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Report title:	Update on Schools Balances and Schools in Deficit	
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Executive Summary

A report to Schools Forum in July 2016 detailed the schools balances position at the end of 2015-16 highlighting the number of schools with surplus balances over the recommended threshold and those in deficit. This report provides an update regarding action being taken by the Schools Finance Team to investigate the above threshold balances and support given to schools in deficit.

Schools Forum Actions

To note:

1. The position regarding excessive school balances at the end of March 2016.
2. That all schools are required to have an agreed plan of commitments in place with the council for large balances.
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.

Background

4. A report setting out the overall position for school balances was presented to the 7 July 2016 Schools Forum. In response to this report, an update on schools with large surplus balances was requested. This report sets out the detail regarding the council's balance control mechanism and information gathered from schools concerning their planned usage of their balances in excess of the 5% (secondary) or 8% threshold (primary).

Action Regarding Excessive School Balances

5. Up until 2010 local authorities had to have a balance control mechanism in their Scheme for Financing Schools which allowed for clawback of excessive balances from schools. This position was relaxed in 2010 and the regulations amended. The latest regulations are contained in the December 2015 statutory guidance from the DfE for '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.'

6. 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.

Controls on Surplus Balances

7. Southwark has continued to adopt controls on surplus balances using thresholds of 5% for secondary schools and 8% for other schools. For example where a primary school's cumulative balance exceeds 8% of the annual funding this is deemed as exceeding the threshold and warrants further scrutiny. A breakdown of the number of schools holding balances in excess of the threshold by phase is outlined in the table below.

Table 1: Schools with budgeted position in excess of the agreed threshold for 2016-17

Phase	No. in each phase	Schools in excess of agreed threshold	%
Nursery	5	4	80%
Primary	62	30	48%
Secondary	3	2	67%
Special	9	6	67%
Total	79	42	53%

Table 2: Schools in Excess of Agreed Threshold for previous three years

Phase	2015-16 No.	2015-16 %	2014-15 No.	2014-15 %	2013-14 No.	2013-14 %
Nursery	3	60%	2	40%	3	60%
Primary	29	47%	38	61%	30	48%
Secondary	3	100%	3	100%	2	67%
Special	5	56%	7	78%	7	78%
Total	40	51%	50	63%	42	53%

Further action required for Surplus Balances

8. Schools are required to set out their plans for any balances in excess of the above thresholds in their end of year financial return submitted to the Local Authority. This information has been reviewed by the Schools Finance Team and follow-up actions instigated as summarised in table 3 below.
9. Common examples of planned use of balances include: major capital works, funding costs for staff restructuring, IT investment. These plans will be verified with relevant officers in the Standards Team, SEN and the Capital Team to ensure that there is no duplication of funding from the Local Authority / DSG fund areas when the schools have already set aside funds.

10. In five cases further information has been requested either due to the size of the surplus or insufficient information being provided. Further updates will be provided at later school forum meetings once the additional information has been obtained.

Table 3: Summary of Surplus Balances

Phase	Schools with balances above 5-8% No.	Largest Balance £	Average Balance £	No. with plans for surplus balance No.	Further Action required
Nursery schools	3	408,358	221,423	3	
Primary Schools	29	1,107,724	93,240	29	4 schools' plans being followed up to substantiate balances position
Secondary schools	3	1,251,792	545,332	3	1 school's plans being followed up to substantiate balances position
Special Schools	5	130,924	64,185	5	
Total	40		117,347	35	

Schools in Deficit

11. The increase in number of schools with a deficit at the end of the year is shown in the table below.

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

12. The Schools Finance Team and relevant Education officers meets regularly to discuss the schools currently experiencing financial difficulty. These have been identified by their deficit position at the end of 2015-16 and also other concerns such as requests for a cash advance or falling rolls.
13. Eleven schools are currently being monitored by the Schools Finance Team. Of these schools, five have given assurance that they have taken measures to tackle their financial position and will not be a deficit position by the end of the year. Meetings have been held or arranged with four schools another two schools have been written to with the offer of advice and support with producing a budget recovery plan, or other ways to avoid financial difficulty.
14. Four schools have received a cash advance to help with cash flow issues. Of these, three have agreed a repayment plan with the Council and aim to have repaid the advance by the end of the 2016-17 financial year. The other school is receiving further support from the local authority and plans will be made to recover the advance once the school is in a stronger position. Plans have been put in place to tackle a number of the issues the school is facing currently.