



Audit Committee

9 March 2015

Report title	Report on Secondary School Balances	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
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Report to be/has been considered by		

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Note the position on school balances and the action taken with regard to schools with deficit budgets

1.0 Purpose

- 1.1 This report will update Councillors on the level of balances held by secondary schools as at 31 March 2014 and provide details on schools current projections on balances to 2016/17. Whilst schools have a right to plan the use of their resources over the medium term and maintain balances, as champions of school improvement the Council has a responsibility to ensure that schools are using the resources delegated to them to best effect and not building excessive balances or operating with significant un approved deficits.
- 1.2 Three secondary schools in the city closed the last financial year with significant deficits, one of these has since converted to academy status under a DFE “direction” which results in any deficit remaining with the Authority. This report sets out the position regarding secondary schools balances and provides some explanations for those schools with current deficits

2.0 Background

- 2.1 A school’s right to carry forward surplus balances is covered in Section 4 of the Wolverhampton Scheme for Financing Schools. Section 4.1 states that
- ‘Schools may carry forward from one financial year to the next any surplus/deficit in net expenditure relative to the school’s budget share for the year plus/minus any balance brought forward from the previous year’*
- 2.2 Where a school is in deficit or its financial planning information suggests that it will be in deficit in the current financial year, the school is required to submit an application seeking the approval of the Council.
- 2.3 In order to support school medium term financial planning schools are required to prepare budget plans detailing estimated expenditure and income covering three financial years to ensure that they take strategic view regarding their financial management. The Local Authority seeks additional information where schools are planning excessive surpluses or deficits in future years and will issue a notice of concern requiring schools to provide additional monitoring information where it is deemed necessary.
- 2.4 During the current financial year the Local Authority challenged schools across the school estate that maintained significant balances at the end of 2013/14. Meetings were convened with schools that met the following criteria:
- a) The school had balances of more than 15% for more than 5 years.
 - b) The school had balances of more than (5% secondary, 8% primary or special schools) but were judged as requiring improvement or in special measures at their last OFSTED.

The Local Authority Met with 22 schools to discuss action plans for the use of the surplus resources. The position will be reviewed again at the end of 2014/15 and further action taken with those schools that have not delivered on agreed plans to improve outcomes for their pupils.

3.0 Schools Actual and Projected Balances

3.1 A summary of schools financial position is set out in Appendix A. This includes actual balances in 2012/13 and 2013/14 and projected balances for 2014/15 to 2016/17 based on schools current 3 year financial plans. The appendix only details the balances of those schools that were maintained by the Local Authority at 1 April 2014. The secondary settings not detailed in the appendix converted to academy status by 31st March 2014 and therefore fall outside of Local Authority control. From this point their reporting requirements and accountability regarding their finances were determined by the Education funding Agency.

3.2 Licenced deficits for 3 secondary schools were agreed by Cabinet (Resources) Panel in October 2014. One of these schools (Wednesfield High) has since converted to an academy under the direction of the DFE. In those circumstances the deficit remains with the Authority and is funded through a top slice off the Dedicated Schools Grant. The position on the remaining 2 secondary schools with licenced deficits is as follows:

3.3 Colton Hills

3.3.1 The school ended 2012/13 with a deficit of £19,999, this represented 0.5% of their delegated funding for that year. The original deficit arose as a result of falling pupil numbers and the school had originally planned to resolve the issue during 2013/14. However, as a result of funding reform changes implemented for 2013/14 the school's funding settlement for the year saw a significant reduction when compared to previous years. The reasons for the reductions are as follows:

- Falling pupil rolls.
- The school was previously funded for 15 places within its resource base provision. As a result of the number of vacancies, this was reduced to three places for 2013/14.
- The number of statemented children receiving additional funding from Council central funds reduced substantially.
- The 2013/14 funding formula was more pupil led; as a result the lower numbers in school attracted comparatively less funding.

3.3.2 As a result the deficit rose to a projected £204,275 during 2013/14 and ended at £184,387. Whilst the school had planned a staffing restructure during 2013/14 to account for pupil number reductions, this was delayed following OFSTED inspection judging the school as "requiring improvement".

3.3.3 The school is employing the following range of strategies to recover the deficit:

- Experienced teachers will be leaving to be replaced by newly qualified teachers.

- Reduction in the reliance on agency staff for staff cover.
- Reduced fixed term exclusions, the school is using in house strategies to provide solutions.
- A staffing restructure across school within leadership and support staff, resulting in the reduction of eight posts. However up front redundancy costs of £100,000 will delay the full effect of this savings strategy.

3.3.4 The school has approval to recover the deficit over four years with a balance recovery profile as follows.

	£
2012/13	(19,999)
2013/14	(184,387)
2014/15	(250,656)
2015/16	(121,459)
2016/17	174,585

3.4 Coppice

3.4.1 In a previous report to Cabinet (Resources) Panel it was reported that the school ended the 2012/13 financial year with a deficit of £36,966. Following a request for intervention from the head teacher, work with the school revealed a potential deficit of £498,000. Following challenge from the local authority regarding spending plans for 2013/14 the school revised plans to produce a deficit balance of £ 305,000. The school has been issued with a notice of concern to ensure the local authority has influence over the finances at the school and to place greater restrictions on the school's spending decisions.

3.4.2 Due to the size of the potential deficit and the other pressures at the school following a recent OFSTED that judged the school as "requiring improvement", the Local Authority agreed to consider a deficit recovery plan that exceeds 3 years but extends up to 5 years. The actual year end deficit for 2013/14 was £260,237. A deficit recovery plan was received from the school by 31 May 2014.

3.4.3 The reasons for the deficit identified to date are as follows:

- A number of unpaid invoices relating to previous years.
- The energy costs of the new building are substantially increased over the previous year.
- School funding reform - up to 2012/13 the school could access substantial financial support from the Council's centrally retained statemented funding pot. From 2013/14 the schools have assumed responsibility to fund the majority of additional needs from budget shares before requesting support from the Council.
- The school is citing a number remedial works in the new building that were funded from budget share.

3.4.4 The school will be adopting the following strategies to recover the deficit.

Details	Year 1 2014/15 £	Year 2 2015/16 £	Year 3 2016/17 £	Year 4 2017/18 £
Statutory building testing - previously with Carillion FM for £110,000 per year, now £34,000 with Solihull Council and some other bespoke individuals.	76,000	76,000	76,000	76,000
Catering contract tendered and awarded - £0 cost to school for first 2 years and only hospitality and free school meals to pay - company to recover all expenses through tills.	8,000	12,000	12,000	12,000
Substantial savings made in all other areas e.g., grounds maintenance, waste, recycling and other general contracts savings made through termination of non-essential services.	15,000	15,000	15,000	15,000
The Council has agreed for the admission number for the school to be increased from 160 to 180 over time. The school is consistently oversubscribed so there are good indications that there will be extra pupils. They have conservatively planned additional funding for an additional 10 pupils.		37,000	37,000	37,000
Total	99,000	140,000	140,000	140,000

3.4.5 Additionally the school has made a claim against building contractors for a contribution to the costs of a range of remedial works that the school was required to undertake to ensure health and safety requirements were maintained. Whilst negotiations are on going it is becoming increasingly unlikely that a substantial proportion of the claimed costs will be refunded to the school by the contractor. These resources have not been factored into the deficit recovery plan and have been considered as windfall sums that will improve the recovery plan if realised. Following the resolution of the issues with the ICT platform, the Local Authority have released £41,000 to support the school with the costs of the replacement.

3.4.6 The schools deficit recovery profile was reported in October as follows:

Year £

2014/15	(260,237)
2015/16	(168,913)
2016/17	(114,113)
2017/18	5,195

However, the school has recently indicated that it will not be able to achieve this profiled return to surplus and further discussions are planned.

- 3.5 Secondary schools with surplus balances of greater than 5% are required to provide an explanation to the Authority on the proposed use of those surpluses. Four secondary schools had surplus balances of greater than 5% at the end of 2013/14 and submitted satisfactory explanations. Current plans suggest that those schools will be required to take actions to avoid deficit positions by the end of the 3 year period.

4.0 Future Issues

- 4.1 Whilst schools budgets have been subject to a level of protection not afforded to other Local Authority services, the financial pressures they face are such that difficult decisions will be required in future years as they seek to plan an effective curriculum whilst accommodating the upward costs pressures around pay awards, pensions, energy etc. The Department for Education has recognised these pressures and in June 2013 published "*Review of efficiency in the schools system*" setting out the requirement for schools to begin to think more creatively around the deployment of resources to deliver the curriculum. Schools were encouraged to share resources and specialisms as a means to reduce costs. It is unclear how widely these strategies are being employed across the school estate in Wolverhampton.

- 4.2 Pupil numbers are also an important part of the issue that is currently causing the vulnerability in secondary sector, as low numbers work through this sector prior to the bulge that is currently being seen in the primary sector. Regulations allow the Local Authorities to provide support funding for good schools with current low year groups but with evidence that there is a bulge in pupil numbers in feeder schools. The local authority has discussed the principle with the local School Forum and will consider this flexibility if it is considered necessary.

5.0 Financial implications

- 5.1 Schools are required to set a balanced budget unless the Authority has agreed to a licenced deficit.
- 5.2 On 27 February 2015 the local authority published schools budget allocations for 2015/16 together with estimates of pupil premium allocations for the same financial year. Existing maintained schools will be required to submit budget plans by 31st May 2015 detailing their plans for the use of those resources for 2015/16 – 2017/18. Schools that are projecting deficits will be challenged with regard to their plans to develop a budget plan that remains balanced over three years.

[OJ/24022015/R]

6.0 Legal implications

- 6.1 Schools are required to set a balanced budget unless the Authority has agreed to a licenced deficit.
- 6.2 A school's right to hold balances is regulated by Section 45 – 53 of School Standards and Framework Act 1998 and is contained within section 4 of the authority's Scheme for financing schools, as approved by the Schools Forum. The Council has a duty to monitor use and challenge schools where balances exceed national guidelines.
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7.0 Equalities implications

- 7.1 The allocation of resources to schools has a major impact on a school's ability to deliver its desired outcomes and as such has implications for all pupils in the wider school community and within Learning and Achievement.

End of year balance figures shown in Appendix A may include unspent pupil premium allocations. It is important that discussions with schools explore how the needs of target cohort pupils/ students are being identified and met in school development and budget plans.

8.0 Environmental implications

- 8.1 There are no direct environmental implications as a result of the proposals of this report.

9.0 Human resources implications

- 9.1 There are no direct human resources implications as a result of this report, but where school are projecting significantly reducing balances action will need to be taken to reduce expenditure to ensure financial viability. As staffing costs invariably account for 75% - 85% of schools expenditure there will be implications for staffing structures.

10.0 Corporate landlord implications

- 10.1 There are no direct Corporate Landlord implications as a result of this report.

11.0 Schedule of background papers

- 11.1 Schools Outturn statements 2012/13 and 2013/14
Schools revised budget plans 2014/15
Schools licenced deficit applications.