

Date: 6 July 2017	Item 9	Type of report: For information
Report title:	LA Maintained School Balances at 31 March 2017 and Schools in Financial Difficulty	
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Executive Summary

This report provides the annual update of the Maintained School Retained Balances as at 31 March 2017.

Schools Forum Actions

To note:

- The school balances, in particular, those schools with a deficit and at a financial risk.
- That all schools are required to have an agreed plan with the Local Authority showing the commitments in place for the revenue balances that exceed the maximum percentage permitted by the Balance Control Mechanism.
- That schools with a projected deficit balance are required to have an agreed recovery plan in place to deliver a balanced budget with an agreed timescale.
- That a follow up report of the schools commitments and the deficit recovery plans will be presented to the Schools Forum in October 2017.

1. Total (Revenue & Capital) School Balances at the end of 31 March 2017

- 1.1 The year-end capital and revenue balances held by schools show a reduction of £2.5m from £19.9m to £17.4m. A summary of the total and average capital and revenue balances held at the end of the 2016-17 financial year is provided in the table below:

Table 1: Schools' Capital & Revenue Balances at 31 March 2017 (- is a deficit))

Phase	Number of Schools	2016-17 Balances	Average Balance	Lowest balance (including deficits)	Highest positive balance
Nursery	5	725,652	145,130	-17,668	364,003
Primary	62	12,781,568	206,154	-195,160	1,607,489
Secondary	3	1,833,476	611,159	18,833	1,259,621
Special	9	2,044,259	227,140	107,707	405,397
Total	79	17,384,954			

Note: the data in table 1:

- Includes capital and revenue balances.
- Special schools includes hospital schools and the Pupil Referral Unit
- Excludes balances held by academies

- 1.2 A comparison of the total revenue and capital balances held by schools over the past three years is provided in the table below.

Table 2: Three Year Trend Analysis of Schools Capital and Revenue Balances

Phase	Number of schools	Balances 2016-17	Balances 2015-16	Balances 2014-15
	No.	£	£	£
Nursery Schools	5	725,652	383,930	324,141
Primary Schools	62	12,781,568	14,858,390	15,459,634
Secondary schools	3	1,833,476	2,915,611	3,158,972
Special Schools*	9	2,044,259	1,765,037	2,140,078
Total	79	17,384,954	19,922,968	21,082,825

- 1.3 Table 2 Includes the PRU and Hospital Schools. Appendix A contains a list showing each school's revenue balances, the key issues to note are:

- There are 79 schools with total revenue balances of £15.742m
- The 79 schools have combined capital and revenue balances of £17.385m, down £2.5m from the previous year.
- There are 8 schools with deficit balances ranging from £8,289 to £195,160.
- The surplus revenue balances range from £7,293 to £1.589m.

- 1.4 A summary of the total and average revenue only balances held at the end of the 2016-17 financial year is provided in the table below:

Table 3: Schools' Revenue Only Balances at 31 March 2017

Phase	Number of Schools	2016-17 Balances	Average Balance	Lowest balance (including deficits)	Highest positive balance
Nursery	5	489,653	97,931	-52,854	252,365
Primary	62	11,653,596	187,961	-195,160	1,434,445
Secondary	3	1,827,174	609,058	17,196	1,259,621
Special	9	1,771,851	196,872	9,302	389,291
Total	79	15,742,273			

- 1.5 The Schools Finance Team (SFT) will be monitoring and working with schools in relation to their year end balances during 2017-18 as explained later in this report.

2. Controls on Surplus Revenue Balances

- 2.1 Southwark has adopted controls on surplus revenue balances using thresholds of 5% for secondary schools and 8% for other schools. A breakdown of the number of schools holding revenue balances in excess of the threshold by phase is outlined in the table below:

Table 4: Schools in Excess of Agreed Threshold

Phase	2016-17 No.	2015-16 No.	2014-15 No.
Nursery	2	4	2
Primary	25	30	38
Secondary	2	2	3
Special	7	6	7
Total	36	42	50

- 2.2 A breakdown of the level of revenue balances held as a percentage of the budget share is provided in the table below:

Table 5: Revenue Balances as a Percentage of Budget Share

Revenue Balances as % of Income (excluding Pupil Premium)	Number of Schools 2016-17	Number of Schools 2015-16	Number of Schools 2014-15
>50%	2	3	2
26-50%	2	6	5
16-25%	10	15	11
11-15%	15	14	20
6-10%	24	24	22
<5%	26	17	19
Total	79	79	79

3. Action Regarding Excessive School Revenue Balances

- 3.1 Up until 2010 local authorities had to have a balance control mechanism in their Scheme for Financing Schools. This was relaxed and the regulations amended as contained in the December 2015 statutory guidance from the DfE 'Schemes for Financing Schools' which states:

'Controls on surplus balances: The scheme may contain a mechanism to claw back excess surplus balances. Any mechanism should have regard to the principle that schools should be moving towards greater autonomy, should not be constrained from making early efficiencies to support their medium-term budgeting in a tighter financial climate, and should not be burdened by

bureaucracy. The mechanism should, therefore, be focused on only those schools which have built up significant excessive uncommitted balances and/or where some level of redistribution would support improved provision across a local area.'

- 3.2 Schools are also required by the Schools Financial Value Standard (SFVS) to have a clear plan for reserves and balances they hold. This plan should be submitted to the council by 30th June each year.
- 3.3 As part of the Council's controls the Schools Finance Team (SFT) has requested details from every school regarding their balances and the purpose for which they are held. This will be analysed during July and August and reported to a future schools forum.

4. SCHOOLS BEGINNING 2017-18 WITH DEFICIT BALANCES

Definition of Financial Difficulty

- 4.1 In addition to the statutory roles of the council to set school budgets, collect and collate the revenue and capital annual outturn figures, for consolidation in the council's balance sheet, it has a duty to review and monitor the financial 'health' of maintained schools in terms of their budget pressures and ability to manage day to day cash flow.
- 4.2 A number of tests are applied to identify any school that might be in financial difficulty through analysing and monitoring:
- Annual outturn
 - Level of balances and change between financial years
 - Annual expenditure plans (AEPs) to identify potential cash flow 'pinch points'
 - Numbers on roll
- 4.3 The schools with deficit balances at the year end of 31st March for the past 3 years are shown below:

Table 6: 3 Year Trend Analysis of Deficit Balances

Schools Phase	Number In Deficit 2016-17	Number In Deficit 2015-16	Number In Deficit 2014-15
Nursery	1	1	2
Primary	7	6	1
Secondary	0	0	0
Special	0	1	0
Total	8	8	3

- 4.4 The size of these deficits range from £8,289 to £195,160. The number of schools in deficit has remained the same as in 2015-16, but the list includes 3 schools which have moved into deficit this year, and the same number have moved out of deficit. Of the 5 schools still in deficit, two have significantly reduced their deficits, and 3 have increased.

The Schools Finance Team are actively working with the schools to understand why these have occurred and the management action required to mitigate any future deficits.

5. Schools Potentially at Risk of Developing Deficit Budgets

- 5.1 As indicated above, a reduction in numbers on roll (NoR) between years can contribute to financial pressures on schools and create financial difficulties. The table below shows those schools that suffered a reduction of 5% and above on the NOR from January 2016 to January 2017.

Table 7: Schools suffering a reduction of 5% and above on NOR from Jan 16 to Jan 17

Range	Nursery	Primary	Secondary	Special	Total Number of Schools
5%-7%	0	9	0	0	9
>7% - 10%	0	2	0	0	2
>10% - 13%	0	2	0	0	2
>13%	2	2	0	0	4
Total	2	15	0	0	17

- 5.2 The SFT, working in conjunction with the Schools Standards Team, will be contacting these schools to discuss and review their financial position and ensure robust plans are in place to cope financially with the pupil number reductions.
- 5.3 School Forum in October 2015 agreed criteria for assistance which is set out below. The eight schools in deficit at the end of 2016-17 have been contacted to obtain their recovery plans. SFT will continue working with the schools through the actions identified above. As a last resort the criteria shown below will be used to determine whether additional funding from the Schools in Difficulty budget could be provided to the school.
- 5.4 **Criteria for assistance**

A school moves into deficit, has a robust Deficit Recovery Plan and a new Head teacher is appointed and the deficit is more than 2.0% of the total funds available to the school

A school moves into deficit, has a robust Deficit Recovery Plan and the deficit is more than 2.5% of the total funds available to the school

Re-organisation of the school's staffing is required to address school improvement priorities, and/or in order for the school to remain in, or get back into, a balanced budget position

A school within 1.5km of a major regeneration project in Southwark experiences a roll reduction that requires additional support

5.5 Remedial Action and Support

Where the above analysis reveals schools that might be facing financial difficulties the council's school finance team (SFT) will meet with the head and finance business manager/bursar to discuss possible courses of action that could include:

- Requesting a three year annual expenditure recovery plan including repayment of any deficit
- Identifying where cash flow problems might arise and agree a cash advance and an emergency loan
- Increasing regular monitoring
- Informing schools standards team regarding continuing reduction in pupil numbers thereby reducing DSG funding
- Suggesting school applies to the Schools in Difficulty Panel for additional funding from the de-delegated budget.

Appendix A – Schools Closing Revenue Balance at 31 March 2017**Table A: Nursery Schools**

Sequential School Number	Closing revenue balance – 31 March 2017	NoR - Jan 2017
1	-52,854	70
2	12,001	262
3	42,139	128
4	252,365	164
5	236,002	88
Nursery Schools	489,653	712

Sequential School Number	Closing revenue balance – 31 March 2017	NoR - Jan 2017
6	-195,160	508
7	-146,760	293
8	-93,443	484
9	-87,706	237
10	-70,849	412
11	-35,046	202
12	-33,305	236
13	-24,184	432
14	-9,743	158
15	-3,972	543
16	7,293	222
17	8,851	258
18	13,212	214
19	32,411	353
20	35,752	443
21	40,069	390
22	41,570	200
23	52,331	644
24	60,829	465
25	64,155	217
26	70,978	406
27	71,532	435
28	79,450	150
29	96,313	234
30	107,808	347
31	115,181	431

Sequential School Number	Closing revenue balance – 31 March 2017	NoR - Jan 2017	Schools
32	124,678	547	
33	125,090	109	
34	126,012	232	
35	130,409	334	
36	137,235	272	
37	141,482	255	
38	142,357	455	
39	152,932	210	
40	158,164	223	
41	160,850	202	
42	169,488	233	
43	181,236	530	
44	187,082	454	
45	191,860	326	
46	192,159	370	
47	195,532	261	
48	198,994	246	
49	202,631	469	
50	203,657	488	
51	212,311	237	
52	215,727	445	
53	221,151	437	
54	225,103	172	
55	241,165	230	
56	241,838	673	
57	255,981	430	
58	280,347	210	
59	379,217	428	
60	400,309	526	
61	424,282	385	
62	430,714	576	
63	441,741	343	
64	510,951	357	
65	755,766	424	
66	1,508,664	460	
67	1,588,914	320	
Primary Schools	11,653,596	23,136	

Table C: Secondary Schools

Sequential School Number	Closing revenue balance – 31 March 2017	NoR - Jan 2017
68	17,196	771
69	550,357	622
70	1,259,621	752
Secondary Schools	1,827,174	2,145

Table D: Special Schools

Sequential School Number	Closing revenue balance – 31 March 2017
71	9,302
72	93,543
73	129,380
74	164,028
75	174,296
76	223,157
77	271,925
78	316,928
79	389,291
Special Schools	1,771,851