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Report title:	Southwark Scheme for Financing School 2023-24
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Southwark Scheme for Financing School 2023-24

Purpose of report

1. The Scheme for Financing Schools (Scheme) is the basis on which local devolved financial management of maintained schools operates. It applies to all maintained schools and to the local authority (LA) and it for the LA to maintain the Scheme, but it if for Schools Forum to agree it, following consultation with all maintained schools.

2. Schools Forum considered proposals about changes to the Scheme for Financing Schools at its meeting in October 2023. Consultation on proposed amendments was conducted with all maintained schools from 6th November to 4th December, 2023. This report summarises the responses to the consultation, the subsequent impact on the proposed amendments and seeks approval from the Schools Forum on the revised 2023-24 Scheme.

Recommended actions for schools forum

3. That the Schools Forum
- Note the responses to the consultation, contained in Appendix 2, and the inclusion of the proposed amendments to Southwark’s Scheme;
 - Comment and agree to the final arrangements for the operation of Southwark’s Balance Control Mechanism, included in Appendix 3; and
 - Approve the Scheme for Financing Schools, as amended, set out in Appendix 4.

(NB: agreement to B. and approval at C: decisions required by maintained schools representatives only)

Introduction

4. LAs are required to publish Schemes for Financing Schools, setting out the financial relationship between them and the schools they maintain. [The School and Early Years Finance \(England\) Regulations 2023, Schedule 5](#) sets out the minimum content of those schemes.

5. The Department for Education (DfE) provides [Statutory Guidance](#) (Issue 15, updated 31 March 2023) about the contents, but there is local discretion on some aspects of it. It is for the LA to maintain the Scheme, but it is for Schools Forum to agree it, following consultation with all maintained schools.

6. Revisions to the scheme, directed by the Secretary of State for Education, are mandatory requirements of the scheme and require no consultation with schools. In making any other changes to their schemes, LAs must consult all maintained schools in their area and receive the approval of the members of their Schools Forum representing maintained schools. LAs must take the guidance into account when they revise their schemes, in consultation with the Schools Forum.

Consultation

7. Schools Forum considered proposals about changes to the Scheme for Financing Schools at its meeting in October 2023 with a consultation with all maintained schools conducted from 6th November to 4th December, 2023.

8. There were 13 responses to the consultation with the majority agreeing with the proposals. The dissenting opinions appeared to relate to the objection to the Scheme having Balance Control Mechanism at all as opposed to the amendments proposed.

9. Most of the comments provided were made in respect of the 'arrangements' adopted for the operation of the BCMS, and in the main, those comments have provided the basis for some helpful clarifications.

10. **Appendix 1** sets out the changes proposed in the consultation paper.

11. **Appendix 2** summarises the responses received and any subsequent changes made.

12. **Appendix 3** outlines the updated and final arrangements for the operation of Southwark's Balance Control Mechanism in respect of 2023-24 and future years' carried forward balances.

13. **Appendix 4** is the amended Scheme for Financing Schools 2023-24, including all the proposed changes from Appendix 1 and 2.

Next Steps

14. The amended scheme will be operational on the date of approval by the Schools Forum and the revised arrangements will be implemented for carried forward balances as at 31 March 2024 with the four year period commencing at the end of the 2019-20 financial year.

15. The current "Trust Fund" mechanism will no longer be used and where the LA is already holding schools balances in Trust Funds, those balances will be returned to the individual schools before 31 March 2024.

Conclusion

16. Schools Forum is asked to:

Note the responses to the consultation, contained in Appendix 2, and the inclusion of the proposed amendments to Southwark's Scheme for Financing Schools;

Comment and agree to the final arrangements for the operation of Southwark's Balance Control Mechanism, included in Appendix 3; and

Approve the Scheme for Financing Schools, as amended, set out in Appendix 4.

Southwark Scheme for Financing School 2023-24

Appendix 1

Authority Proposed Amendments – Balance Control Mechanism

Section	Current Scheme	Proposed Amendment
SECTION 4:	THE TREATMENT OF SURPLUS AND DEFICIT BALANCES ARISING IN RELATION TO BUDGET SHARES	
4.2 Controls on surplus balances	<p>Surplus balances held by schools as permitted under this scheme are subject to the following restrictions with effect from 1 April 2011:</p> <p>4.2.1 Calculation of the surplus balance</p> <p>Local Authorities are no longer required to operate a balance control mechanism; however, Southwark operates a balance control mechanism on behalf of the Schools Forum. Southwark's mechanism is focused on only those schools which have built up significant excessive balances. The authority shall calculate each year the surplus balance, if any, held by each school as at the preceding 31 March.</p> <p>The calculation will be based on the schools revenue balance (A) and school budget share funding (B). The surplus balance calculation is, surplus balance (%) = (A) / (B) x 100.</p> <p>For this purpose, the revenue balance (A) will be 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) will be 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.</p>	<p><i>Amended 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.</i></p> <p>4.2.1 Calculation of the surplus balance</p> <p>Local Authorities are no longer required to operate a balance control mechanism; however, Southwark Council operates a balance control mechanism on behalf of the Schools Forum which is focused on only those schools which have built up significant excessive balances. Arrangements for the operation of the mechanism are agreed in consultation with the Schools Forum. Southwark's mechanism is focused on only those schools which have built up significant excessive balances. The authority shall calculate each year the surplus balance, if any, held by each school as at the preceding 31 March.</p> <p>The calculation will be based on the schools revenue balance (A) and school budget share funding (B). The surplus balance calculation is, surplus balance (%) = (A) / (B) x 100.</p> <p>For this purpose, the revenue balance (A) will be 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) will be 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.</p>

4.2.2 Reporting on the intended use of surplus balances

Where the level of surplus balance held by a school exceeds the balance control mechanism thresholds, schools will be required to report on how the school intend to make use of the balances.

The balance control mechanism threshold that applies for this purpose is 5% of the school budget share for secondary schools and 8% of the school budget share for nursery, primary and special schools. Hospital Schools are outside the scope of the Balance Control Mechanism.

For the purposes of this section, the school budget share is defined in section 4.2.1.

Increased Balance Control Mechanism thresholds to 11% for all maintained schools to reflect the current economic climate, where there is a higher level of inflation, pupil numbers are very volatile and falling significantly and there is a greater degree of uncertainty about future levels of school funding.*

**Although secondary schools are larger 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.*

4.2.2 Reporting on the intended use of surplus balances

Where the level of surplus balance held by a school exceeds the balance control mechanism thresholds, schools will be required to report on how the school intend to make use of the balances.

The balance control mechanism threshold that applies for this purpose is ~~5% of the school budget share for secondary schools and 8%~~ 11% of the school budget share for nursery, primary, secondary and special schools. Hospital Schools are outside the scope of the Balance Control Mechanism.

	<p>4.2.3 Carry forward balances</p> <p>Schools are permitted to carry forward surplus balances to the level of the balance control mechanism threshold.</p> <p>The Authority, under arrangements approved by the Schools' Forum, will recover excessive surplus balances from individual schools that are unsupported by specific proposals for their use. Any such amounts recovered will be redistributed under arrangements approved by Schools' Forum.</p>	<p><i>Clarified wording to reflect the proposed changes to Section 4.2.1, outlined above. That is, 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</i></p> <p>4.2.3 Carry forward balances</p> <p>Schools are permitted to carry forward surplus balances to the level of the balance control mechanism threshold.</p> <p>The Local Authority, under arrangements agreed with approved by the Schools' Forum, will recover excessive uncommitted surplus balances from individual schools that are unsupported by specific proposals for their use. Any such amounts recovered will be redistributed under arrangements agreed with approved by Schools' Forum.</p>
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Southwark Scheme for Financing Schools Consultation

Appendix 2

Analysis and Response

Proposed Scheme Amendments

Responses to this survey: **13**

Overall, there were three proposed amendments to the Scheme (as per Appendix 1) with the majority agreeing with the proposals, as set out in the table below.

Amendment	Agree	Disagree	Unsure
4.2.1	10	3	
4.2.2	10	3	-
4.2.3	9	3	1

3. Comments were generally provided with the dissenting opinions, some expressing an objection to the Scheme having a Balance Control Mechanism at all (as opposed to the amendments proposed) but most in respect of the 'arrangements' adopted for the operation of the mechanism and, in the main, those comments have provided the basis for the clarifications outlined from paragraph 20, below.

4.2.1 Calculation of the surplus balance

4. In general, the comments detailing the reason for that disagreement were about the involvement of the Schools Forum in the decision making process.

5. The amendment, itself, was to clarify that whilst the LA will seek the views of the Forum on the arrangements for the operation of the mechanism, the decision to cap excess surplus balances remains with the LA.

6. Further questions were raised about the impartiality of Forum members. It is not the Forum that makes the final decision to withdraw excess surplus balances and, in agreeing the arrangements for the operation of the mechanism, Forum members must consider the needs of the whole of the educational community, rather than using their position on the Forum to advance their own sectional or specific interest.

7. Finally, there were concerns about the transparency of the operation of the mechanism. Both the current membership of the Forum and all papers can be accessed on the Council's website @ [Southwark Schools Forum](#).

8. It is within the LA's power to withdraw excess surplus balances and, in agreeing to the operation of the mechanism, the Forum is bound to act impartially and openly. Therefore, on the basis that the majority of respondents agreed with the proposed amendments, the amendment stands.

4.2.2 Reporting on the intended use of surplus balances

9. Broadly, an increase in the threshold to 11% was welcomed but concerns were raised in the comments that, depending on the individual circumstances and

strategic plans for the schools, it still may not be sufficient in the current economic climate.

10. Benchmarking of the Balance Control Mechanisms in place in other London authorities indicates a threshold on average at less than 9%.

11. The LA will present an annual report to the Schools Forum, setting out details of those schools who have exceeded the balance control mechanism capping limit and consider each school individually to come to a decision on whether their excess uncommitted surplus balance should be removed. This will ensure that the individual circumstances of the school, including their medium term plans, will be taken into account in determining the uncommitted element of their surplus balance.

12. Only one response disagreed with the 11% applying to all schools and suggested the four years referred to in the operational guidance be included in the scheme.

13. On the basis that the majority of respondents agreed with the proposed amendments, the amendment stands.

4.2.3 Carry forward balances

14. The majority of respondents agreed with the proposed amendments with questions raised about the meaning of 'uncommitted' in this context and the potential uses of any withdrawn balances.

15. Uncommitted balances are defined in the [Consistent Financial Reporting framework](#) (CFR), reported at BO2, and includes uncommitted cumulative balance of income, including any uncommitted revenue balances from previous years, less expenditure from revenue funding sources during the financial year and any clawback of uncommitted balances during the year by the LA.

16. In addition, Southwark's proposed operational guidance indicates that should an approved surplus expenditure plan not be in place for the use of large balances, and / or where the school has held an excess balance for greater than four years, the balance is deemed uncommitted.

17. Any balances clawed back must be spent as part of the LA's overall Schools' Budget which includes central monies spent on schools as well as the ISB and the school from which the balance is withdrawn may not necessarily benefit from the amount withdrawn. The amounts clawed back will not be used to write off in part or full any other school's deficit.

18. The planned use of monies clawed back should be one-off in nature and targeted to deliver clear outcomes where possible, in order to demonstrably provide value for money (e.g. improving standards of achievement, inclusion, schools buildings, invest to save schemes). The Schools Forum will be notified of all amounts clawed back and consulted on the arrangements for the redistribution of the funding.

19. On the basis that the vast majority of respondents agreed with the proposed amendments, the amendment stands.

Arrangements for the operation of Southwark's Balance Control Mechanism

20. As stated above, many of comments provided were seeking clarity about the arrangements adopted for the operation of the mechanism and, in the main, those comments have provided the basis for the clarifications outlined below.

Calculation of excessive school balances

21. Some comments were seeking clarification of the components of the calculation used to determine the level of individual schools' balances at year end.

22. For clarity, the school budget share is based entirely on government funding received by the schools, as defined in the [CFR Framework](#), and specifically excludes funds derived from sources other than a LA from any clawback.

23. The committed and uncommitted revenue balances used in the calculation are also defined in the CFR Framework.

24. The calculation and link to the definitions of the various elements of the calculations will be replicated in the arrangements to assist in interpreting the application of the mechanism.

Appeals Panel

25. Some concerns were raised about the BCM Appeals Panel membership. The overarching principle to determine the membership is that the members are independent of the original decision. As such, the current composition of the panel meets that criteria although it will be stipulated that the representative from the School Forum must be from a maintained school.

26. In addition, a procedure for the appeal hearing is now included in the arrangements to assist the panel and schools in preparing for any appeal.

Trust funds

27. There is currently approximately £1m being held "in Trust" on behalf of six schools with the amounts held ranging from £30k to £306k, although some schools may have undertaken capital works over the summer which could change that position.

28. To ensure a smooth transition to the new BCM arrangements, all balances that are currently held "in Trust" will be returned to the individual schools with an expectation that they continue to utilise the funds for the purposes originally intended but with no stipulations that the funds must be used by September 2024.

Annual surplus expenditure plans

29. The LA will continue to seek further information from individual schools on the reason for holding balances once a school's balance exceeds 11% of its annual revenue budget share.

30. The LA recognises that plans may change over a four year period but cannot be altered artificially during that period as a method of delaying or avoiding any potential recovery of excessive surplus balances.

31. LA approval will be required for any change on plans.

Southwark Scheme for Financing Schools Consultation

Appendix 3

Balance Control Mechanism Arrangements

The arrangements for the operation of the Balance Control Mechanism (BCM), agreed with the Southwark Schools Forum, are as follows:

1. The level of excess balances is determined by the following calculation, as set out in clause 4.2.1 of Southwark's Scheme for Financing Schools:
 - a. The calculation will be based on the schools revenue balance (A) and school budget share funding (B). The surplus balance calculation is, surplus balance (%) = $(A) / (B) \times 100$.
 - b. For this purpose, the revenue balance (A) will be 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) will be 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](#).
2. The level of excess balances will be reviewed annually and that only that portion that has been excessive for four or more years will be considered for capping under the mechanism.
3. 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 and therefore deemed uncommitted, the Local Authority (LA) will consider using its powers to take back part of the funding held by the school. The LA will seek to encourage schools on an ongoing basis to use their funding for the benefit of the pupils at their school, *in that year*, and thus to minimise the level of balances held to avoid a clawback of funding.
4. In accordance with the calculation set out in section 1 above, funds derived from sources other than the LA will be excluded from any clawback. (Note that in the case of special schools top-ups, funding from other authorities will be included).
5. The level of balances will be shared with the Schools Forum annually and the Schools Forum will be notified of action taken by the LA in relation to excessive surplus balances.
6. Appeal Process – Where schools disagree with the decision to cap balances, they can refer the decision to the BCM Appeals Panel with their decision being final. The panel can uphold an appeal provided it is in accordance with the Scheme and all decisions are reported back to the Schools Forum.

The Panel members are:

Director, Children's Services (or their nominated representative) - Chair

Chair of the Schools Forum (*must be from a maintained school and, if not, their nominated maintained school representative*)

Departmental Finance Manager, Children's and Adults' Services (*or their nominated representative*)

7. *The conduct of the Panel and the procedure at the hearing are outlined in Appendix 3a.*

8. 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 Dedicated School Grant (DSG) related spend and any reallocation will be agreed with the Schools Forum.

9. In light of the higher thresholds and timescales, the current "Trust Fund" mechanism will no longer be used. This means that once a school's surplus 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.

~~Where the LA is already holding schools balances in Trust Funds, these schools will 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.~~

10. Schools' Governing Bodies should be able to choose to 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.

11. The LA will want to ensure that schools with large balances have proper approved plans in place to justify retaining a high balance. The LA will continue to seek further information from individual schools on the reason for holding balances once a school's balance exceeds 11% of its annual revenue budget share.

12. To count as properly committed, amounts must not be retained beyond the period stipulated for the purpose in question, without the consent of the LA. In considering whether any sums are properly committed the LA 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 committed.

13. The LA will expect Schools' 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.

Southwark Scheme for Financing Schools Consultation

Appendix 3a

Balance Control Mechanism Appeal Hearing

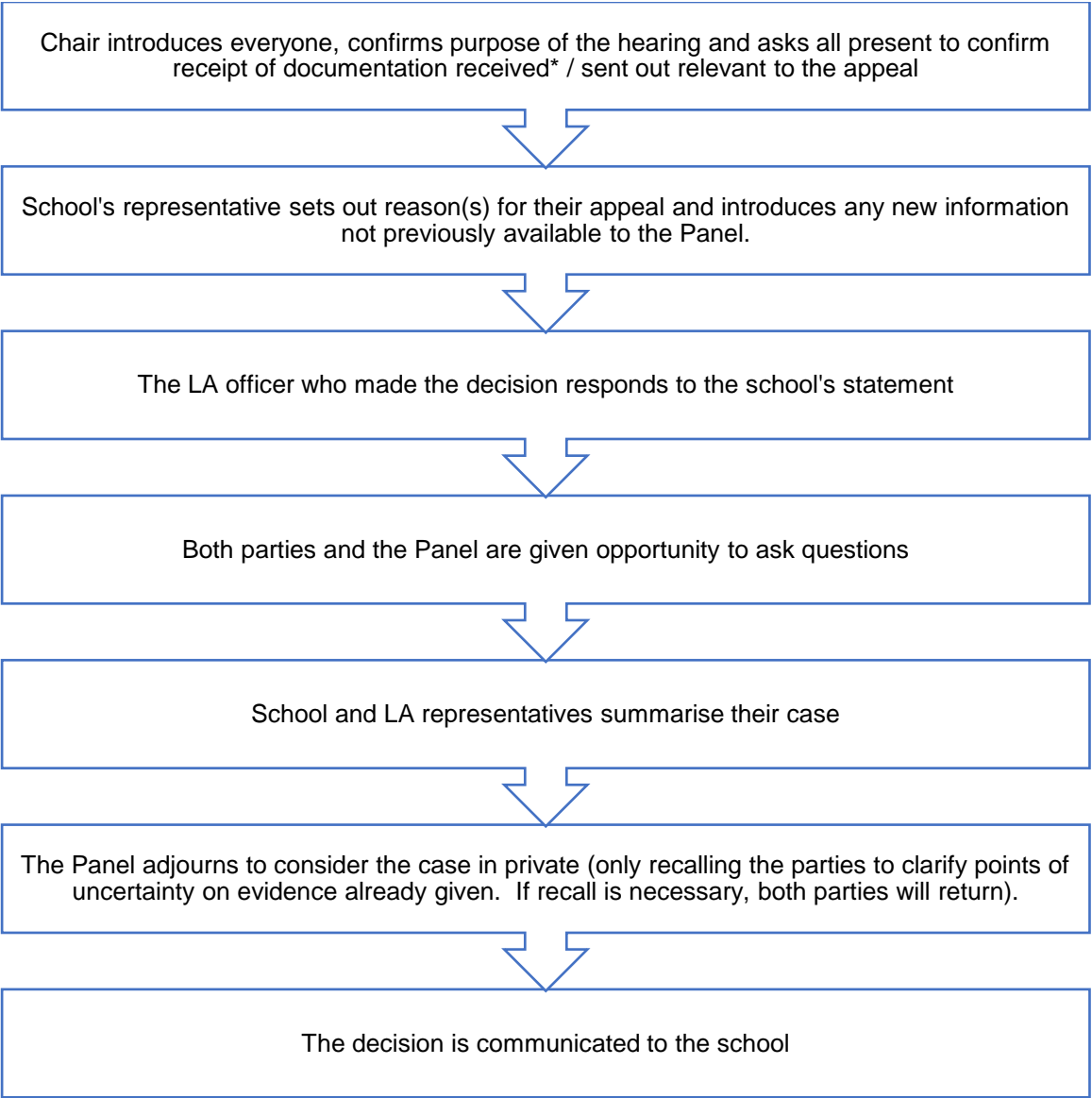
Conduct of the BCM Appeal Hearing

1. The Appeal Panel:

- must conduct the meeting in good order to ensure that both sides have a fair hearing
- must ensure that the format of the meeting is clearly communicated when confirming dates and times (i.e. face to face or virtual)
- must allow an opportunity for both sides to put their case fully
- will not consider issues that are not relevant to the grounds of appeal.
- will adjourn to consider the appeal and whether the balance clawback was appropriate.

* Any school that does not spend their excess on the stated purpose will need to produce documentation for a panel decision to determine whether the money can be kept by the school or clawed back by the Local Authority

Procedure at the Appeal Hearing



* Any school that does not spend their excess on the stated purpose will need to produce documentation for a panel decision to determine whether the money can be kept by the school or clawed back by the Local Authority