

City of Wolverhampton Council

SCHOOLS' FORUM

Date	3 October 2019
Report title	Surplus and Deficit Budget Monitoring
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Summary

This report provides an update to members of Schools' Forum on the Local Authority processes of monitoring schools either having or forecasting a deficit balance; and schools carrying excess surplus balances.

Decision

Members of the Schools' Forum are asked to:

1. Note the undertakings of the Schools at Financial Risk (SFR) group (formerly Schools Under Notice of Concern or SUNC).
2. Agree the proposed revisions to the monitoring and reporting methodology.

Schedule of background papers

Schools' Forum – January 2019 – Deficit Budget Management

1.0 Purpose

- 1.1 This report will update Forum members of the work currently being undertaken in relation to maintained schools having or predicted to have deficit balances, and with those that are carrying excess surplus balances.

2.0 Background and Process

- 2.1 A report was brought to Schools' Forum in January 2019 outlining the processes followed by the Local Authority in the monitoring of potential deficit balances, including the desktop monitoring and Licensed Deficit application. This report will provide a summary of the latest information and propose amendments to the processes.
- 2.2 The Scheme for Financing Schools provides an option for the clawback of excess surplus balances subject to an arbitration panel. Any balances clawed back are redistributed to schools through a School Improvement bid process. This report will propose amendments to the current processes.

3.0 Monitoring of Deficit Balances

- 3.1 Schools are currently required to submit budget plans twice per year – original budget plans in May, with updated, revised Autumn term plans in October. Upon receipt of these plans, officers identify schools that are forecasting a deficit, and add them to a monitoring watchlist. The following table is a summary of the schools ending 2018-2019 with a deficit balance, and those reporting a future deficit in the May budget plans:

Number of schools reporting deficit balances (May 2019)				
School Phase (Number of LA schools)	2018-2019 Actual	2019-2020 Budget Plan	2020-2021 Budget Plan	2021-2022 Budget Plan
Nursery (7)	0	1	5	6
Primary (36)	3	4	20	24
Secondary (3)	2	2	2	1
Special (4)	0	1	1	2
PRU (3)	0	2	3	3
Total	5	10	31	36

- 3.2 At the time of writing, eight schools had failed to submit budget plans:
- 1 Nursery School
 - 4 Primary Schools
 - 1 Secondary School
 - 2 Special Schools (1 has agreed a revised submission date)
- 3.3 The plans submitted in May, are provisional in relation to future funding levels, since there are uncertainties that cannot be built into a budget plan. It is expected that the October plans will be more robust, though it is accepted that their remains continued uncertainties around future levels of funding.

- 3.4 Schools are expected to apply for a licensed deficit at the point that they anticipate their end of current year budget to be in a deficit position greater than £10,000. The following table illustrates the value of the deficit position for each phase of school.

Value of forecast deficit by end of 2019-2020 Financial Year (May 2019)					
School Phase	<£10,000	£10,000 - £100,000	£100,000 - £200,000	£200,000 - £500,000	>£500,000
Nursery	1				
Primary	1	1	2		
Secondary					2
Special			1		
PRU	1		1		
Total	3	1	4	0	2

- 3.5 Two of the schools included in the above figures are currently operating within a licensed deficit scheme.
- 3.6 It is worth noting that, of the above schools reporting a potential deficit position by the end of 2019-2020, two are expected to convert to Academy status – one via the convertor route and one under the directed, sponsored route. If a school converts under the sponsored route, any deficit remaining will be a charge to the Local Authority's general fund. In May, this school reported an anticipated deficit of £122,000, however, current forecasts carried out by officers at the Local Authority illustrate that this deficit is likely to rise to £200,000 by the time of conversion.

4.0 Monitoring of Excess Surplus Balances

- 4.1 A school's right to carry forward surplus balances is covered in Section 4 of the Scheme for Financing Schools. Section 4.2 states:

‘The Authority, under arrangements approved by the Schools' Forum, will recover excessive surplus balances from individual schools that are unsupported by specific proposals for their use. Any such amounts recovered will be redistributed across the appropriate local area under arrangements approved by Schools' Forum.’

- 4.2 Current arrangements are that schools with an existing surplus are expected to submit updated plans in July, and those with new surplus balances submit plans in October. These plans are reviewed by Local Authority officers, and headteachers are invited to further explain their plans at meetings held through the Autumn term. Where it is deemed necessary, an arbitration panel is held where a final decision is made about any clawback of funding at the end of the financial year.

4.3 The following table illustrates the number of schools that held excess surplus balances at the end of 2018-2019 financial year.

Number of Schools and Total Value of Excess Surplus Balances 2018-2019			
School Phase	Total Balance £000	Schools with Excess Surplus	Total Excess Surplus Balance £000
Nursery	1,065	3	829
Primary	3,828	13	979
Secondary	- 2,042	-	-
Special	773	2	187
PRU	1,458	3	1,123
Total	5,082	23	3,118

5.0 Proposal

5.1 This report makes the proposal that the processes of monitoring of excess surplus balances, capital balances and deficit recoveries are streamlined to enable more robust challenge and to mitigate the risk to the Local Authority. The timetable in Appendix 1 illustrates the suggested reporting and monitoring.

Surplus and Deficit Balance Monitoring

Month	School Report/ Action	LA Action	Purpose and Comments
May	Initial 3-year budget plan submitted	Collate responses and review areas of concern	No change from existing process
July (end of Summer Term)	<ul style="list-style-type: none"> •Plans for Excess Surplus Balances (both new and existing) •Plans for expired Devolved Formula Capital •Submit application for a Licensed Deficit (where a deficit greater than £10,000 occurred in the previous year but was not in the school’s budget plan) 	Collate responses	All excess surplus plans to be submitted at the same time (remove the October submission), and the capital balances will be incorporated into the same template to simplify and improve transparency within the process
September		<ul style="list-style-type: none"> • Update capital balances for expenditure to end of August; Compare to capital plans submitted by schools • Prepare and submit new licensed deficit applications for approval 	• To ensure that planned expenditure has taken place and to prepare the DfE return on Devolved Formula Capital balances.
October (ahead of half term)	Revised 3-year budget plans submitted	<ul style="list-style-type: none"> • Desktop Review of surplus balance plans – held by finance and operational officers. Agreed outcomes: <ul style="list-style-type: none"> - No further action - Meeting with headteacher • Desktop Review of budget plans with new deficit outturns in current year. Outcome for all schools is a headteacher meeting with LA officers. • Challenge schools with unspent devolved formula capital. 	<ul style="list-style-type: none"> • To review plans submitted for robustness and consistency, and to ensure that actions identified in previous rounds have been carried out. • To scrutinise budget plans for accuracy. • To ensure that accurate reporting is made to the ESFA

Month	School Report/ Action	LA Action	Purpose and Comments
November	Headteacher attend meeting with LA officers	<ul style="list-style-type: none"> • Hear supporting information from the schools, raise additional questions and/ or challenge to the plans. Agree outcomes of the meetings for surplus balances: <ul style="list-style-type: none"> - No further action - Monitoring visit - Progress to arbitration Agree outcomes of the meetings for forecast deficits (by end of Autumn term): <ul style="list-style-type: none"> - School to prepare revised budget plan - School to submit application for licensed deficit • Licensed Deficit (July submissions) approvals to be issued, along with individual terms and conditions 	This meeting gives the headteacher (who may be accompanied by finance staff and/ or governors as required) the chance to add further detail to the plans submitted, and LA officers the opportunity to raise questions and challenges.
December	<ul style="list-style-type: none"> • Submit application for Licensed Deficit – if forecasting a deficit by end of financial year • Submit revised budget plan – if instructed following November meetings 	<ul style="list-style-type: none"> • Inform schools of outcomes of LA Officer meetings and dates of arbitration panel (if required). 	Revised date from Scheme for Financing Schools (currently July)
January	<ul style="list-style-type: none"> • Attend arbitration panel 	<ul style="list-style-type: none"> • Hold arbitration panel meetings. Agreed outcomes: <ul style="list-style-type: none"> - No further action - Clawback funds at end of financial year 	Panel to be made up of a combination of Senior LA officers, headteacher and a governor.
January/ February		<ul style="list-style-type: none"> • Preparation of Licensed Deficit approval requests 	
February		<ul style="list-style-type: none"> • Outcomes of arbitration panel notified to affected schools 	
February/ March		<ul style="list-style-type: none"> • Monitoring visits to take place at schools identified through desktop review. 	

Month	School Report/ Action	LA Action	Purpose and Comments
May		<ul style="list-style-type: none"> • Submit requests for Licensed Deficit approval based on actual outturn 	Licensed Deficit applications have to be approved by the Chief Finance Officer, the Director of Children's Services and the associated cabinet members before being granted to a school.
July	See above	See above <ul style="list-style-type: none"> • Report outcomes of monitoring visits. • Licensed Deficit approvals issued to schools with individual terms and conditions 	
September	See above	See above <ul style="list-style-type: none"> • Additional monitoring visits to take place 	
October		See above <ul style="list-style-type: none"> • As part of the desktop review – any school, that has not demonstrated sufficient progress with their plans (year on year) will automatically progress to arbitration panel 	Please note the automatic progression to arbitration panel, which is a new amendment

