

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

**Report to the Leeds Schools Forum**

**Date: 14 June 2018**

**Subject: School and extended school balances 2017/18**

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**Summary of main issues**

1. At the end of 2017/18, there was a net surplus balance of £25.4m for schools and extended schools, which is a reduction of £4.2m compared to 2016/17 (£29.6m). Within this, balances for schools have decreased from a surplus of £20.6m at the end of 2016/17 to £18m at the end of 2017/18. This is an improved position compared to the budgets set with schools at the beginning of 2017/18, which had indicated that school balances would fall to £10.7m.
2. Although there was an overall surplus of £18m for schools at the end of 2017/18, within this some schools have been operating with deficit balances. The number of schools with a closing deficit balance has increased by one since the end of 2016/17, with a total of 27 schools carrying forward a deficit from 2017/18. The value of the deficit balances has increased by £1.7m during 2017/18, to a closing balance of £5.7m. Schools with projected deficit balances above a certain threshold have been asked to submit a deficit action plan detailing how the budget will be brought back into balance.
3. There are eight 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 balance.
4. Surplus balances for Area Inclusion Partnership are being reviewed and are currently subject to clawback of £250k for 2017/18.
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 2017/18 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 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.
- 2.1.2 Within this, balances for schools have decreased from a surplus of £20.6m at the end of 2016/17 to £18m at the end of 2017/18. The 2017/18 surplus represents 5% of the individual schools budget (compared to 5.6% in 2016/17). This is an improved position compared to the budgets set with schools at the beginning of 2017/18, which had indicated that school balances would fall to £10.7m. The mid-year budget reviews had indicated that the position would improve to £13m, and the final position of £18m was therefore a further improvement on these projections.

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

	2015/16	2016/17	2017/18	Movement
	£000	£000	£000	16/17 to 17/18 £000
Schools	-28,775	-20,630	-17,985	2,645
School-led Extended Services	-3,753	-3,861	-3,087	774
Area Inclusion Partnerships	-2,585	-2,005	-1,535	470
Sports Development	-71	-45	-10	35
Clusters	-3,785	-3,106	-2,746	359
<b>Total surplus balance</b>	<b>-38,969</b>	<b>-29,647</b>	<b>-25,363</b>	<b>4,283</b>

## 2.2 School balances 2017/18

2.2.1 The average balances for schools by phase are:

- Primary schools – 8.3% surplus (compared to 8.8% in 2016/17)
- Secondary schools – 0.4% deficit (the same as in 2016/17)
- Special schools – 1.7% deficit (compared to a 2.1% surplus in 2016/17)

### Surplus balances

2.2.2 In total there are 23 schools where balances are above 15% of the school budget share at the end of 2017/18. This is the same number of schools as in 2016/17.

2.2.3 There are eight 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 the Director of Children and Families.

2.2.4 The remaining 15 schools (all primaries) 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 spending this.

### Deficit balances

2.2.5 Although there was an overall surplus of £18m for schools at the end of 2017/18, within this some schools have been operating with deficit balances. The number of schools with a closing deficit balance has increased by one since the end of 2016/17, with a total of 27 schools carrying forward a deficit from 2017/18. The value of the deficit balances has increased by £1.7m during 2017/18, to a closing balance of £5.7m.

Table 2 – Year end balances for maintained schools

	2016/17		2017/18		Movement	
	£000	Number	£000	Number	£000	Number
School surplus balances	-£24,665	187	-£23,719	179	£945	-8
School deficit balances	£4,035	26	£5,734	27	£1,699	1
<b>Total schools surplus balance</b>	<b>-£20,630</b>	<b>213</b>	<b>-£17,985</b>	<b>206</b>	<b>£2,645</b>	<b>-7*</b>

\* Overall reduction in the number of schools is due to academisation

2.2.6 Further analysis of the deficit balances by phase shows that the number of secondary schools with closing deficit balances has stayed constant, however the number of

primary schools with deficit balances has increased by three from 15 to 18, and the number of SILCs with deficit balances has reduced by two.

**Table 3 – Schools with deficit balances by phase**

Phase	2016/17		2017/18		Movement	
	£000	Number	£000	Number	£000	Number
Primary	488	15	663	18	175	3
Secondary	2,717	8	3,716	8	999	0
Special	830	3	1,355	1	525	-2
<b>Total</b>	<b>4,035</b>	<b>26</b>	<b>5,734</b>	<b>27</b>	<b>1,699</b>	<b>1</b>

### 2.3 Individual school balances

2.3.1 Balances for individual schools are attached as Appendix 1. This shows balances at the end of 2017/18 compared with 2016/17. Schools are listed in order of increasing balance under the control of surplus balances rules.

### 2.4 Deficit balances

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

2.4.2 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.

- 2.4.3 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.
- 2.4.4 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.
- 2.4.5 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.
- 2.4.6 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.
- 2.4.7 We have also strengthened our internal reporting arrangements and have raised the issue of increasing school deficits with senior leadership within the council. Consideration is also being given to including a new risk on the risk register in relation to school deficit balances, and this would require quarterly review and reporting to appropriate groups within the council.

## 2.5 **Extended services and partnership accounts**

- 2.5.1 Schools hold £7.4m of balances in extended services accounts. This is held in four broad areas as follows:
- Extended Schools Facilities (£3.1m in 2017/18, compared to £3.9m in 2016/17) - This is the balance on the running of community facilities such as children's centres, wrap around childcare, before and after school clubs and other non-school curriculum activity.
  - Sports Development (£10k in 2017/18, compared to £45k in 2016/17) - This is the balance of sports development grant held by lead schools to support activity in the summer term.

- Clusters (£2.7m in 2017/18, compared to £3.1m in 2016/17) – This is the balance held by lead schools on behalf of clusters of schools.
- Area Inclusion Partnerships (£1.5m in 2017/18, compared to £2m in 2016/17) – This is the balance held by the lead or host school on behalf of the five Area Inclusion Partnerships.

2.5.2 Surplus balances for Area Inclusion Partnership are being reviewed for 2017/18 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 a clear development plan could be provided for the use of the balance along with evidence to support the costs.

2.5.3 As a result of these controls a minimum of £250k will be clawed back from AIPs. This funding will be returned to the high needs block and has been included in the projections within the DSG outturn report which is on the agenda at this Schools Forum meeting.

2.5.4 There are no deficit balances carried forward to 2018/19 for extended services as deficits are not permitted for these budgets.

## 2.6 National Balances

2.6.1 National average balances at the end of 2016/17 are shown region by region in the following table. National balances for 2017/18 will not be available until autumn.

2.6.2 The benchmarking shows that at the end of 2016/17 Leeds schools had higher than average surplus balances compared to the rest of England and fewer than average schools in deficit. Leeds had the 56<sup>th</sup> highest average surplus balance out of 152 local authorities at the end of 2016/17. Leeds was also ranked 80<sup>th</sup> out of 152 local authorities for the percentage of schools in deficit at the end of 2016/17.

Table 4 – National average balances at the end of 2016/17

Area	Total no. of schools	Total surplus balance (£000)	Average surplus balance (£000 per school)	Schools in deficit (%)	Schools in surplus (%)
East Midlands	1,397	-130,309	-93	8.7	91.2
East Of England	1,796	-211,874	-118	4.2	93.8
London	1,891	-355,439	-188	10.6	88.8
North East	918	-73,046	-80	12.4	85.7
North West	2,714	-234,662	-86	9.0	90.3
South East	2,531	-220,547	-87	9.0	89.7

South West	1,490	-111,774	-75	9.1	89.9
West Midlands	1,730	-226,565	-131	9.6	90.1
Yorkshire & Humber	1,639	-137,811	-84	10.7	88.7
<b>Leeds</b>	<b>224</b>	<b>-28,161</b>	<b>-126</b>	<b>8.0</b>	<b>92.0</b>
<b>England</b>	<b>16,106</b>	<b>-1,702,027</b>	<b>-106</b>	<b>9.1</b>	<b>90.0</b>

### 3 Recommendations

- 3.1 Schools Forum is asked to note the 2017/18 school and extended school balances, and the work ongoing to consider both clawback of excess surplus balances and review deficit action plans.