



Balance Control Mechanism

Report to: Schools Forum

Date: 26 March 2013

Subject: Balance Control Mechanism

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Purpose of the report: To set out the revised Balanced Control Mechanism and get Schools Forum approval.

Recommendations: That Schools Forum agrees the proposed revised Balance Control Mechanism.
That Schools Forum agree for the revised mechanism to apply to 2012-13 year end balances onwards.

1. Background

- 1.1. In approximately 2007 it was made mandatory that each local authority should have a 'Balance Control Mechanism' (BCM) in its Scheme for Financing Schools. Walsall Schools Forum worked with officers and developed a BCM which was slightly stricter than what was then recommended by the (Department for Education) DfE with lower maximum percentages. The process is outlined in the current Scheme for Financing Schools.
- 1.2. In broad terms the BCM allows a school to keep as a balance a percentage of its annual budget as an uncommitted balance. This percentage is based on sector and size of school. The BCM outlines a process where a school can designate some of its funds as 'properly assigned sums'. This is a process which shows that funds are committed.
- 1.3. In approximately 2010 there was further consultation around BCM from the then DCSF. The consultation was aimed at reducing the amount of funds that schools were allowed to keep before triggering the BCM by reducing percentages. It was decided at that time after the consultation that the BCM would not be revised at a national level but lower percentages would be 'recommended' but not enforced.
- 1.4. The DfE have now removed the rules that made a BCM mandatory.
- 1.5. A report came to Schools Forum setting out various options.

2. The Current System

2.1. The current system is:

Balance Control Mechanism - Surplus balances held by schools, as permitted under this scheme, are subject to the restrictions listed below with effect from 1 April 2010.

- 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-c is a sum greater than the prescribed sector percentage (see below) of the budget share for the financial year just ended, or £10,000 (where that is greater than any percentage threshold), then the authority shall deduct from the following years budget share an amount equal to the excess.

Sector thresholds to be applied are for:

Secondary - 5%

Primary & Special with resources less than £1.399 million - 8%

Primary & Special with resources between £1.4 million and £2 million - 7%

Primary & Special with resources over £2 million - 6%

3. How the system works in other authorities

- 3.1. Birmingham have suspended the BCM for the last two years and have replaced it with a lighter touch approach as follows:
 - 3.1.1. Schools will be required to complete the Surplus Balance and the Year on Year Commitments Analysis (as completed in previous financial years) and present this information for discussion at a Governing Body meeting.
 - 3.1.2. Schools will no longer be required to send a copy of the above returns to the Local Authority.
 - 3.1.3. The Local Authority will focus requests for information from schools where there are either excessive balances or significant changes in balances year on year.
- 3.2. Worcestershire still has a BCM which challenges above the thresholds of 5% for secondary/high and 8% (or the cost of 1FTE teacher for small schools) for the other phases. They are currently consulting maintained schools on relaxing and/or removing the BCM.
- 3.3. Warwickshire have removed the BCM so all schools are dealt with equally, given Academies don't have a BCM.
- 3.4. Wolverhampton has thresholds of 8% of the following year's budget share for primary / special schools and 5% for secondary schools.
- 3.5. Dudley has thresholds of 5% of delegated budget for Secondary schools, 8% for nursery, primary and special schools, for schools with boarding facilities 10% and Schools with boarding facilities, where the account is operated through the local authority, can also retain 100% of the boarding account reserve.

4. Consultation

- 4.1. A consultation has been sent out to schools with a deadline of 25 March. This consultation is necessary as the BCM is part of the Scheme for Financing Schools.
- 4.2. Feedback on the consultation will be given at the meeting.

5. Proposals

- 5.1. The proposal that has been put forward is a straightforward **8%** threshold for all maintained schools.
- 5.2. It has also been requested that this new threshold apply to 2012-13 year end balances as well as from 2013-14 onwards.

6. Recommendations

- 6.1. Schools Forum agree the proposal of an 8% threshold for the Balance Control Mechanism.
- 6.2. That Schools Forum agree for the revised mechanism to apply to 2012-13 year end balances onwards.