come from DfE guidance that was in place many years ago now and are still referred to in the [Schools Financial Value Standard Guidance](#), an extract of this guidance is contained at Appendix A. Hospital Schools are outside the scope of the BCM.
- 1.6 Schools are currently permitted to carry forward surplus balances to the level of the BCM threshold. Where schools exceed the BCM threshold the School Forum may decide to claw back some of the excess. While this is not a statutory power of the Schools Forum under legislation, our Southwark Scheme for Financing Schools does provide for a Schools Forum decision.
- 1.7 The school returns explaining why the school has exceeded the relevant capping percentage are analysed. Excess balances of below £20k have been excluded from the review list as are schools forecasting to spend their excess balances by the end of the financial year, those that have reduced their excess balance in both of the last two financial years and those that are forecasting deficits are also excluded. The remaining schools plus any with two years of increasing excess balances and those with more than 50% of their planned excess balance spend after the end of the current financial year are then subject to a more detailed analysis, looking at the trends in pupil numbers and both the in-year balances and the accumulated balance over the past few years.
- 1.8 There are some schools that have indicated that they have set aside money for capital projects. In the past there had been instances of this happening, only for the school not to undertake the capital works. To avoid this, where this is the case, these schools balances have been capped and the funds put aside in a trust like account that only the school can draw down from.
- 1.9 Appeal Process – Where schools have disagreed with the decision to cap their balances an appeals process was set up.

The current Appeals Panel is made up of the

- Director of Education
- Chair of the Schools Forum
- Departmental Finance Manager of Children and Adults Directorate;

With their decision being final.

The panel can uphold an appeal provided it is in accordance with the Scheme. All decisions are reported back to the Schools Forum.

- 1.10 There is currently (as at the 10th of September 2023) £910k being “held in Trust” on behalf of six schools with the amounts held ranging from £30k to £306k.
- 1.11 We are expecting some of these schools to have undertaken more capital works over the summer, which could potentially change the above position.

2 Review of the Effectiveness of the Current Arrangements

- 2.1 The existing mechanism has not been popular with schools with some schools' governors and heads being particularly vociferous in their criticism of both the principles of the scheme and the practicalities of operating the scheme.
- 2.2 The existing mechanism has been particularly bureaucratic and time consuming to operate and has thus taken up a large amount of school's staff time as well as officer time.
- 2.3 The levels at which balances are deemed to be excessive now seems to be rather low in the current economic climate, where there is a higher level of inflation being experienced by schools, pupil numbers are very volatile and are falling significantly in many schools and also there is a greater degree of uncertainty about future levels of school funding, particularly in London which is also affected by the Government's levelling up agenda. These financial risks and uncertainties mean that it is logical for schools to need to have higher levels of reserves in order to provide resilience against any unforeseen changes in their financial position over and above the normal reasons that a school would need to maintain a healthy level of reserves.
- 2.4 Having looked at the BCMs that are in place in other authorities, while there are some that have mechanisms that are similar to that in Southwark, these are very few. There are also a number of authorities that have a mechanisms that use higher thresholds than in Southwark or review the levels of excess balances over a longer time period. In addition some authorities also have a far lighter touch mechanism than that in Southwark with a greater degree of responsibility for managing the balance levels being given to the schools governing bodies albeit that the LA's with such mechanisms do still require evidence that such schools are carrying out these responsibilities effectively.
- 2.5 The system of using "Trust Funds" to hold the excess balances on behalf of schools and to only release this back to the schools on receipt of suitable evidence that the school has committed to spending the money has intended has not really had the desired effect and has just added another level of bureaucracy to an already difficult process. On the positive side it has undoubtedly sped up the carrying out of some works which would otherwise have been likely to have been delayed as schools are rightly worried that if they don't use the balance it will be lost to them and repurposed to other schools or other DSG pressures.
- 2.6 The DfE Statutory Guidance states the following in relation to controls on surplus balances

The scheme may contain a mechanism to claw back excess surplus balances.

Any mechanism should have regard to the principle that schools should be moving towards greater autonomy, should not be constrained from making early efficiencies to support their medium-term budgeting in a tighter financial climate, and should not be burdened by bureaucracy.

The mechanism should, therefore, be focused on only those schools which have built up significant excessive uncommitted balances or where some level of redistribution would support improved provision across a local area.

- 2.7 At the June Schools Forum meeting we reported on the levels of schools balances as at the 31st September 2023, both those in surplus as well as those in deficit. The appendix to that paper that shows the balances that maintained schools were holding at that date is attached again at Appendix B for information. Note that these figures do not include amounts that are being held under the current trust fund arrangements.

3 Proposed Amendments to the Balance Control Mechanism

- 3.1 In general, schools are expected to spend the funding allocated in any one year on the education of pupils within the school during that year. However, it is recognised that schools will need to hold reasonable contingencies for unforeseen items and, from time to time, may wish to save funding over a few years for a major project subject to the approval of the governing body. The additional risks posed by falling pupil numbers and the Council's Keeping Education Strong agenda are also noted. It is thus proposed that the existing BCM be amended to one of the two options outlined below:

EITHER

- a) To do away with the existing BCM altogether and to amend the Scheme to place a greater onus on Schools' Governing Bodies themselves to determine an appropriate level of balances to hold in reserve. In this case the LA will continue to require evidence that the schools' governing bodies have properly considered and documented the levels of balances that they intend to hold and the reasons that any surplus funds are being held. The LA will also follow up whether the stated plans are actually carried out and will reserve the right to still be able to intervene where very large balances are being built up without any clear plans being in place on the reasons for holding such balances or where the stated plans are repeatedly not carried out. In such cases the LA will refer any non-compliance back to the Schools Forum along with any proposed remedial action.

OR

- b) i) That the threshold at which school balances are considered to be excessive be increased to 11% (rather than the current level of 8% for primary and 5% for secondary). Although secondary schools are bigger in size than primaries which brings some economies of scale, they are also subject to greater risks if costs do go up or if pupil numbers fall and therefore it is not proposed to continue to have a different rate for primary and secondary maintained schools. The threshold of 11% is considered to be a sufficient level of reserves to provide sufficient resilience against unforeseen events and is considered to be sufficient in the current economic climate. In the consultation we will ask for schools views on whether this threshold is appropriate or if it should be higher or lower.
- ii) It is proposed that the level of excess balances be looked at annually and that only that portion that has been excessive for four or more years be considered for capping under the mechanism.

- iii) Should an approved plan not be in place for the use of large balances, and where the school has held an excess balance for greater than four years, the authority will consider using its powers to take back part of the funding held by the school. The local authority will seek to encourage schools on an ongoing basis to use their funding for the benefit of the pupils at their school and thus to minimise the level of balances held to avoid a clawback of funding. Funds derived from sources other than the authority will be excluded from any clawback. (Note that in the case of special schools top-ups, funding from other authorities will be included). The level of balances will be shared with the schools forum annually and the schools forum will be notified of action taken by the local authority in relation to excessive balances.
 - iv) It is proposed to keep broadly the same appeals process that exists currently to resolve any disagreements that may occur. Note however that rather the Director of Education on the panel, this will in future be the Director of Children's Services or their nominated representative
 - v) Any funding taken back from schools will be available to be used for the benefit of maintained schools subject to the same restrictions that exist for other DSG related spend and any reallocation will be agreed with the schools forum.
- 3.2 In light of the higher thresholds and timescales, it is recommended that the "Trust Fund" mechanism is no longer used. This means that once a school's balance is deemed to be excessive and where there are no concrete plans for it to be used in the foreseeable future, such excessive balances will be deducted from the school and will be made available in the same way as other DSG funding to be repurposed, with any reallocation to be subject to agreement by the Schools Forum.
- 3.3 Schools' Governing Bodies should be able to choose to themselves capitalise a portion of their balance if it is to be used for a specific capital purpose, however they should note that once a balance has been capitalised it cannot be transferred back to revenue and thus must be used for the capital project for which it is intended.
- 3.4 As any changes to the BCM will require the Southwark Scheme for Financing Schools to be amended, any proposed changes will need to be consulted on with all maintained schools. It is thus proposed that a consultation to this effect be carried out over the coming months with a report on the outcome of the consultation being brought back to the January Schools Forum meeting.
- 3.5 In addition, it is proposed to tighten the wording of Clause 4.2.1 of the Scheme to clarify that the LA will continue to seek the views of the Schools Forum on the arrangements for the operation of the balance control mechanism (under regulation 10(2) of the Schools Forum Regulations) and the decision to cap excess surplus balances remains with the LA.
- 3.6 The authority will want to ensure that schools with large balances have proper approved plans in place to justify retaining a high balance. The authority will continue to seek further information from individual schools on the reason for

holding balances once a school's balance exceeds 5% of its annual revenue budget share in the case of secondary schools and 8% in the case of primary schools (i.e. no change from what is expected currently to be reported). The authority will expect School Governing Bodies to have discussed the level of balances that they are holding and to have documented the reasons for holding any balances that exceed these thresholds. The LA may request to see minutes of meetings as evidence that the level of balances has been properly considered.

- 3.7 Where the Authority is already holding schools balances in Trust Funds, it is proposed that these schools be given until September 2024 to draw down any remaining balances that are being held. This will allow these schools to carry out planned works in the Summer 2024 school holidays, where they have not already carried out the intended plans. Any balances that still remain after that time will be reported back to the Schools Forum with recommendations for these to be reallocated to other spending priorities in line with the DSG criteria.

Extract from Schools financial value standard (SFVS) and assurance statement

Checklist Guidance

- 13. Are balances at a reasonable level and does the school have a clear plan for using the money it plans to hold in balance at the end of each year?**

What this question means

School balances

Schools may carry over part of their revenue income from one financial year to the next – the amount saved, including from previous years, is their surplus balance. Maintained schools should submit information on how much they have set aside as part of their [consistent financial reporting \(CFR\)](#) returns.

A ‘reasonable level’

At present local authorities are able to claw back surplus balances for maintained schools where they exceed ‘excessive surplus’ thresholds, and are uncommitted, that is to say, not set aside for a specific reason as detailed in the local authority’s scheme for financing schools. However, the government removed the requirement for local authorities to have a clawback mechanism, so some may choose not to. This means that some schools should be able to save as much as they are able to, without the risk of clawback. Where a local authority chooses to operate a clawback mechanism it needs to set out the thresholds it will operate to in its local scheme for financing schools. The original thresholds, which are commonly still being used, were 5% of income for secondary schools, or 8% of income for primary, nursery, and special schools.

Why it is important to keep balances at a reasonable level and have clear plans for using the money

All schools should aim to spend their funds prudently with proper regard for value for money. Schools should regularly check that they have plans for the money they are holding to ensure they are getting the most benefit and best value for money from their budgets.

Where local authorities operate a clawback mechanism, schools maintained by them should ensure that they comply with the rules on balances detailed in their scheme for financing schools. These authorities are likely to monitor and challenge balances, and schools should ensure they have sufficiently robust plans to spend their balances to avoid clawback.

Good practice

Schools should plan the balances which they are aiming for

Schools should be aware of what their end year balance is likely to be, so that they can spend money appropriately, giving due regard to value for money.

Schools should have a clear plan for using the money held in balances

Schools should have plans for the money they save, and should discuss plans for balances in governing body meetings, to ensure they get the best possible value from their budgets. Schools maintained by local authorities that continue to operate a clawback mechanism should ensure they adhere to their rules on balances. They should keep accurate records of plans to spend their balances in accordance with these rules as long as their authority continues to operate a clawback mechanism.

Schools Closing Revenue Balance at 31 March 2023

Sequential Number	Cumulative Revenue Balance March 2022	Cumulative Revenue Balance March 2023	Change from previous year		Capital Balances
	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)		Surplus/ (Deficit)
	£	£	£		£
Nursery Schools					
1	(100,342)	(301,938)	(201,595)		51,391
2	(127,131)	(455,152)	(328,021)		88,181
3	(107,925)	(179,484)	(71,559)		50,581
4	166,399	199,501	33,102		28,978
5	(56,276)	2,724	59,000		62,633
	(225,275)	(734,349)	(509,074)		281,764
Primary Schools					
6	173,978	289,117	115,139		0
7	226,712	223,928	(2,784)		0
8	(60,357)	(65,664)	(5,308)		19,328
9	288,235	60,448	(227,787)		21,994
10	245,722	238,612	(7,109)		0
11	262,737	439,443	176,706		17,611
12	(123,512)	(120,070)	3,442		23,972
13	102,874	94,966	(7,907)		0
14	(431,965)	265,564	697,529		20,087
15	(31,232)	(20,145)	11,086		15,054
16	(77,967)	(20,348)	57,618		37,144
17	36,739	33,642	(3,097)		18,677
18	85,356	99,123	13,767		20,468
19	(777,951)	(730,317)	47,634		14,227
20	147,079	160,881	13,802		0
21	222,950	304,972	82,022		0
22	671,596	725,238	53,642		0
23	40,998	12,267	(28,731)		428,793
24	325,077	205,951	(119,125)		19,514

25	151,455	260,523	109,068		18,579
26	(73,439)	(81,223)	(7,784)		19,861
27	41,068	68,256	27,188		14,448
28	73,849	90,757	16,907		86,902
29	(458,847)	(473,874)	(15,027)		100,370
30	247,673	222,947	(24,725)		0
31	159,478	53,501	(105,977)		25,327
32	515,302	561,755	46,453		0
33	54,864	170,208	115,345		0
34	171,226	195,630	24,404		0
35	513,797	925,633	411,836		5,841
36	222,242	204,560	(17,682)		28,049
37	2,080,343	1,424,179	(656,164)		46,643
38	87,630	117,131	29,501		14,291
39	(145,628)	(104,475)	41,153		35,518
40	421,635	247,155	(174,481)		16,026
41	104,538	159,956	55,417		16,816
42	691,060	647,362	(43,698)		0
43	182,054	187,481	5,426		63,459
44	2,275	27,136	24,861		25,431
45	356,182	377,116	20,934		61,899
46	281,706	217,108	(64,598)		0
47	(70,231)	1,766	71,998		0
48	465,226	261,181	(204,045)		0
49	237,859	284,183	46,324		15,512
50	97,060	71,411	(25,648)		0
51	277,985	214,802	(63,183)		0
52	172,203	169,538	(2,665)		41,224
53	91,249	144,525	53,276		0
54	136,608	61,795	(74,813)		0
55	106,131	209,204	103,072		26,435
56	145,734	213,200	67,466		0
57	(27,817)	(26,818)	999		0
58	16,459	170,710	154,251		0
59	167,134	113,741	(53,393)		12,808
60	(599,757)	(629,897)	(30,140)		36,564
61	69,471	88,156	18,685		20,976
	8,292,845	9,043,926	751,082		1,389,848
Secondary Schools					

62	385,552	(303,628)	(689,180)		0
63	661,913	1,668,947	1,007,034		0
	1,047,465	1,365,319	317,854		0
Special Schools					
64	84,782	100,066	15,284		30,789
65	567,302	254,776	(312,527)		1,048
66	261,529	406,813	145,284		23,754
67	228,599	257,445	28,846		34,571
68	621,265	541,004	(80,260)		0
69	452,385	436,066	(16,319)		0
70	521,027	635,166	114,140		40,841
71	334,559	385,589	51,030		18,851
	3,071,447	3,016,924	(54,523)		149,854
Total	12,186,481	12,691,820	505,339		1,821,466