

Balance Control Mechanism

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Report title: Balance Control Mechanism		
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Executive Summary

This report sets out details of those schools who have exceeded the balance control mechanism capping limit and considers each school individually to come to a decision on whether their excess balance should be removed.

Schools Forum Actions

That the Schools Forum (Maintained sector members only)

- Support the recommendations for capping the schools as detailed in para 4.5;
- Agree the appeals panel as detailed in para 5;
- Note that the distribution of any funds will be made on the recommendation of the Forum to the Director of Education and the Strategic Director of Finance and Governance as detailed in para 6.

1 Balance Control Mechanism

- 1.1 Southwark operates a balance control mechanism on behalf of the Schools Forum. Southwark's mechanism is focused on those schools, which have built up significant excessive balances. In calculating whether a school has an excess surplus balance, the balance is taken from the end of financial year accounts, for this year it is the year ending 31 March 2021.
- 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) x 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.

2 Reporting on the intended use of surplus balances

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

2.2 The balance control mechanism threshold that applies for this purpose is 5% for secondary schools and 8% for nursery, primary and special schools. Hospital Schools are outside the scope of the Balance Control Mechanism. The total excess balances in Southwark at the end of the financial year was £8.6m.

3 Carry forward balances

3.1 Schools are permitted to carry forward surplus balances to the level of the balance control mechanism threshold. Where schools exceed the balance control mechanism threshold the School Forum may decide to clawback 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. Any amount clawed back under this provision will be applied to the Schools Budget.

4 Process adopted

4.1 The school returns explaining why the school has exceeded the relevant capping percentage have been analysed. Further analysis has then been undertaken on those schools who in the June budget monitoring statement have indicated their balance will still not be below the capping limit at the end of the year. The September budget monitoring return which would give the most up to date position is unfortunately not available yet. For schools who have demonstrated they still believe they will not have an excess balance at March 2022 and spending is now in line with the return have been excluded from the process, as have those who balance over the limit is less than £10,000.

4.2 This has left 14 schools where 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, has been undertaken.

4.3 There are some schools that have set aside money for capital projects. In the past we have seen this happen only for the school not to undertake the capital works. To avoid this, it is suggested capping these schools and putting the funds aside in a trust like account that only the school can draw down.

4.4 Some schools clearly need the excess balance, for reducing rolls or tight budget situations, these schools are suggested in the recommendations below in 4.5 not to be capped.

4.5 Some schools have been recommended to be capped and the decision shown in the table below with the more detailed analysis in the Appendix.

School	Sector	Cap %	Old Year Balances for BCM Purposes £'000	Old Year Threshold for BCM purposes £'000	Old Year Excess Balances £'000	Recommendation	Amount £'000	
1	Nursery	8%	343	72	271	Cap		
2	Primary	8%	463	173	290	Cap	100	
3	Primary	8%	532	168	364	Cap	83	
4	Primary	8%	816	236	580	Cap	346	
5	Primary	8%	563	216	347	Cap	123	
6	Primary	8%	891	225	666	Trust		
7	Primary	8%	390	111	279	Cap	48	
8	Primary	8%	288	124	164	Leave		
9	Primary	8%	95	83	12	Leave		
10	Primary	8%	264	118	146	Trust		
11	Primary	8%	152	64	88	Leave		
12	Secondary	5%	1,064	404	659	Cap	500	
13	Special	8%	678	220	458	Trust		
14	Special	8%	858	287	571	Trust		
Total								1,358

5 Appeal Process

5.1 This is the first time we have suggested capping schools in the recent past and the Southwark Scheme for Financing Schools is silent on any appeals process. However there should be one in place

5.2 It is suggested that one is set up consisting of

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

Their decision being final.

6 Distribution of the balance

6.1 Members will be aware from previous papers on the agenda that some schools are facing significant financial difficulties. It is proposed that the capped funds are held in a separate account and allocated to schools that are being reorganised to ensure that the curriculum can be still delivered, the funding will be for specific interventions and purposes. We look to School Forum to make recommendations to the Director of Education and the Strategic Director of Finance and Governance or his representative. If the Schools Forum wish though a separate group could be convened to consider the allocation of the funds.

7 Conclusion

- 7.1 Funding for schools is intended to be spent on the pupils in the school in the year in which the funding was provided. It has been noted by Schools Forum in previous years that that some schools have had very high balances over the past few years and while their returns have said they will spend the funding this has not happened. Therefore a decision needs to be made on capping the surplus by the maintained sector representatives of the Schools Forum.