

Report of the Director of Children and Families

Report to the Leeds Schools Forum

Date: 27 June 2019

Subject: Maintained school and extended school balances outturn 2018/19

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Summary of main issues

1. At the end of 2017/18, there was a net surplus balance of £22.8m for maintained schools and extended schools, which is a reduction of £2.6m compared to 2017/18 (£25.4m). Within this, balances for schools have decreased by £1.5m from a surplus of £18m at the end of 2017/18 to £16.5m at the end of 2018/19. This is an improved position compared to the budgets set with schools at the beginning of 2018/19, which had indicated that school balances would fall to £9.3m.
2. Although there was an overall surplus of £16.5m for schools at the end of 2018/19, within this some schools have been operating with deficit balances. The number of schools with a closing deficit balance has reduced by three since the end of 2017/18, with a total of 24 schools carrying forward a deficit from 2018/19. The value of the deficit balances has reduced by £84k during 2018/19, to a closing balance of £5.6m. Schools with projected deficit balances above £10,000 or 3% of their budget share are being asked to submit a deficit action plan detailing how the budget will be brought back into balance.
3. There are five schools where balances have remained greater than 15% over three successive financial years. These are all primary schools and they have been asked to complete an application if they wish to retain their excess surplus balance.
4. Excess surplus balances (above 15% of income) for Area Inclusion Partnerships (AIPs) are currently being reviewed. Any funding agreed to be clawed back will be returned to the high needs block along with unspent AIP contingency funding of £207k that was retained by the council in 2018/19 for potential in-year demand for additional citywide exceptional places.
5. A further report will be brought to Schools Forum later in the year to provide an update on clawback from schools and deficit action plans.

Recommendations

6. Schools Forum is asked to note the 2018/19 school and extended school balances, and the work ongoing to consider both clawback of excess surplus balances and review deficit action plans.

1 Background information

- 1.1 Year-end balances for maintained schools and extended schools roll forward to the following year, subject to clawback of funding in some cases where excess surplus balances are held.
- 1.2 School balances are subject to clawback where the surplus balance has been more than 15% of the Individual Schools Budget for three consecutive years. The Individual Schools Budget is the sum of the Dedicated Schools Grant (DSG) and funding provided from the Education and Skills Funding Agency for post-16 expenditure.
- 1.3 Surplus balances held by AIPs are also subject to clawback. Other balances held by schools for extended services are not subject to clawback by the local authority, as they are not directly funded through the DSG.
- 1.4 Schools with projected deficit balances above a certain threshold are required to submit a deficit action plan detailing how the budget will be brought back into balance.

2 Main issues

2.1 Summary of balances

- 2.1.1 The overall surplus balance for maintained schools and extended schools has been decreasing over recent years. The position at the end of 2018/19 was a net surplus of £22.8m, which is a reduction of £2.6m compared to 2017/18 when the closing surplus balance was £25.4m. Although balances have reduced (partly due to academisation), this is by a lesser amount than the previous year when balances reduced by £4.2m.
- 2.1.2 Balances specifically for schools have decreased from a surplus of £18m at the end of 2017/18 to £16.5m at the end of 2018/19. This is an improved position compared to the budgets set with schools at the beginning of 2018/19, which had indicated that school balances would fall to £9.3m.

Table 1 – Year end balances for maintained schools and extended school services

Note: negative figures are surpluses/increases and positive figures and deficits/reductions. The reduction in balances will be partly due to academisation.

	2015/16	2016/17	2017/18	2018/19	Movement 17/18 to 18/19
	£000	£000	£000	£000	£000
Schools	-28,775	-20,630	-17,985	-16,453	1,532
School-led Extended Services	-3,824	-3,906	-3,097	-3,492	-395
Area Inclusion Partnerships	-2,585	-2,005	-1,535	-360	1,175
Clusters	-3,785	-3,106	-2,746	-2,449	297
Total surplus balance	-38,969	-29,647	-25,363	-22,755	2,608

2.2 Individual school balances

2.2.1 Balances for individual schools are attached as Appendix 1. This shows balances at the end of 2018/19 compared with 2017/18. Schools are listed by phase with the highest percentage deficits first.

2.2.2 The table below provides an analysis of school surplus and deficit balances with further commentary in the sections that follow.

Table 2 – Year end surplus and deficit balances for maintained schools

Note: negative figures are surpluses and positive figures and deficits

	2017/18		2018/19		Movement	
	£000	No.	£000	No.	£000	No.
School surplus balances	-23,719	179	-22,103	168	1,617	-11
School deficit balances	5,734	27	5,650	24	-84	-3
Total	-17,985	206	-16,453	192	1,532	-14*

* Reduction of 14 schools is due to academy conversions, whose net balances were a £1m surplus at the end of 2017/18

Surplus balances

2.2.3 In accordance with the rules set out in the Leeds Scheme for Financing Schools there are 23 schools where surplus balances are above 15% of the school budget share at the end of 2018/19. This is the same number as at the end of 2017/18 and 2016/17.

2.2.4 There are five schools where balances have remained greater than 15% over three successive financial years. These are all primary schools and they have been asked to complete an application if they wish to retain this excess balance. These applications

will be considered by the Schools Forum Panel before the final decision is made by Children and Families. It is intended that a panel will be arranged during July so that these can be reviewed in a timelier manner than previously.

- 2.2.5 The remaining 18 schools that have balances over the 15% threshold are not subject to clawback as the balance has not been over the 15% threshold for 3 consecutive years. However we have still written to these schools to ask them to explain how this balance has arisen and detail their plans for the balance in order to provide a level of challenge as well as information that can be referred to in future years should the balances continue to remain high.

Deficit balances

- 2.2.6 Although there was an overall surplus of £16.5m for schools at the end of 2018/19, within this some schools have been operating with deficit balances. The number of schools with a closing deficit balance has reduced by three since the end of 2017/18, partly due to academy conversions, with a total of 24 schools (12.5%) carrying forward a deficit from 2018/19. The value of the deficit balances has reduced by £84k during 2018/19, giving a closing deficits of £5.65m.

- 2.2.7 National benchmarking information for 2018/19 will not be available until late 2019, however for 2017/18 the England average was 10.2% of maintained schools in deficit and the Yorkshire and Humber average was 13.7%. The Leeds average for 2017/18 was 13.1% and has reduced to 12.5% for 2018/19.

- 2.2.8 Of the 24 schools in deficit:
- 4 are below £10k
 - 8 are between £10k and £100k
 - 10 are between £100k and £1m
 - The remaining 2 are over £1m

2.3 **Deficit balance procedures**

- 2.3.1 Work is ongoing to develop budget action plans with schools in deficit and ensure an appropriate level of challenge and support is being provided. The Finance team will be working alongside the Children and Families directorate to identify the nature and level of support these schools require and provide any challenge necessary. We will provide a further update to Schools Forum on deficit action plans later in the year.

- 2.3.2 The Leeds Scheme for Financing Schools sets out that the following actions are available to the council when a school is in deficit:
- Requiring that relevant staff undertake appropriate training to address any identified weaknesses in the financial management of the school.

- Requiring that an appropriately trained/qualified person chairs the finance committee of the governing body.
- Placing more stringent restrictions or conditions on the day to day financial management of a school than the scheme requires for all schools – such as the provision of monthly accounts to the council.
- Requiring regular financial monitoring meetings at the school attended by council officers.
- Requiring a governing body to use the council's financial management systems.
- Imposing restrictions or limitations on the manner in which a school manages extended school activity funded from within its delegated budget share (e.g. by requiring a school to submit income projections and/or financial monitoring reports on such activities).
- If a school does not comply with the approved action plan and fails to clear the deficit within the agreed period, financial delegation could ultimately be removed as empowered under Section 51 of the School Standards and Framework Act 1998.

2.3.3 The council's Finance Officers work closely with schools to support them with their budgets and provide challenge where deficits exist or are anticipated in future years. Depending on the issues faced by particular schools this work has included actions such as financial health checks, benchmarking of costs, more frequent budget monitoring visits and attendance at relevant governing body meetings. The council will continue to provide this support and challenge, and will consider what level of additional monitoring may be required for particular schools. Work is ongoing to develop budget action plans with schools in deficit and to risk assess schools to ensure an appropriate level of challenge and support is being provided. This is being completed using the ESFA's Local Authority Analysis tool, which rates the financial health of schools on a number of financial and performance measures.

2.3.4 Once a school has been served with an academy order, the Finance Officers will work with the school to reduce the risk of any deficit balances increasing. This includes carrying out checks to ensure that expenditure relating to the new academy is not recorded against the school's accounts. Where a deficit balance reverts to the council, we will review what lessons can be learned to reduce the risk of this occurring again in future.

2.3.5 The Schools Finance team also has arrangements in place to share any concerns over a school's financial position with relevant senior leaders and teams across the council. Good practice will also continue to be shared with other local authorities and the ESFA through regular regional meetings.

2.4 **Extended services accounts**

2.4.1 Schools hold £6.3m of balances in extended services accounts. This is held in three broad areas as follows:

- Extended Schools Facilities (£3.5m in 2018/19, compared to £3.1m in 2017/18) - This is the balance on the running of community facilities such as children's centres, wrap around childcare, before and after school clubs and sports development partnerships.
- Clusters (£2.4m in 2018/19, compared to £2.7m in 2017/18) – This is the balance held by lead schools on behalf of clusters of schools.
- Area Inclusion Partnerships (£0.4m in 2018/19, compared to £1.5m in 2017/18) – This is the balance held by the lead or host school on behalf of the Area Inclusion Partnerships.

2.4.2 Surplus balances for Area Inclusion Partnership are currently being reviewed for 2018/19 and are subject to clawback on the following basis:

- Clawback of any funding provided for citywide exceptional places, where those places have not been provided, and
- Clawback of surplus balances in excess of 15% of other funding and income, unless an appropriate plan could be provided that meets defined criteria for the use of the balance, along with evidence to support the costs.

2.4.3 Three AIPs had balances over 15% at the end of 2018/19 and have submitted applications to retain this funding. These applications are in the process of being considered by the council.

2.4.4 The DSG outturn report on this agenda includes details of a further £207k of unspent funding that was set aside for AIPs in 2018/19 and has already been returned to the high needs block. This funding was held by the council as contingency for citywide exceptional places potentially needed during the year, rather than the previous years' arrangements where funding was provided to the AIPs in advance and then subject to clawback if it was unspent.

Any deficit balances for extended services, such as before and after school clubs, are generally relatively small and can usually be resolved in year, although if needed the council would be able to charge these to the main school budget if the school did not have a satisfactory plan in place. One of the extended deficit balances is however larger than expected (£137k for one of the AIPs). Work is currently ongoing to review financial arrangements with the AIP and there will be increased monitoring and reporting in place for 2019/20.

3 Recommendations

- 3.1 Schools Forum is asked to note the 2018/19 school and extended school balances, and the work ongoing to consider both clawback of excess surplus balances and review deficit action plans.