

## CONTROL OF SCHOOL BALANCES – REVIEW OF THRESHOLDS

Havering's Scheme for Financing Schools currently includes provision for a balance control mechanism where funding may be deducted that the LA does not consider appropriately assigned above 5% (secondary) or 8% (primary and special ) of the budget share.

The current wording of the scheme is as follows:

### 4.3 LA Control of School Balances

*Surplus budget share balances held by schools as permitted under this scheme are subject to the following restrictions with effect from 1 April 2005:*

- a. the authority shall calculate by 31<sup>st</sup> May each year the surplus balance, if any, held by each school as at the preceding 31 March;*
- b. the authority shall deduct from the calculated balance any amounts for which the school already 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 school declares to be assigned for specific purposes as 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 whichever is the greater of 5% (for secondary schools) or 8% (for primary and special schools) of the current year's budget share, or £20,000, then the authority may deduct from the current year's budget share an amount equal to the excess.*

*No funds deriving from sums allocated by the authority other than budget shares, or funds derived by the school from sources other than the authority, shall be taken into account in this calculation.*

The 5% and 8% thresholds referred to in the current scheme are historical, based on DfE recommendations in 2005. Since 2011, the operation of a balance control mechanism has been made non statutory although LAs may (with Schools Forum approval) continue to include it in their Schemes for Financing Schools. The guidance at the time was as follows:

*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.*

Havering, along with other LAs, decided to retain their previous arrangements to provide a basis on which to challenge schools.

## **Academies**

In the last few years a number of schools nationally and in Havering have converted to academies and different arrangements apply. For academies it depends on the Funding Agreement. Academies subject to older Funding Agreements have a threshold of 12% but those with new Funding Agreement there is no limit.

Academies are free to carry-forward substantial amounts, as long as they "*have a clear plan for how it will be used to benefit their pupils.*" However, the EFA will report to DfE any trusts where it has serious concerns about a long-term substantial surplus with no clear plans for its use.

Those academies that have not changed their Funding Agreement are subject to the following control

- *an amount equivalent to 2% of the total GAG received in the preceding year may be used for any purposes for which GAG is paid including any expenditure set out in the next bullet point;*
- *an amount equivalent to a further 10% of the total GAG received in that year may be used for the upkeep and improvement of premises and capital expenditure.*

## **Proposal**

The LA will request from schools each year their plans to allocate all balances carried forward to the following financial year. Where balances have exceeded 10% of the budget share or the LA has concerns about any of the plans submitted for the use of balances then the LA will challenge schools on the appropriateness of the expenditure.

Where balances remain above 10% for a second, third or fourth financial year the LA will seek assurances that the original plans for the use of the balance continue to apply. Balances above 15% for continuous period of 5 years will be permitted only in exceptional circumstances only.

In all cases the LA may claw back excessive balances and redistribute these funds to the greatest benefit within the areas funded by the DSG.