

**Schools Forum
6 December 2016**

Review of Current Balance Control Mechanism

1. Purpose of report

- 1.1 To provide Schools Forum with an update regarding the current position for the level of maintained schools balances in comparison to the existing balance control mechanism.

2. Recommendations

- 2.1 That Schools Forum note that given the information set out in the report there does not currently appear to be any evidence to support a need to amend the existing balance control mechanism levels.
- 2.2 That Schools Forum note that, as set out in the EFA's document *Schools Forum powers and responsibilities*, any changes to the scheme should be proposed by the local authority, however given the lack of evidence to support the need for a change the Local Authority does not currently seek to propose any changes.

3. Background

- 3.1 The balance control mechanism is an allowable funding principle which is designed, in line with guidance from DfE, to encourage schools to utilise the funding that is passed to them to support the educational attainment of children currently attending the school (to whom, in line with national funding principles, the funding relates), whilst providing a mechanism for schools to carry forward balances up to a prescribed level to allow them to either plan for specific projects or respond to unforeseen cost pressures.
- 3.2 Setting the balance control mechanism at an appropriate level is therefore key to ensuring that the points set out above can be managed effectively, with a clear process then in place to challenge schools that build up excessive balances and the ability to claw back funding which should then be utilised for the benefit of all schools.
- 3.3 The DfE's national statutory guidance relating to *Schemes for Financing Schools* sets out at section 4 that:

4.2 Controls on surplus balances

The scheme may contain a mechanism to clawback 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 and/or where some level of redistribution would support improved provision across a local area.

- 3.4 It should also be noted that the EFA's document *Schools Forum powers and responsibilities* sets out that any changes to the scheme should be proposed by the local authority, and they should undertake consultation with the governing body and head of every school, and that Schools Forum (school members only) would then be responsible for approving any changes.
- 3.5 As can be seen from the above, the DfE does not stipulate a certain level over which surplus balances should be clawed back (but their good practice guidance does recommend a level of around 4%). However following a piece of work to review Walsall's 'balance control mechanism' during 2012/13 Schools Forum agreed to the current mechanism (based on an 8% level) – which is as follows:

4.2 Controls on surplus balances

Balance Control Mechanism - Surplus balances held by schools, as permitted under this scheme, are subject to the restrictions listed below with effect from 1st April 2012.

- 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.*
- 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, 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 to c results in a sum greater 8% of the budget share for the financial year just ended, then the authority shall deduct from the following years budget share an amount equal to the excess.*

Funds held in relation to a school's exercise of powers under section 27 of the Education Act 2002 (community facilities) will not be taken into account unless added to the budget share surplus by the school as permitted by the authority.

The total of any amounts deducted from schools' budget shares by the authority under this provision are to be applied to the Schools Budget of the authority.

- 3.6 Given the ongoing pressures on school budgets, whereby funding per pupil provided by government will be broadly flat over the current parliament, and the fact that the balance control mechanism does not apply to academies (who have freedom to determine their own appropriate balance levels) Schools Forum at their meeting on 11 October 2016, asked for the current balance control mechanism level to be reviewed.

4. Current position

- 4.1 Since implementing the current balance control mechanism in 2012/13, the total level of uncommitted balances across all maintained schools has continued to reduce – from £8.638m at the end of 2013/14, then £8.520m at the end of 2014/15, and £7.749m at the end of 2015/16.
- 4.2 Although some of this reduction would be expected given the fact that over this period a number of maintained schools have converted to academy status, and so any surplus relating to these schools would have also transferred thus lowering the overall balance, the average level of uncommitted reserves per maintained school has also declined - from 5.4% of annual income at the end of 2013/14, to 5.2% at the end of 2014/15 and then to 4.89% at the end of 2015/16.
- 4.3 This would support the position set out by Schools Forum regarding ongoing pressures on day to day budgets for schools and the ability to manage these pressures within the funding that is available to them.
- 4.4 However this does also support the fact that the current 8% level would appear to be sufficient to meet current needs. As set out, the average level of balances per school, at 4.89%, is declining, and as at the end of 2015/16 there were only 2 maintained schools who breached the 8% level and saw funding clawed back.
- 4.5 As such there would appear to be no evidence at present to support the need to amend the existing balance control mechanism levels. As set out above, under the EFA's document *Schools Forum powers and responsibilities*, any changes to the scheme should be proposed by the local authority. Given this position the Local Authority does not currently seek to propose any changes.

5. Financial Implications

- 5.1 As set out in the report, any control mechanism should seek to balance the intention of DfE that schools utilise the funding they receive for the benefit of pupils that are currently attending the school, with the need to plan for wider developments or respond to unforeseen cost pressures against the ability to challenge schools that build up excessive balances and claw back funding for the benefit of all schools. As the current review has highlighted that the existing arrangements appear to provide this level of flexibility the local authority is not proposing any changes at present.

6. Legal Implications

- 6.1 No issues directly arising from this report.

7. School Improvement

7.1 No issues directly arising from this report.

8. Members eligible to vote

8.1 This item provides an update on the financial position and no vote is required (however, as set out in the report above, school members only would be responsible for voting on and approving any changes).