

Report To:	SCHOOLS' FORUM
Date:	22 October 2019
Reporting Officer:	Tim Bowman, Assistant Director, Education Tom Wilkinson, Assistant Director, Finance
Subject:	SURPLUS BALANCE AND BALANCE MECHANISM SCHEME 19-20
Report Summary:	This reports provides: <ul style="list-style-type: none"> • Details of the current Balance Mechanism Scheme • An update on the current surplus balances held by schools in 2019-20 • Review current mechanism
Recommendations:	Schools Forum consider: <ul style="list-style-type: none"> • if they would like to change the scheme of balances to increase thresholds. • If they would like to invoke clawback in 2019-20 and if so how much • If they would like to give schools an option to contribute to a Capital Reserve
Corporate Plan:	Schools spending support the Starting Well agenda to provide the very best start in life where children are ready to learn and encouraged to thrive and develop, and supporting aspiration and hope through learning and moving with confidence from childhood to adulthood.
Policy Implications:	In line with financial policies and financial regulations
Financial Implications: (Authorised by the statutory Section 151 Officer & Chief Finance Officer)	As outlined in the body of the report.
Legal Implications: (Authorised by the Borough Solicitor)	Overall effective use of resources across Tameside schools is a key component in the Authority's Annual Use of Resources Statement. We need to ensure any approach is maintained and kept under review and perverse incentives do not occur. It is important that there is fairness and equality across the system as every child matters and due consideration needs to be given to effective clawback mechanisms.
Risk Management:	The correct accounting treatment of the Dedicated Schools Grant is a condition of the grant and procedures exist in budget monitoring and closure of accounts to ensure that this is achieved. These are subject to regular review.
Access to Information:	NON-CONFIDENTIAL
	This report does not contain information which warrants its consideration in the absence of the Press or members of the

public.

Background Information: The background papers relating to this report can be inspected by contacting Christine Mullins



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1. INTRODUCTION

- 1.1 The purpose of the paper is to update members on the level of current surplus balances held by schools in 2019-20
- 1.2 All schools receive their delegated budget share based on the Local Funding Formula and governing body have delegated powers and responsibilities to manage and deploy their financial resources in accordance with their agreed aims and objectives to achieve the best outcomes for pupils.
- 1.3 Maintained schools are permitted to carry forward any year end surplus/deficit recorded at the 31st March to the following financial year as long as they conform to rules of the Balance Control Mechanism Scheme.

2. SCHOOL BALANCES 2019-20

- 2.1 At the last Schools Forum it was reported that school balances at the end of 2018-19 financial year were £7.39m. In line with the Scheme for Financing Schools budget plans submitted in May 2019 have been reviewed and these plans show schools are forecasting schools balances will reduce to £3.97m by the end this financial year. See Table 1 below.

Table 1 Actual 2018-19 School Balances compared to Projected 2019-20 Schools Balances

Surplus Balances	2018-19 Final School Balances	2019-20 Planned Year End Balances
Primary & Special	7,438,471	4,364,283
Secondary	1,544,295	1,195,208
Total Surplus Balances	8,982,766	5,559,491
Deficit Balances	2018-19 Final School Balances	2019-20 Planned Year End Balances
Primary & Special	-26,400	-246,363
Secondary	-1,567,092	-1,341,378
Total Deficit Balances	-1,593,492	-1,587,741
Total Balances	2018-19 Final School Balances	2019-20 Planned Year End Balances
Primary & Special	7,412,071	4,117,920
Secondary	-22,797	-146,170
Total Balances	£7,389,274	£3,971,750

3. SURPLUS BALANCES 2019-20

- 3.1 Under the current Balance Mechanism Scheme, balances are subject to the following thresholds:
- Primary and special schools can carry forward up to 8% of the 2018/19 school funding allocation as general balances – these are referred to as PERMITTED balances

- Anything over 8% in primary and special schools will be classed as a SURPLUS balance and can only be held for one of the four 'allowable purposes' specified below
- In the same way secondary schools can carry forward up to 5% of the 2018/19 School Funding Allocation and these are referred as PERMITTED balances.
- Anything above 5% in secondary schools will be classed as a SURPLUS Balance.

- 3.2 The approved balance mechanism scheme looks forward to the end of 2019-20, using the budget plans schools have submitted, to take account of spending that school will be making in year. School will need to identify how they will utilise their projected surplus at the end of 2019-20.
- 3.3 Schools with surplus balances above the permitted thresholds are required to submit a return to the LA (approved by Governors) by 30 June detailing how the surplus balance will be utilised.
- 3.4 This information has been collated and Table 2a below shows there are 16 schools with projected surplus balances. The total balances held totals £3.22m of which £1.41m is above the permitted levels and classed as surplus.
- 3.5 In addition to schools holding surplus balances a further 44 schools are holding permitted balances of £2.10m, see Table 2b below. Of these schools 12 primary schools are holding balances over 6% i.e. are close to the 8% threshold so are at risk of closing the 2019/20 financial year with an 'unapproved' surplus balance.
- 3.6 Previous data shows balances often increase beyond initial planned spend at the start of the financial year. For example at the start of 2018-19 financial year schools budget plans projected balances to be £1.81m and the actual balances at the end of 2018-19 were £7.39m.

Table 2a: Schools with Surplus Balances 2019-20

Sector	No of Schools with balances above Permitted Level	Total Year End Projected Balance	Permitted Balance	Surplus Balance
Primary & Special	14	£2,276,922	£1,266,345	£1,010,577
Secondary	2	£942,479	£543,474	£399,005
Totals	16	£3,219,401	£1,809,819	£1,409,582

Table 2b: Schools with Permitted Balances 2019-20

Sector	No of Schools Permitted	Total Year End Projected Balance
Primary & Special	42	£1,840,998
Secondary	2	£252,729
Totals	44	£2,093,727

- 3.7 A local agreement in the Scheme for Financing Scheme states 'any school which has a revenue surplus balance which is more than twice the permitted threshold, will be subject to a more detailed review of the plans for the surplus'.

- 3.8 There are 6 schools that meet this threshold and LA officers have commenced a review of spending plans of these schools.
- 3.9 Historically school spending has not been in line with the budget plan set, which has resulted in higher than planned balances at year-end. This year a robust review has taken place of the school budgets for accuracy which has resulted in some plans needing to be resubmitted.
- 3.10 It is therefore hoped that spending plans and balance of mechanism scheme submissions are more realistic.

4 REVIEW OF CURRENT MECHANISM

- 4.1 The current scheme works by allowing schools to hold balances higher than the thresholds of 8% and 5% as long as there are approved plans to spend the surplus against the 4 specified reasons.
- 4.2 The scheme includes a clause whereby if a school doesn't have an approved surplus balances at the start of the financial year (because their plans indicate they will be below the 5% & 8% thresholds) or their balances increase in year above the approved level submitted to the LA, Schools Forum can agree to claw back this element.
- 4.3 Any balances clawed back would then be distributed back into the system to support all schools and academies.
- 4.4 With the significant deficit projected on the High Needs Block and continuing pressures any balances clawed back could be used to offset this deficit along with any agreed transfers from the Schools Block.
- 4.5 Intelligence shared across the North West indicates many LA's haven't acted on the claw back mechanism previously although this is something that is now being discussed and reviewed especially with the pressure on the high Needs Block.
- 4.6 Some schemes in operation in neighbouring LA's were similar to Tameside but there were also some different arrangements in place, for example
- A higher threshold e.g. 12% across all sectors
 - Increased thresholds to 10% and 7% respectively
 - A clawback rate of 50% of the surplus balance
 - Clawback only against balances held for 2 years
 - Any clawbacks removed to be contributed to DSG reserve to support High Needs Pressures.
 - Contribution to a Capital Reserve held by the LA. If schemes do not materialise as planned the funds are returned to all Schools and Academies
- 4.7 All suggestions have been discussed with the Schools Funding group at a meeting on 2 October 2019, who would like Schools Forum to consider adopting the following mechanisms into the scheme;-
- Increase permitted balances to 12% in primary schools and 9% in secondary schools
 - Schools forum to use its powers of clawback if balances are held for in excess of 2 years.
 - Looking to allocate any clawback to the High Needs Budget subject to compliance with regulations
 - Look to set up a Capital fund held by the LA for specific capital schemes, the account to look to attract interest, but with restrictions that if the scheme does not

progress the balance is not return to the school but is instead treated as a surplus balance subject to clawback.

5 RECOMMENDATIONS

5.1 As set out on the front of the report.