

Report of the Director of Children and Families

Report to the Leeds Schools Forum

Date: 4th October 2018

Subject: School Balances Update 2018/19

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Summary of main issues

1. An £18m surplus is currently projected for school and extended school balances for 2018/19, a reduction of £7.3m compared to 2017/18.
2. For 2018/19, 178 out of 200 schools have set a budget that shows either a closing surplus or balanced budget position.
3. 22 schools (11%) have set budgets with closing deficit balances in 2018/19, a reduction of 5 schools compared to 2017/18. Of these, 17 schools are projecting deficit balances greater than £10k. Overall the total value of deficits is budgeted to reduce by £163k to £5.57m.
4. Work is being carried out with schools in deficit to provide support and challenge, taking into account the level of risk associated with individual budgets. A proposal has been put forward for the Schools Forum panel to support this work by providing additional challenge on deficit budgets.

Recommendations

5. Schools Forum is asked to note the current position on school balances and provide a view on the proposal that the Schools Forum panel provides additional challenge on schools with deficit budgets.

1 Background information

- 1.1 Year-end balances for 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 and collaborative projects are not subject to clawback, 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 balances

- 2.1.1 The overall surplus balance for schools and extended schools has been decreasing over recent years. The position at the end of 2017/18 was a net surplus of £25.4m, which is a reduction of £4.2m compared to 2016/17 when the closing surplus balance was £29.6m. The closing 2017/18 balances were provided to Schools Forum at the June 2018 meeting and have been attached as an appendix again to this report for information.
- 2.2 An £18m surplus is currently projected for school and extended school balances for 2018/19, a reduction of £7.3m compared to 2017/18. Further details are provided in the table below.
- 2.3 Projections for 2018/19 have been based on approved budget models plus an adjustment for previous year trends, which takes into account the fact that school balances have historically improved during the year compared to the approved budget.

Table 1 – School and extended school balances 2017/18 to 2018/19

	2017/18 outturn	2018/19 projection	Movement
	£000	£000	£000
Schools	-17,985	-13,585	4,400
School-led Extended Services (e.g. after school clubs)	-2,776	-1,667	1,109
Area Inclusion Partnerships	-1,535	-858	677
Children's Centres	-321	-457	-136
Clusters	-2,746	-1,456	1,290
Total schools and extended schools balance	-25,363	-18,023	7,340

2.4 School balances

Surplus balances

- 2.4.1 In total there were 23 schools with balances above 15% of the school budget share at the end of 2017/18. This was the same number of schools as in 2016/17.
- 2.4.2 There were eight schools where balances have remained greater than 15% over three successive financial years. These are all primary schools and they were asked to complete an application to retain their excess balance. These applications will be considered by the Schools Forum Panel and recommendations will be made to the Director of Children and Families who will make the final decision regarding any clawback.
- 2.4.3 For 2018/19, 178 out of 200 schools have set a budget that shows either a closing surplus or balanced budget position.

Deficit balances

- 2.4.4 Although there is an overall surplus projected for schools of £13,585k at the end of 2018/19, within this some approved budgets show closing deficit balances. The total value of deficits is budgeted to reduce by £163k to £5,571k. This reduction is partly due to one school with a deficit balance converting voluntarily to an academy during 2018/19.
- 2.4.5 22 schools (11%) have set budgets with closing deficit balances in 2018/19, a reduction of 5 schools compared to 2017/18. Of these, 17 schools are projecting deficit balances greater than £10k. Note that these figures are based on approved school budgets and have not been adjusted for any potential in-year changes based on previous trends, due to the difficulty in estimating this at individual school level.

Table 2 – School deficit balances

2016/17 outturn		2017/18 outturn		2018/19 budget		Movement 2017/18 to 2018/19	
£000	Number	£000	Number	£000	Number	£000	Number
4,035	26	5,734	27	5,571	23	-163	-5

- 2.4.6 Benchmarking carried out in previous years with other local authorities has shown that Leeds compares well in terms of the average percentage of schools in deficit. Benchmarking of the 2017/18 balances will be carried out when the relevant data has been released later in 2018/19.
- 2.4.7 Of the 17 schools with a projected deficit greater than £10k in 2018/19, 7 have submitted a deficit action plan and we are working with the remaining 10 to develop a plan for bringing the budget back into balance. Any issues arising from this work have

been escalated to Children and Families to consider further action that may be needed.

- 2.4.8 In particular, we have been working closely with North West SILC to identify options for savings and provide additional financial advice. The closing 2018/19 deficit is currently projected to be £1,761k, an increase of £406k compared to 2017/18 when the deficit was £1,355k. We are awaiting an agreed final budget position from the Interim Executive Board so it is possible that the projection may change. In particular, the NW SILC has recently obtained agreement that newly qualified teachers can now be employed which should help to improve the budget position moving forward. For 2019/20 it may be possible to balance the in-year budget, however further work needs to be completed to finalise some assumptions, particularly around increases in pupil numbers.
- 2.4.9 We have also been progressing work to review the processes relating to all school deficit budgets so we can ensure an appropriate level of challenge and support is being provided.
- 2.4.10 We have reviewed the deficit action plan template and will implement a revised version during budget reviews with schools in the Autumn term. This should improve monitoring and accountability which will support prompt challenge of any targets that are not achieved.
- 2.4.11 Actions that are available to the council when a school is in deficit include:
- Insisting that relevant staff undertake appropriate training to address any identified weaknesses in the financial management of the school.
 - Insisting 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.
 - Insisting on 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.

- 2.4.12 The Schools Finance Officers already 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 school meetings. We will continue to provide this support and challenge, and will consider what level of additional monitoring may be required as part of the approval of any deficit action plans.
- 2.4.13 One option to provide additional challenge on deficit budgets would be to use the existing Schools Forum panel to review and challenge schools' deficit action plans and we would appreciate the views of Schools Forum on this as a potential option.
- 2.4.14 The Schools Finance team has arrangements in place to share any concerns over a school's financial position with the council's School Improvement team and HR service. These arrangements will continue and we will also look at other ways to share relevant information across council services.
- 2.4.15 Once a school has been served with an academy order, the Schools Finance Officers will work with the school to reduce the risk of 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.
- 2.4.16 We will also continue to share good practice with other local authorities and the ESFA through regular regional meetings. We are currently reviewing whether there is any good practice within other authority's schemes that could be replicated in Leeds. We have also strengthened our internal reporting arrangements and have raised the issue of increasing school deficits with senior leadership within the council.

3 Recommendations

- 3.1 Schools Forum is asked to note the current position on school balances and provide a view on the proposal that the Schools Forum panel provides additional challenge on schools with deficit budgets.