

SCHOOL BALANCES POSITION STATEMENT

1. SUMMARY:

- 1.1 This statement gives an update on the level of schools' revenue balances as at the end of 2014/15.
- 1.2 The statement also highlights that deficit budgets have been set against five schools for 2015/16 and that there is significant risk that in future years the number of schools that may need to set a deficit budget will further increase.
- 1.3 There are various reasons for the potential increase in deficit budgets. These are highlighted below:
 - From 2014/15 the mainstream schools have seen a recurring decrease in the funding per pupil rate. This has been required to fund the expected growth in Special Educational Needs, in particular the increase in places at council maintained special schools
 - Cost pressures on schools generally have been increasing at a faster rate than central government formula funding
 - Recent falls in numbers on roll, particularly at secondary schools, has had an immediate impact on funding whilst the associated necessary reduction in costs has been difficult to achieve due to the need to maintain educational standards
 - The significant schools balances have enabled individual schools to absorb the pressures highlighted above. However this is only a short term solution that that will cease to be an option as the balances reduce.
- 1.4 Cabinet is requested to note that, unless addressed by the schools, the current cost pressures and changes in funding experienced by schools has the potential to lead to an increase in the number of schools with a deficit budget from 2016/17. Further, for schools where this is an issue their balances are likely to be utilised during 2015/16 making them no longer available to mitigate any pressures from 2016/17.

2. BACKGROUND and BRIEFING DETAILS:

- 2.1 Each year schools are given delegated budgets which are calculated using a locally agreed fair funding formula. These budgets are supplemented by specific government grants (e.g. Pupil Premium) and through the efforts of the school. Delegated budgets are intended to be spent during the year on the existing cohort of pupils, although it is prudent for a school to retain a small surplus to provide for future uncertainties.

- 2.2 Schools do spend the vast majority of funds directly on the education of their pupils. However, there are a number of genuine reasons why schools may accumulate a balance at the year-end, for example, to provide consistency in staffing levels during funding fluctuations relating to predicted changes in numbers on roll or to provide for one off items of large expenditure. Historically the overall level of school balances has increased year on year.
- 2.3 In many instances schools have set budgets that utilise their balance in year. Despite this it is common place for these schools to still increase the level of balances by year end. Evidence from last year has shown that whilst this may still be the case for some schools, for most secondary schools, the balances have been utilised in year.
- 2.4 For the 2015/16 schools have budgeted to use £4.6M of balances in year. Due to the other pressures schools face it is anticipated that unlike previous years a significant amount of these balances will be used in line with the budget. The schools position will be reviewed over the next couple of months to ascertain future commitments against estimated closing balances in order to provide data in accordance with Consistent Financial Reporting (CFR) requirements. This data will be updated to reflect actual, rather than estimated, closing balances.

3.0 School Revenue balances as at the end of 2014/15

- 3.1 Revenue balances reduced in 2014/15 by £1.228m when compared to the balances held at the end of 2013/14 after removing the effect of schools transferring to academy status.
- 3.2 There were significant differences between the Secondary and Primary sectors. The reduction in the Secondary sector may relate to the falling rolls currently effecting that sector. The increase in the Primary sector may again be due to the uncertainty felt by schools during the year over the future level of government funding as well as an increase in the amount of Pupil Premium allocations to schools. Revenue balances increased in 28 schools and fell in 25 schools.
- 3.3 As outlined above schools' own approved budgets were set at a level that would reduce balances by £4.6m by the end of the financial year 2014/15. This compares to an actual reduction of £1.228m analysed in the table below.

School Type	2013/14 Outturn £'000	2014/15 Outturn £'000	Change in year £'000
Early Years Centres	45	35	(10)
Primary Schools	6,069	6,959	890
Secondary Schools	3,749	1,530	(2,219)
Special Schools	551	663	112
Total	10,415	9,187	(1,228)

3.4 The position outlined above demonstrates that secondary schools, upon which falling numbers on roll have recently been an issue, are seeing a significant reduction in balances. The total balances against eight secondary schools reduced by £2.2m during 2014/15. In addition much of the remaining balances for secondary schools is planned to be utilised within their 2015/16 budgets.

3.5 In respect of primary schools nine out of thirty eight schools have balances of less than £50,000, and seven of these schools saw a reduction in their balance during 2014/15. The additional pressure and reductions in funding for 2015/16 is expected to further reduce these balances by March 2016.

4.0 Schools in Deficit

4.1 According to the Southampton City Council Scheme for Finance Schools, Governors should not normally set a budget which exceeds the amount of their annual budget allocation plus any accumulated balances held. It may occasionally be necessary to do this, so bringing the school's budget into deficit. This action might, for example, be appropriate if a school faced with a budget reduction plans to make a saving which, in a full academic year would be sufficient to bring expenditure in line with the budget, but which can only be partly achieved in the first financial year. In these circumstances the Chair of Governors should submit a written action plan for approval by the Principal Officer for Education & Early Years, showing how expenditure will be brought back in line with resources and the deficit repaid. This should normally be achieved by the end of the financial year following the one in which the deficit is incurred.

4.2 The following conditions will apply to deficit budget agreements:

- where, in exceptional circumstances, an extended period is agreed for the repayment
- of a deficit, the period for repayment will not exceed five years
- the maximum value of a planned and approved budget deficit will not exceed £150,000
- the total deficits of all schools with deficit budgets in any one financial year will not exceed 40% of the total school balances held by the City Council.

4.3 The regulations do not permit the City Council to write off the deficit balance of any school.

5.0 Schools Deficits at the end of 2014/15

5.1 At the end of 2014/15 there were two schools in deficit, of which one was previously agreed as part of the deficit scheme. This compares with no schools in deficit at the end of the previous year. The two deficits totalled £118,000.

6.0 Schools Deficits at the end of 2015/16

6.1 In comparison with 2014/15, where there was one school with an approved deficit budget there are currently five schools forecasting a deficit budget for 2015/16. The detail about these schools is summarised in table below.

School	2015/16 £'000	2016/17 £'000	2017/18 £'000
Regents Park Community School	175	304	301
The Cedar School	77	177	287
The Polygon School	24	35	52
Valentine Primary School	224	366	400
Woodlands Community School	225	209	308

Risks of Schools Deficits at the end of 2016/17

- difficult to predict with certainty
- many secondary schools will have used up balances
- handful of primary schools will have used up balances
- no change in funding / pressure on high needs not going away
- deficits above the level within the scheme
- the academy conversions

As per a recent BBC report, the councils across UK have incurred costs of over £30m from clearing debts of schools when they converted to academies. As per the Department for Education, Councils are only required to cover a school's deficit when it has become a sponsored academy after a prolonged period of underperformance, and the deficit was accumulated under council control.

Academy Conversions (Transfer of School Surpluses) Regulations 2013 state that where a school with a deficit is to join the academy trust of an external sponsor and open as a sponsored academy, the deficit remains with the local authority. Local authorities will wish to work closely with converting schools to ensure that they manage the risk of an increasing deficit before conversion, and if a school is not managing its expenditure in a satisfactory manner, the local authority may withdraw delegation of the converting school's budget share in order to limit the potential cost to the local authority's budget.

The main risk faced by the Local Authority (LA) is the potential for sponsored Academies to increase their spending in the run up to conversion, knowing that the deficit remains with the LA. In order to ensure economical administration of funds the LA should put in place certain procedures.

Additionally, a potential risk is posed by those schools operating their own bank accounts. As bank account schools operate their own system the ability of the LA to monitor expenditure is reduced.

The reasons for these schools forecasting significant deficit balances and actions taken to reduce deficits are set out below:

Reasons for forecasting deficits

- the impact of the growth in special educational needs led to a decrease in the funding per pupil in mainstream schools in order to fund expansion at some special schools
- cost pressure e.g. staffing costs are generally have been increasing at a faster rate than central government formula funding
- an expected increase in pupil numbers
- removal of outreach funding due to realignment of council's outreach strategy

Actions taken to reduce deficits

- no recruitment to vacancies
- reduction in senior management posts
- regular monitoring and review by school governors and head teachers
- reviewing the staff receiving upper pay scale (UPS) salary to ensure that they are fulfilling the standard required of a UPS teacher and take swift action to remedy if not
- reduction in number of classes at KS3&4 and increase in class sizes to create a more economical staff: student ratio.

Appendices/Supporting Information: None

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