

Date: 5 July 2018	Item 9	Type of report: Information and notification to schools
Report title:	School Balances and Financial Health 2017-18	
Author name:	Dave. Richards, Senior Finance Manager	
Officer to present the report:	Dave Richards, Senior Finance Manager	

Executive Summary

This report provides the annual update of the maintained school balances as at 31 March 2018. It looks at the Schools Financial Value Standard and compares it with the Internal Auditors Annual Report.

Schools Forum Actions

To note:

- the schools' cumulative revenue balances have fallen from £15.7m as at 31 March 2017 to £13.7m as at 31 March 2018.
- there are 19 schools in deficit as at 31 March 2018 (11 were in deficit as at 31 March 2017)
- the difference on the school financial value standard and the auditors report.

To agree

- that the LA writes to Headteachers and Chair's of Governors highlighting the differences between the Schools Financial Value Standards and Internal Audit and the main findings from the internal audit annual report.

1. Total Revenue School Balances at the end of 31 March 2018

- 1.1 The year-end revenue balances held by schools show a reduction of £2.0m from £15.7m to £13.7m.
- 1.2 There are now 19 schools that have a revenue deficit that represents 24% of our schools. There were 40 schools that operated an in year deficit in 2017-18. That is they spent more than they received in 2017-18. They have supported their funding by using their previous years' carry forward. With the pupil numbers falling there is only a limited time this can continue.

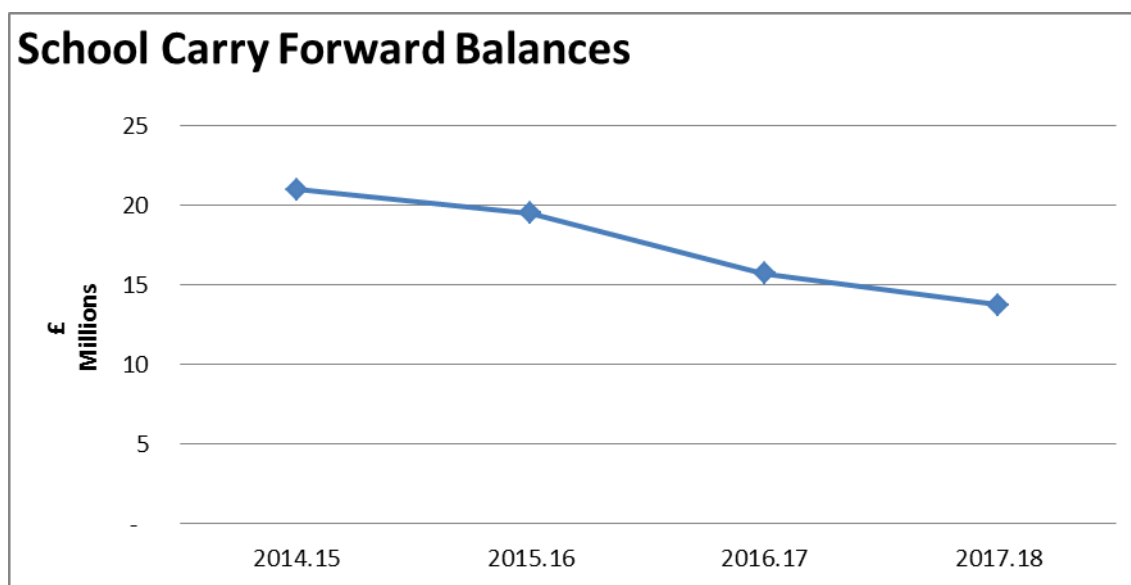
The Table below shows the total revenue balances by sector at the end of the 2017/18 financial year. Appendix A also provides the capital balances.

Table 1: Schools' Revenue Balances at 31 March 2018 (- is a deficit)

Phase	Number of Schools	2017-18 Balances	Average Balance	Lowest balance (including deficits)	Highest positive balance
Nursery	5	512,628	102,526	-130,466	360,456
Primary	62	10,107,342	163,022	-290,789	1,788,122
Secondary	3	1,504,562	501,521	-2,665	1,131,337
Special	9	1,603,790	178,199	26,170	262,444
Total	79	13,728,322			

Note - Special Schools includes Hospital Schools and the Pupil Referral Unit. The Table excludes balances held by academies and free schools

- 1.3 A comparison of the total revenue held by schools over the past four years is provided in the table below.

Table 2: Three Year Trend Analysis of Revenue Balances

- 1.4 Appendix A contains a list showing each school's revenue balances.

2. Controls on Surplus Revenue Balances

- 2.1 The Schools Forum has supported 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 3: Schools in Excess of Agreed Threshold

Phase	2017-18 No. of schools	2016-17 No. of schools	2015-16 No. of schools
Nursery	3	2	4
Primary	27	25	30
Secondary	3	2	2
Special	6	7	6
Total	39	42	50

- 2.2 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 reported to a future Schools Forum meeting.

4. SCHOOLS BEGINNING 2018-19 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.
- 4.3 The schools with deficit balances at the year end of 31st March for the past 3 years are shown below:

Table 4: - Trend Analysis of Deficit Balances

Schools Phase	Number In Deficit 2017-18	Number In Deficit 2016-17	Number In Deficit 2015-16
Nursery	2	1	1
Primary	16	10	6
Secondary	1	0	0
Special	0	0	1
Total	18	11	8

- 4.4 The list includes 10 schools which have moved into deficit this year, there are 3 schools have moved out of deficit. The Schools Finance Team are actively working with the schools to ensure they all have a licensed budget recovery plans in place.

5. Overall financial position.

The above tables show the difficult financial climate that schools are facing of both in-year deficits and falling pupil numbers. Further pay awards are running at least 2% and general inflation is staying stubbornly high at 3%. The increase from central government allows for an annual rise of only 0.5% here in Southwark. School budgets over the next three years could potentially see a 7% real terms cut in funding.

In order to assist schools with these circumstances a number of actions have been taken

- A regular session for Schools Business Managers has been set up
- Training sessions will be held on managing school budgets in difficult times for:
 - School Business Mangers
 - Head teachers
 - Chairs of Governing bodies and Chairs of finance committee
- Local benchmarking data will be provided as well a national benchmarking data
- Termly SEN funding adjustments have been implemented rather than one year end adjustment
- Termly Early Years funding adjustments have been implemented rather than one year end adjustment

6. Schools Financial Value Standard (SFVS).

At the end of May 2018 we have to make a return to the Department for Education on the number of schools that have completed the Schools Financial Value Standard and returned it to the Local Authority. We are pleased to report that all schools made a return.

The standard consists of 25 questions which governing bodies or management committees should formally discuss annually with the Headteacher and senior staff.

The questions which form the standard are in four sections.

- 1: The governing body and school staff
- 2: Setting the budget
- 3: Value for money
- 4: Protecting public money

Each question requires an answer as to whether the school meets the standard Yes, In Part, or No.

- If the answer is Yes, a comments column is provided that can be used to indicate the main evidence on which the governing body based its answer.
- If the answer is No or In Part, the comments column should contain a very brief summary of the position and proposed remedial action.

The table below summarises the percentage of the answers from all the returns

Yes	95%
No	2%
In part	3%

8 Internal Audit Reports

There is quite a contrast with the internal audit reports and the SFVS. A school is audited every three years under a rolling programme. This audit is undertaken by BDO LLP on behalf of the Local Authority. The overall purpose of the audit is to assess whether the school has adequate internal controls in place to help prevent financial management weaknesses that could result in budget overspend or inappropriate decision making and expenditure

The auditors make two opinions on the financial controls of the school; one is on the design of internal control system and the other on the operation of the controls. The opinions are categorised as follows

Opinion	Design Opinion	Effectiveness Opinion
Substantial	There is a sound system of internal control designed to achieve system objectives.	The controls that are in place are being consistently applied.
Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	System of internal controls is weakened with system objectives at risk of not being achieved.	Non-compliance with key procedures and controls places the system objectives at risk.
No	Poor system of internal control.	Non compliance and/or compliance with inadequate

On the latest audit reports our schools have been clarified as

Opinion	Design Opinion No of schools	Effectiveness Opinion No of schools
Substantial Assurance	30%	39%
Moderate Assurance	43%	50%
Limited Assurance	27%	11%
No Assurance	0%	0%

This is significantly different from the SFVS.

The annual auditors report is attached in full in Appendix B.

In summary the area looked at are below together with the proportion of comments

Governance	14%
Banking	15%
Budgeting	11%
Payroll and Pensions	16%
Procurement	31%
Data Security	5%
Cash Handling	8%
TOTAL	100%

Further details are provided on Page 5 and 6.of the auditors report in Appendix B

9 Conclusion

The end of year financial position shows the strain that schools finances are under stress. The Schools Financial Value and Audit Reports show contrasting views on the financial monitoring and governance in the school. The financial position is likely to worsen over the new few years and the financial position will come under even more close scrutiny. It is important that Governors play an important part in monitoring and challenging financial performance in schools bearing in mind the underlying differences in the conclusions between the School Financial Value Standard and the internal Audit Reports.

Appendix A – Schools Closing Revenue Balance at 31 March 2018

Nursery Schools

Sequential School Number	Closing revenue balance at 31 March 2017	Closing revenue balance at 31 March 2018	Capital Balances as 31 March 2018
1	(£52,854)	(£130,466)	£12,191
2	£42,139	(£31,433)	£23,990
3	£236,002	£145,670	£15,887
4	£12,001	£168,402	£34,119
5	£252,365	£360,456	£5,418
Nursery Schools	£489,653	£512,628	£91,605

Primary Schools

Sequential School Number	Closing revenue balance at 31 March 2017	Closing revenue balance at 31 March 2018	Capital Balances as 31 March 2018
6	(£93,443)	(£290,789)	£2,512
7	£126,012	(£221,330)	£0
8	(£195,160)	(£209,270)	£9,717
9	£280,347	(£158,280)	£122,940
10	£192,159	(£127,474)	£17,293
11	£13,212	(£118,091)	£0
12	£7,293	(£103,004)	£0
13	(£24,184)	(£88,088)	£0
14	£60,829	(£69,472)	£0
15	£71,532	(£59,551)	£39,190
16	(£87,706)	(£30,303)	£22,182
17	(£70,849)	(£23,863)	£9,079
18	£79,450	(£18,453)	£39,982
19	(£9,743)	(£13,984)	£27,174
20	£141,482	(£13,136)	£21,201
21	£152,932	(£12,685)	£0
22	£430,714	£2,356	£14,686
23	(£35,046)	£12,485	£18,258
24	(£33,305)	£34,028	£372
25	£35,752	£59,248	£0
26	£125,090	£64,494	£0
27	£191,860	£70,108	£12,662
28	£212,311	£74,572	(£142,029)
29	£241,165	£75,949	£148,226
30	£400,309	£87,565	(£50,785)
31	£8,851	£93,383	£296,861
32	£32,411	£94,380	£0

33	(£3,972)	£105,332	£19,655
34	£203,657	£105,660	£2,616
35	£195,532	£108,172	£0
36	£64,155	£109,826	£67,253
37	£255,981	£109,928	£904
38	£169,488	£113,921	£0
39	£137,235	£115,014	£6,254
40	£221,151	£120,401	£53,518
41	£40,069	£123,085	£0
42	(£146,760)	£133,407	£4,249
43	£130,409	£140,426	£0
44	£215,727	£145,176	£659
45	£115,181	£159,085	£0
46	£52,331	£173,099	£0
47	£96,313	£184,128	£0
48	£124,678	£185,385	£0
49	£160,850	£189,642	£0
50	£158,164	£210,686	£4,875
51	£142,357	£212,321	£13,839
52	£107,808	£213,995	£15,888
53	£187,082	£227,649	£1,520
54	£225,103	£231,524	£2,227
55	£41,570	£234,831	£0
56	£70,978	£260,859	£0
57	£181,236	£268,334	£0
58	£755,766	£281,697	£90,131
59	£424,282	£308,268	£0
60	£202,631	£316,038	£0
61	£198,994	£331,078	£0
62	£379,217	£387,954	£610
63	£241,838	£429,244	£0
64	£441,741	£516,194	£16,564
65	£510,951	£645,610	£0
66	£1,588,914	£1,538,026	£52,357
67	£1,508,664	£1,788,122	£23,768
Primary Schools	£11,653,596	£9,834,913	£986,408

Secondary Schools

Sequential School Number	Closing revenue balance at 31 March 2017	Closing revenue balance at 31 March 2018	Capital Balances as 31 March 2018
68	£17,196	(£2,665)	£25,088
69	£550,357	£375,890	£19,497
70	£1,259,621	£1,131,337	£0

Secondary Schools	£1,827,174	£1,504,562	£44,585
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Special Schools

Sequential School Number	Closing revenue balance at 31 March 2017	Closing revenue balance at 31 March 2018	Capital Balances as 31 March 2018
71	£9,302	£26,170	£48,564
72	£93,543	£89,804	£43,949
73	£164,028	£159,288	£8,712
74	£174,296	£217,168	£19,234
75	£389,291	£219,224	£0
76	£129,380	£220,833	£66,714
77	£271,925	£223,474	£36,564
78	£223,157	£262,444	£0
79	£316,928	£457,813	£22,637
Special Schools	£1,771,851	£1,876,219	£246,374
TOTAL	£15,742,273	£13,728,322	£1,368,972