

SCHOOLS' FUNDING FORUM

SUBJECT:	Review of Balance Control Mechanism (BCM)
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SUMMARY OF REPORT:

To propose some amendments to the operation of the Balance Control Mechanism (BCM) which if approved would take effect for the current financial year end (2018-19).

Any changes to the BCM, if approved, would be reflected in the Scheme for Financing Schools.

FOR:	Decision – Maintained Schools representatives only
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1. Background

- 1.1 On 27 April 2018, the Schools' Funding Forum agreed to review the BCM with a view to allowing greater flexibility for maintained schools to roll forward unspent balances from one year to the next.
- 1.2 It was agreed that the review would be undertaken by a small working party of Forum members, and any recommended changes to the current BCM would be considered at this Forum meeting.

2. Working group

- 2.1 A small working group of 6 Forum members met on Monday 18 June and considered what changes would be appropriate to meet the Forum's objective. The following are what was agreed as a set of recommendations to this Forum for approval.
 - a) The percentage allowed to be retained for uncommitted purposes should be increased by 50%. This means Primary schools and Pupil Referral Units would increase from 8% to 12%, and Secondary schools would increase from 5% to 7.5%. This would have the effect of allowing schools to retain more funding for unspecified reasons and would in all likelihood lower the number of schools holding reserves for other committed reasons. This would require less LA resource and challenge.
 - b) The new percentages should continue to be applied to a school's total income as at 31 March of each year. We discussed an alternative of

applying the new percentages to the annual school budget including post 16 funding as notified to schools at the start of the financial year. This would have provided a fixed figure at the start of the year allowing schools to plan with certainty. The view of the working group was that other funding, such as High Needs funding should be treated equally to other sources of funding and therefore on balance preferred the year end approach.

- c) The group also felt that it was no longer appropriate for Special Schools to be exempt from the BCM and the new 12% limit for Primary schools and PRUs should apply equally to them. You may recall that the Forum took the decision back in 2013 to remove this group of schools from the BCM as the new High Needs funding system introduced too much volatility. The working group reviewed the level of reserves held by special schools and were concerned that some school's reserves were now at 29% of their annual revenue funding. This was deemed excessive and against one of the key principles underpinning the BCM. The working group also felt that the funding system for special schools was now well established and the initial concerns around volatility were unfounded as special schools had in the main attracted significant growth (in pupil numbers and budget) over the last four years.
- d) The permitted exceptions would remain unchanged. These are:
 - Capital projects
 - Late allocations
 - Funding held on behalf of other schools
 - Other grant income and funding sources

2.2 The working group also discussed the relative merits of taking out a school loan versus saving up for a capital project. It was agreed that the school loan facility was a good option and it was agreed that the Local Authority should look to remind schools of this facility and its relative low interest charge.

2.3 If the Forum support these recommendations, the Scheme for Financing Schools and associated Financial Control documentation will be amended. In addition, a communication will be sent out to all maintained school Headteachers, Chair of Governors and Bursars before the end of term.

3. Recommendation

3.1 Maintained School Members of the Forum are asked to **APPROVE** the working group recommendations as set out above in section 2.1. Please note that if approval is given, the Scheme for Financing schools will be amended.