

# Cabinet (Resources) Panel

## 20 October 2015

<b>Report title</b>	School Balances 2014/15	
<b>Decision designation</b>	AMBER	
<b>Cabinet member with lead responsibility</b>	Councillor Claire Darke Education  Councillor Andrew Johnson Resources	
<b>Key decision</b>	Yes	
<b>In forward plan</b>	Yes	
<b>Wards affected</b>	All	
<b>Accountable director</b>	Julien Kramer, Education Mark Taylor, Finance	
<b>Originating service</b>	Strategic Finance	
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<b>Report to be/has been considered by</b>	Schools Forum 9 July 2015	

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### Recommendation(s) for action or decision:

The Cabinet (Resources) Panel is recommended to:

1. Approve the approach to challenging schools around the level of their balances and their plans for the use of those resources.
2. Note the current position on schools with licensed deficits and delegate authority to the Cabinet Member for Education to finalise licensed deficits in consultation with the Director of Education and Director of Finance.
3. Agree to receive further updates on the progress with regard to schools with excess balances and recovery plans of schools in deficit.

## 1.0 Purpose

- 1.1 This report will update Councillors on the level of balances held by schools as at 31 March 2015 with specific focus on those schools that are maintaining high balances over an extended period, those who are judged by OFSTED to be requiring improvement/ special measures or those in deficit. 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. In December 2013 the Council informed schools of the additional challenge that will be made going forward and again in January 2014 Councillors approved the process to be taken forward and agreed to receive further progress reports. This report provides an update on schools balances at the end of 2014/15 and the actions to be taken going forward.
- 1.2 To provide an update on the deficit recovery of those schools that previously received approval to operate with a deficit and report on the position for those schools that ended the 2014/15 financial year in a deficit position.
- 1.3 To report to Councillors schools plans for the use of delegated resources over the medium term timeframe.

## 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 Following consultation the local 'Scheme for financing schools' was updated in September 2011 as follows:
  - a) *The Authority was entitled to request information on the proposed use of surplus balances from any school where surplus balances exceed 8% of the following year's budget share for primary and special schools and by 5% for secondary schools for two consecutive years or in other circumstances where, in the view of the Authority, the level of surplus balances may be cause for concern'.*
  - b) There is an option for claw back of schools balances subject to an arbitration process. Any decision would be made by a panel comprising:
    - a) Governor nominated by the Schools Councillors
    - b) Head teacher nominated by the Wolverhampton Schools' Improvement Partnership (WSIP) or subsequent successor
    - c) The Director of Education
    - d) The Director of Finance or his/her nominated representatives.

Any balances clawed back must be redistributed amongst schools in the local area.

- 2.3 Balances in schools were considered significant at the end of 2013/14 and the authority escalated the balance manage measures. The Council's focuses for challenge during 2014/15 were to those schools that met the following criteria:

- Category A : Balances in excess of 15% for more than five years.  
Category B : School has excess surplus balance but in special measures or 'Requires Improvement' category at their last OFSTED.  
Category C : Excess surplus balances for two consecutive years.

For those schools visited during 2014/15 there will be particular focus to ensure that plans for use of balances took place.

### 3.0 Schools balances 2014/15.

- 3.1 At the end of the 2014/15 financial year schools' revenue balances in schools in Local Authority control stood at £15.721 million. This is an increase of £1.456 million on the previous year's position for the same schools. **Appendix A** details the level of balances held by individual schools.
- 3.2 The tables below show the continued upward trend of the numbers of schools that have excess balances for 5 years within the city 13 schools have now had a balance over 15% of their income for five years meaning that the Local Authority is liable to further challenge from the DfE. The number of schools with excess surplus balances has increased from 46 in 2013/14 to 48 in 2014/15 (see Table 2) There are 7 schools with balances over £100,000 which are in Ofsted categories of special measures or requiring improvement (see Table 3)

**Table 1 – Schools with Balances of over 15% for 5 years**

Number	No. of Schools	Phase
2011/12	5	Primary
2012/13	9	Primary
2013/14	8 3 2	Primary Special Nursery
2014/15	8 3 2	Primary Special Nursery

**Table 2 – Summary of school numbers and levels of excess balances**

Sector	2013/14			2014/15		
	Total Balances £000	Number of Schools with Excess Surplus Balances	Total Excess Surplus Balances £000	Total Balances £000	Number of Schools with Excess Surplus Balances	Total Excess Surplus Balances £000
Secondary	703	5	1,127	778	2	437
Primary	8,188	26	3,812	9,093	30	3,953
Junior	477	2	117	544	2	223
Infant	586	3	178	489	2	162
Nursery	537	5	240	1,508	7	950
Special	2,861	4	1,852	2,173	4	1,584
PRUs	914	1	561	1,135	1	903
<b>Total</b>	<b>14,266</b>	<b>46</b>	<b>7,887</b>	<b>15,721</b>	<b>48</b>	<b>8,212</b>

**Table 3 – Analysis of balances of schools judged in bottom 2 Ofsted categories (requiring improvement or special measures)**

Balance (£)	No. of Schools	No. with Good Ofsted	No. judged as requiring improvement or special measures
0 - 50,000	14	8	5
50 - 100,000	13	11	2
100 - 200,000	19	13	3
200 - 300,000	10	5	1
300 - 400,000	10	7	
400,000+	10	7	3

3.3 Schools are asked to submit budget plans setting out their projected spending plans and projected balances for 2014/15. During 2014/15 schools projected balances of £8.1 million for 2014/15. Balances at the year-end were £6.4 million greater than forecast.

### 3.4 Surplus balances returns

This year schools have been asked to provide information around surplus balances in two parts:

Part A : Provide a summary of the schemes to use surplus resources in 2014/15, report what had been spent against each scheme and provide explanations where plans had not been achieved.

Part B Detail their plans for the use of surplus resources during 2015/16 which is due by 3 October.

38 schools were required to submit a Part A return as they held excess balances in both 2013/14 and 2014/15. These returns can be summarised as follows.

**Table 4 – comparison of actual against planned use of excess balances in 2014/15**

Sector	Excess Balance element 2014/15 £ 000	Proposed spend during 2014/15 £ 000	Actual Spend 2014/15 £ 000	Reasons for significant variances
Secondary	194	194	189	
Primary	4,210	2,825	1,440	A number of schools delayed work to tie in with larger primary expansion works
Nursery	708	203	94	Spending plans over three years and one project postponed
Special	1,604	588	144	Planning permission for extension outstanding, some spend originally scheduled over three years
PRUs	903	0	0	Holding resources to build sports barn, planning permission not granted
<b>Total</b>	<b>7,619</b>	<b>3,810</b>	<b>1,867</b>	

It can be seen that whilst schools have spent significant resources during the financial Year funding levels are enabling them to retain significant balances.

### Schools for additional discussion

3.5 Following analysis of the returns, further work and investigation will be held with 22 schools with excess surplus balances regarding plans for the use of those resources. The number of schools in each category is as follows:

Category	Detail	Number
A	Balances in excess of 15% for more than five years	10

B	School has excess surplus balance but in special measures or 'Requires Improvement' category at their last OFSTED	1
C	Surplus balances for two consecutive years	11

### Issues impacting on schools spending decisions

3.6 It is recognised that there are a number of issues affecting schools' spending and balance management decisions in the medium term. These can be summarised as:

- The impact of the new pay arrangements following the single status review.
- Turbulence in schools' budgets due to the government's funding reform agenda.
- Schools funding will continue to be funded at a 0% cash increase per pupil which will mean a reduction in real terms.
- Known increases in Salary on costs due to pension cost increases.

Schools also face uncertainty around funding levels due to the impending introduction of the government's national funding formula due at some point in in the current parliament.

### 4.0 Schools Budget plans 2015/16 to 2017/18.

4.1 In line with the scheme for the financing of schools all maintained schools are required to submit a budget plan detailing their planned use of resources over a three year time frame. The deadline for submissions are 31 May for (submission of the original budget) and 31 October for (submission of revised budget).

A summary of the projected balances within the original budget plans submitted by schools is are follows:

Sector	2015/16 £ 000	2016/17 £ 000	2017/18 £ 000
Secondary	181	(170)	(746)
Primary	5,208	4,292	2,755
Junior	382	377	214
Infant	271	107	(145)
Special	1,040	636	(690)
Nursery	634	483	304
PRUs	494	513	388
<b>Total</b>	<b>8,210</b>	<b>6,238</b>	<b>2,079</b>
Number of schools budgeting balances above respective thresholds of 5% and 8%	<b>25</b>	<b>14</b>	<b>12</b>

The level of budgeted planned balances will also be factored into decisions when considering schools plans for the use of surplus balances.

## 5.0 Council Strategy for Challenging Schools

5.1 Local Authority Officers will meet with schools that have maintained excess surplus balances despite achieving all plans for excess balances during 2014/15 and will also review returns from other schools with surplus balances. The arbitration process set out in 2.2 will be instigated for those schools where there appears to be no justification for the level of surplus balances. Schools Forum, schools and stakeholders will also be consulted regarding the plans for the use of any clawed back resources in advance of any recovery being undertaken.

## 6.0 Licenced Deficits

6.1 Cabinet (Resources) Panel approved licenced deficits for four schools in 2014/15. Wednesfield High converted to an academy in January 2015 and as it was a conversion directed by DfE its deficit of £1.147 million remained with the Authority and was met from the 2015/16 Dedicated Schools Grant. Woodthorne Primary did not require its deficit facility and ended 2014/15 with a surplus of £22,000 and its current 3 year plan shows continuing surpluses. The position of the remaining two schools granted licenced deficits is as follows:

### Colton Hills

6.2 The school has approval to recover the deficit with a balance recovery profile set out in the table below. It's current approved plan assumes a surplus position will be achieved in 2016/17 though its latest projections show this is not currently on track.

	Approved Deficit Plan £ 000	Latest Projections £ 000
2014/15	(251)	(319)
2015/16	(121)	(450)
2016/17	175	(286)
2017/18		(9)

6.3 The school deficit recovery plan is outside the approval period agreed by the Local authority. Local Authority officers will meet with the school leadership to discuss the schools plans and the need to recover the deficit in the required recovery period.

### Coppice High School

6.4 The schools deficit recovery profile and latest projections received from the school are as follows:

	Approved Deficit Plan £ 000	Latest Projections £ 000
2014/15	(260)	(83)
2015/16	(169)	(221)
2016/17	(114)	(449)
2017/18	5	(551)

6.5 The school has made representation stating that it will be difficult to make the necessary savings needed to return to a surplus position at the school until long standing premises related issues are resolved. These include:

- a) Utility costs at the school have doubled since the premises were remodelled in 2012/13.
- b) Significant sums spent from school budget to rectify defects.

6.6 The school is currently carrying out analysis work to assess the savings implications if some community provision ceased. Decisions will be made in this term and an updated plan is expected to be presented to the local authority by 31 October 2015. In addition the school was placed in "requires improvement" category at the last OFSTED visit and therefore needs to ensure that there are sufficient resources applied to deliver the improvements identified. Local Authority officers will meet with the school leadership to discuss the schools plans and the need to recover the deficit in the required recovery period. In the meantime it is understood that the School have expressed an interest in joining the Q3 Multi Academy Trust. Should the School convert and the deficit not be recovered prior to this then the debt would transfer with the school as it is not a directed conversion.

### **New schools in deficit**

6.7 Three further schools however ended 2014/15 with deficit balances. Wodensfield Primary had a deficit of £15,171 the school is currently projecting a surplus of £44,000 at the end of the current financial year so is not a cause for concern. The other 2 schools, New Park Special School and Woodfield Junior had more significant deficits. Kingston PRU is predicted to be in a significant deficit at the end of 2015/16.

### **New Park Special School**

6.8 New Park had a deficit balance of £327,994 at the close of 2014/15. It has been placed in special measures and directed to convert to an academy which is anticipated to take place in January 2016. The evidence suggests that school was not funded enough to staff the model of 1 teacher and 2 support staff per class that is considered good practice. There have also been significant leadership support costs from Aldersley High. The funding issues are to be resolved going forward but it is anticipated the school's deficit will be £500,000 on conversion. As it is a directed conversion the deficit will remain

with the Authority. Officers are working with the school to restructure the School establishment to keep the deficit to a minimum and should conversion not occur then a recovery plan will be required.

### Woodfield Junior

6.9 The school is working with the local authority to try to understand all the charges that lead to the deficit of £71,838 at the end of 2014/15 as they had anticipated a small surplus of £490. The school operates in a federation arrangement with Woodfield Infant school with staff working across the two schools settings. Initial findings have highlighted that not all staff costs have been apportioned correctly across both schools, leaving the infant school with a balance of £49,393 at the end of 2014/15. The school have confirmed that they will not have a balanced budget at the end 2015/16. They have to date provided the Authority with a draft budget plan that reflect the following balances:

Year	Projections £ 000
2015/16	(56)
2016/17	5
2017/18	34

The school are preparing a licensed deficit application to be submitted to the Local Authority for approval and subject to a surplus being achieved by the 2016/17 it is proposed to accept the plan.

### Kingston PRU

6.10 Kingston ended 2014/15 financial year with a surplus fo £ 35,400, leadership issues at the setting promoted the Local Authority to intervene during the last year the last OFSTED judged was unfavourable for the school forcing the school to new entrants over the 2015/16 academic year of 12 pupils, compared to possible of 48 pupils. This will impact on funding for the 2015/16 financial year. The school is working with the Local Authority to prepare a plan that returns to a balance position. It is proposed that a licensed deficit is considered and agreed by the Cabinet Member for Education in consultation with the Director of Finance.

### 7.0 Financial Implications

The financial issues are set out in the body of the report.

[OJ/06102015/B]

### 8.0 Legal implications

- 8.1 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.

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## **9.0 Equalities implications**

- 9.1 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 Education.
- 9.2 It is not currently possible to ascertain whether there will be a proposal to claw back surplus resources from any school in the city. Meetings with individual school leadership will determine whether there are adequate plans for unspent resources.
- 9.3 Decisions regarding any claw back will be subject to the arbitration process detailed in paragraph 2.2 (b) and plans for the use of resources will also be agreed in consultation with School Forum to ensure that no vulnerable group is penalised or benefits disproportionately. In the event that a proposal is made to claw back resources from any school an equality analysis will be undertaken to analyse the groups of pupils affected.
- 9.4 Agreed proposals will be brought back to cabinet for final approval.

## **10.0 Environmental implications**

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

## **11.0 Human resources implications**

- 11.1 There are no direct Human resources implications as a result of the proposals of this report, but should an element of a school's balance be clawed back for redistribution this could have implications on the resources available to meet costs of existing staffing structures.

## **12.0 Corporate landlord implications**

- 12.1 There are no corporate landlord implications arising from this report.

## **13.0 Schedule of background papers**

- 13.1 Schools Forum report – School Balances 2014/15 (9<sup>TH</sup> July 2015), Schools Consistent Financial Reporting statements 2014/15, Scheme for Financing of Schools September 2014.