

**Report of the Director of Children and Families**

**Report to the Leeds Schools Forum**

**Date: 18 November 2021**

**Subject: Surplus Balances; Revisions to The Leeds Scheme for Financing Schools**

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**1. Summary of main issues**

- 1.1 The Leeds Scheme for Financing Schools currently states that if a school has held a balance of above 15% of school budget share for 3 or more consecutive years, the excess balance can be subject to clawback by the council. Following feedback from Schools Forum regarding the level of school surplus balances, an assessment of the current percentage threshold was undertaken. Based on a comparison to the percentages applied by other core cities and the percentage used in the DfE's Institute of School Business Leadership financial planning tool, a proposal has been put forward to reduce the percentage to 8%.
- 1.2 In addition, a proposal has also been put forward to revise the Leeds Scheme for Financing Schools in order to clarify the council's position on the treatment of surplus balances in the case of directed academy conversions. The revision would state in those circumstances that the council would retain any surplus balance over 8%.
- 1.3 Local authorities are required to consult with schools on proposals to change their schemes for financing schools. Schools Forum is then required to consider the outcome of the consultation and vote on the revisions proposed, in line with the powers set out by the DfE.
- 1.4 This report presents the outcome of a recent consultation with maintained schools on the two proposals outlined above. 70% of respondents supported the proposal to reduce the excess surplus balance threshold to 8%. 80% of maintained schools responding to the consultation also supported the position that the council would retain any surplus balance over 8% in the event of directed academy conversions.

**2. Recommendations**

- 2.1 Maintained school members of Schools Forum are asked to consider and vote on a proposal to revise the Leeds Scheme for Financing Schools to reflect a reduction in the excess surplus balance threshold to 8%.

- Voting on this proposal is limited to maintained primary, secondary and special school members.
- It is a Schools Forum decision on whether to accept this proposal. In the event that Schools Forum does not agree, the DfE are able to adjudicate if the local authority requests this.

2.2 Maintained school members of Schools Forum are asked to consider and vote on a proposal to revise the Leeds Scheme for Financing Schools to make clear the position that the council would retain any surplus balance over 8% in the event of directed academy conversions.

- Voting on this proposal is limited to maintained primary, secondary and special school members.
- It is a Schools Forum decision on whether to accept this proposal. In the event that Schools Forum does not agree, the DfE are able to adjudicate if the local authority requests this.

### **3. Main Issues**

#### **3.1 Proposal to reduce excess surplus balance threshold**

##### Background to the proposal

3.1.1 The council consulted on reducing the excess surplus balance threshold down from 15% to 8%. Information was provided to schools on the background to our proposals as part of the consultation document and the briefing session. The full consultation document is attached as an appendix to this report, but in summary the key points are:

- At the end of the financial year 2020/21 Schools Forum expressed concern over the high level of school balances and the length of time some of these had been held by schools.
- Work was undertaken to compare the percentage applied in Leeds with other core cities and Leeds was found to be significantly higher.
- The current Leeds percentage would also flag as red based on the performance indicators within the DfE's ISBL financial planning tool.
- The new threshold of 8% would be applicable to balances at the end of the financial year 2022/23. For example, if a school held balances above 15% at the end of 2020/21 and 2021/22 and holds a balance above 8% at the end of 2022/23 that would constitute the third year and the excess above 8% would be eligible for clawback.

- However, it is important to note that the existing mechanism would remain in place which enables schools to make application to the Schools Forum panel and the council in order to retain the excess; individual circumstances would be taken into consideration (including the impact of Covid) and clawback would not be automatic.
- Work will be undertaken to develop guidance documents and a surplus balance action plan template to assist schools with this process.
- Any surplus that is clawed back would be retained within DSG.

### Consultation responses

3.1.2 45 responses were received on this proposal. 31 (69%) supported the proposal and 14 (31%) did not. Some respondents provided comments, in general these supported the reduction of the threshold with a view to funding being spent on children in school. Both those in favour and against were clear that there should be a mechanism to allow schools to apply to retain the excess for specific projects or to protect against known future financial difficulties. Some comments from both those voting for and against also questioned the timing of implementation and the level of the reduction.

### Proposal

3.1.3 The majority of respondents supported our original proposal, and therefore the local authority is still proposing to revise the Leeds Scheme for Financing Schools to reduce the excess surplus balance threshold to 8% from financial year 2022/23. This would operate in the same way as the current threshold, with the application to retain any excess considered on an annual basis.

3.1.4 The reduction in the threshold is a council decision. However, to implement the change the Leeds Scheme for Financing Schools must be revised and to do this Schools Forum must agree to the revision. If Schools Forum does not agree with our proposals, the DfE can adjudicate if the local authority wanted to request this.

## **3.2 Proposal to retain excess surplus balance following directed academy conversions**

### Background to the proposal

3.2.1 When a school converts to academy status as a voluntary conversion any surplus or deficit is transferred to the academy. However, if a school is directed to convert by the Secretary of State then any deficit defaults to the council. According to DfE regulations, under this conversion route, any surplus also remains with the LA (though the surplus can be transferred to the academy trust and, in practice, some LAs including Leeds have agreed to this in the past).

3.2.2 Leeds has no formal policy in place regarding this set of circumstances and it is important that one is established so all schools are aware of what will happen if they are in this situation in the future. This change to the scheme would clearly state how directed conversion surpluses will be treated and allows the authority to retain funds to mitigate

the effect of any deficit balances which, under DfE regulations, must be retained by the Local Authority.

3.2.3 Therefore, schools were asked to vote and comment on the following proposed paragraph, to be written into the Leeds Scheme for Financing Schools:

*“Where a school is directed to convert to academy status under section 4 (1)(b) of the Academies Act 2010 the school may retain a proportion of the surplus (excluding specific grants) up to 8% of school budget share; any surplus amount over this percentage will revert to the LA.”*

### Consultation responses

3.2.4 45 responses were received on this proposal. 35 (78%) supported the proposal and 10 (22%) did not.

3.2.5 A small number of comments were received which all accompanied votes in support. They noted that this measure will help to offset the deficits the LA has had to absorb in the past. There was also a wish to ensure rigour regarding the point in the conversion process at which the balance would be calculated, and in terms of protecting the council from schools running up deficits prior to conversion.

### Proposal

3.2.6 The majority of respondents supported our original proposal, and therefore the local authority is still proposing to revise the Leeds Scheme for Financing Schools to state that in the event of a directed conversion any surplus balance over 8% will be retained by the council (within DSG). Further guidance to support the implementation of this revision to the scheme would be developed and published on Leeds for Learning.

3.2.7 The implementation of this policy is in-line with DfE regulations but requires communication to schools. The most effective way to make our position clear is to revise the Leeds Scheme for Financing Schools and to do this Schools Forum is required to agree to the revision. If Schools Forum does not agree with our proposals, the DfE can adjudicate if the local authority wanted to request this.

## **4. Recommendations**

4.1 Schools Forum is asked to consider and vote on a proposal to revise the Leeds Scheme for Financing Schools to reduce the excess surplus threshold balance to 8% from 2022/23.

- Maintained Schools Forum members may vote on this proposal.
- It is a Schools Forum decision on whether to accept this proposal. In the event that Schools Forum does not agree, the DfE are able to adjudicate if the local authority requests this.

4.2 Schools Forum are asked to consider and vote on a proposal to revise the Leeds Scheme for Financing Schools to state that in the event of directed academy conversion any excess balance above 8% will be retained by the authority.

- Maintained Schools Forum member may vote on this proposal.
- It is a Schools Forum decision on whether to accept this proposal. In the event that Schools Forum does not agree, the DfE are able to adjudicate if the local authority requests this.