|  **Date**: **29 September 2022 Item 9** Type of report:  **For Discussion / Decision** |
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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;

# **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 2022.

# 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 £7.3m.

# **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.

# 3.2 Last year eight schools were capped and had their excess balances removed into a trust fund like account, from which they can “call down” the funds once spent.

|  | Trust  | Paid out | Balance  |
| --- | --- | --- | --- |
|  | Fund  |  |  |
|  | £ | £ | £ |
| School 1  | 158,000 | 0 | 158,000 |
| School 2 | 176,000 | 0 | 176,000 |
| School 3 | 92,000 | 0 | 92,000 |
| School 4 | 265,000 | 126,355 | 138,645 |
| School 5 | 83,000 | 0 | 83,000 |
| School 6 | 48,000 | 42,541 | 5,459 |
| School 7 | 500,000 | 0 | 500,000 |
| School 8 | 360,000 | 3,143 | 356,857 |
|  |  |  |  |
|  | 1,682,000 | 172,039 | 1,509,961 |

 We are expecting the schools to have undertaken more capital works over the summer, when we receive notification from the schools this could potentially change the above position significantly.

# 3.3 For the above schools it was agreed they would return to the panel in the Autumn Term for a review on their progress in utilising the fund. The date for the panel meeting will be in early November just after half term

# 3.4 These schools have been excluded from this year’s review of balances.

# **4 Process adopted**

# 4.1 The school returns explaining why the school has exceeded the relevant capping percentage have been analysed. Excess balances of below £20k are excluded from the review list as are schools forecasting to spend their excess balances by the end of the current financial year, those that have reduced their excess balance in both of the last two financial years and those that are forecasting deficits. 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 form the review list.

# 4.2 This has left 6 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 |
| --- | --- | --- | --- | --- | --- | --- | --- |
| A | Special | 8% | 568 | 231 | 337 | “Trust“ | 337 |
| B | Special | 8% | 621 | 235 | 386 | “Trust“ | 386 |
| C | Primary | 8% | 246 | 112 | 134 | “Trust“ | 134 |
| D | Primary | 8% | 2,080 | 175 | 1,905 | “Trust“ | 1,905 |
| E | Primary | 8% | 172 | 87 | 85 | “Trust“ | 85 |
| F | Primary | 8% | 356 | 203 | 153 | “Trust“ | 153 |
|   |   |   |   |   |   | Total | 3,000 |

# **5 Appeal Process**

# 5.1 Last year was the first time we have suggested capping schools and the Southwark Scheme for Financing Schools is silent on any appeals process. An appeals process was set up and it is suggested it continues.

# 5.2 The panel is made up of the

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

Their decision being final.

The panel can uphold an appeal provided it is in accordance with Southwark Scheme of Financing Schools. All decisions will be reported to the Schools Forum

# **6 Conclusion**

# 6.1 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. Last year was the first year that a decision was made on withdrawing funds from schools it we seem sensible to continue the process set up.