

Cabinet

13 June 2018



Maintained Schools Budget Plans and Permission to Set Deficit Budgets 2018/19

Report of Corporate Management Team

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Purpose of the Report

- 1 To provide an overview of maintained schools' initial budget plans for 2018/19, as approved by the relevant Governing Bodies. The report highlights where the Corporate Director, Resources has exercised his judgement in terms of approving the setting of deficit budgets, in accordance with the Council's constitution and the Scheme of Financing for Schools.

Background

- 2 This report set outs a summary of school budget plans for 2018-19 and reports on schools that have requested to set a deficit budget, (i.e. those whose plan will result in the school having a deficit balance at 31 March 2019).
- 3 Previous reports have outlined the significant financial difficulties being experienced by a number of schools across the county as a result of reductions in admission numbers and to a lesser extent school formula funding changes, which has necessitated the setting of deficit budgets within some schools – mainly secondary schools.
- 4 This is a particular concern because schools that have an inadequate OFSTED judgement have been required to become sponsored academies and if / when they do, any deficit balance that they are carrying becomes a cost to the local authority and is not transferred to the sponsoring academy.

School Budget Setting Processes and Challenges

- 5 School budget setting processes are governed by Education Funding Agency (EFA) regulations and funding timetables.

- 6 For mainstream primary and secondary schools, the formula funding allocations for each school are not finalised until January. This follows receipt of our Dedicated Schools Grant allocation in December along with data from the EFA for each school. The data, which is based on the October census, must be used in determining formula funding and includes pupil numbers and the proportions of pupils qualifying for different formula factors, e.g. deprivation.
- 7 At the same time supporting information is prepared in respect of payroll costs and the cost of Service Level Agreements. Detailed budget information is issued to all maintained schools at the end of February. The School Funding Team visit each school for a budget-setting visit in March and April. Schools vary in the extent to which they need assistance and advice on budget-setting, from those that do most of the work themselves, for which the visit is largely a review of the plan and set-up of the school's financial system for the change of financial year, and those who do little work in advance of the meeting, with most schools falling somewhere in between.
- 8 Budgets are set for the financial year, which covers two academic years. Staff restructuring, which is often necessary to balance budgets, often takes effect from September each year, because schools operate on an academic year rather than a financial year. Mainstream primary and secondary schools also need to allow for any significant change in pupil numbers between academic years, for which there is no in-year adjustment to the formula. This poses problems in finalising the budgets in April / May for the coming financial year.
- 9 Funding for early years provision is allocated to nursery schools and nursery units in primary schools. Most funding is in the form of an hourly rate, which is updated termly to take account of termly headcounts. In addition, nursery schools receive a formula funding allocation, which is fixed for the year and which is notified at the end of February.
- 10 Funding for pupils with Special Educational Needs and Disabilities in mainstream schools varies during the year according to pupil movements and changes in assessments. Initial funding is notified at the end of February.
- 11 For special schools and alternative provision (for excluded pupils), funding is agreed on the basis of anticipated numbers and a formula which allocates funding according to the numbers of places required in each category of need. Initial funding is notified in February, but in practice, agreeing on numbers of places can be a protracted process and this funding will change during the year.
- 12 Post-16 funding is determined the EFA and allocations for the coming academic year are not usually available at the time when budget plans are being set.
- 13 Schools also budget for income from the Pupil Premium and other income, including income from school meals.

- 14 Schools can set a budget with an in-year deficit, providing that they have sufficient surplus balance (reserves) carried forward to do so. Where a school cannot do this and therefore wishes to set a deficit budget (i.e. its carried forward reserves are less than what is required to offset the in-year deficit of expenditure over income) it must have permission from the s.151 officer in order to do so. Historically, most schools in this position have only had a small deficit in their budget plan and have been able to resolve this by in-year adjustments to their plan.
- 15 The respective duties and responsibilities of schools and local authorities are determined by local schemes of delegation, prepared in line with statutory guidance. These schemes confirm the arrangements for delegation to governing bodies, but also give authorities powers to monitor school budgets and determine whether a school is allowed to set a deficit budget. The scheme also sets out the procedure for dealing with schools causing concern, including the power to require schools to provide budget plans and, in extreme cases, to suspend delegation. Schemes also prohibit authorities from writing-off the deficits of schools with deficit budgets, in order that authorities cannot favour one school over another by allowing one to overspend and write-off the deficit.
- 16 For some schools, the initial budget plans for the financial year can be balanced by use of their retained reserves whilst restructuring plans are developed and implemented for the autumn term. At budget setting these plans are often not fully developed and therefore cannot be reflected in the budget. By the time of the Autumn Term budget review the spending plans are revised and the use of retained balances adjusted.
- 17 Budget plans are set before final balances for the closing financial year are finalised and in some cases the balance is less than anticipated and means that the initial budget plan no longer balances. Again, in most cases schools are able to adjust their plans to balance their budgets.
- 18 Schools' budget plans change over the course of the financial year, to reflect changes such as:
 - (a) staff movement, which can have a significant effect on a school;
 - (b) changes in early years pupil numbers;
 - (c) changes in numbers and needs of SEND pupils;
 - (d) final allocations of post-16 funding.
- 19 Budgets are reviewed with the School Funding Team in the autumn term, using estimated funding for the following year, and this allows schools to start planning, particularly where they will need to reduce staffing in order to balance their budget.

- 20 Where schools need to reduce staffing, this process begins with a strategy meeting involving governors and the head teacher, supported by the School Governor Support Service and HR, with advice from the School Funding Team. If it is agreed that the school needs to reduce staffing then it forms a first committee to begin the formal process of staff reduction, which includes the issue of s.188 notices and usually culminates in either voluntary or compulsory redundancy.

Overview – School Budget Planning in 2017/18

- 21 The initial budget plans for 2017/18 forecast retained balances at 31 March 2018 of an overall net surplus balance £10.502 million. This was revised at Quarter 2 to £10.515 million and again at Quarter 3 to £12.385 million.
- 22 The 2017/18 outturn in relation to schools-related balances were £18.031 million at 31 March 2018, a reduction of £1.420 million in year and significantly greater than what the schools had been reporting. The changes in retained schools balances in 2017/18 can be summarised as follows:

	31 March 2017 £	Movement in Year £	31 March 2018 £
Schools balances	-19,513,898	1,450,769	-18,063,129
Loans to schools	62,820	-30,591	32,229
Total	-19,451,078	1,420,178	-18,030,900

Note – The retained balances reported above are the sums held in the Councils accounts at 31 March 2018. This includes sums still held in relation to schools that converted to academy status in quarter 4 and schools that were due to convert in April / May 2018.

- 23 The Quarter 3 forecast of outturn, excluding schools that have now converted, indicated that school balances would reduce to £12.385 million by 31 March 2018. The outturn position for year end balances was therefore £5.092 million higher than previously forecast, with most schools ending the year with a higher balance than the reported quarter 3 forecast.
- 24 In year the figures reported to Cabinet were based on budget plans / forecasts prepared by each of the schools. The variation in schools actual outturn position to that forecast in quarter 3 is in line with experience in previous years also where the forecasts agreed by individual schools were inaccurate. This is something that will be addressed in the 2018/19 monitoring arrangements.
- 25 At 31 March 2018 there were 20 schools with a deficit balance, with a total accumulated deficit of £5.633 million. For comparison purposes, the position at 31 March 2017 was 16 schools in deficit, with an aggregate deficit of £4.161 million. The aggregated deficits carried forward at 31 March 2018 has therefore increased by £1.462 million (35%) with four more schools than last year being in a deficit position, however, 15 of these schools have set a budget which clears the deficit by 31 March 2019.

Budget Plans for 2018-19

26 The initial budget plans for 2018/19 are summarised below:

School budget plan summary (£000s)								
	Balance Brought Forward at 31 March 2018 £000	Original budget					Balance to be Carried Forward at 31 March 2019 £000	Forecast Balance to be Carried Forward at 31 March 2019 £000
		Annual Funding £000	Pupil Premium £000	Other Income £000	Total Resources Available £000	Total Budgeted Gross Exp £000		
Nursery	700	1,059	32	3,687	5,479	(4,930)	548	548
PRU	-	4,459	81	17	4,557	(4,557)	-	-
Primary	15,799	149,083	14,344	28,041	207,267	(196,023)	11,244	11,354
Secondary	(1,702)	55,478	3,552	11,077	68,406	(72,635)	(4,229)	(4,229)
Special	2,361	22,036	754	2,527	27,678	(26,647)	1,031	1,031
Total	17,159	232,115	18,763	45,350	313,387	(304,793)	8,594	8,704

Note – The above table and the focus of this report is for schools that have not or are not imminently converting to academies. The balance brought forward therefore is slightly different to the outturn position for 2017/18.

27 A number of schools submitted budget plans where the balance at the end of 2018-19 would be a deficit and these are considered below.

Peterlee St Bede's

28 This school has had approval for a deficit budget of up to £200,000 for 2017-18 on the basis that the school would seek to make progress in discussions about joining a multi-academy trust or other arrangements to secure financial efficiencies or ensure the financial security of the school). Subsequently, the school was able to make savings in year which meant that although it spent £364,000 more than its income in year, it had a retained surplus balance of £159,000 at 31 March 2018.

29 For 2018-19, the school's proposed budget plan would result in a deficit balance of £507,000 at 31 March 2019. The financial viability of this school has been the subject of extensive discussions with the school, Diocese and a potential sponsor, with the financial forecasts for this school being as follows:

	2017-18	2018-19	2019-20	2020-21
Number on roll (Y7 - Y11)	494	490	505	510
Balance Brought forward () = deficit	523,000	159,000	(508,000)	(1,144,000)
In-year use of balance () = deficit	(364,000)	(667,000)	(636,000)	(565,000)
Carried forward () = deficit	159,000	(508,000)	(1,144,000)	(1,709,000)

Tanfield School

- 30 This school has previously had approval to set a deficit budget for 2017-18, 2018-19 and 2019-20, on the basis of the school achieving an in-year surplus from 2019-20, which would allow it to start to reduce its deficit. The financial projections at that time were as follows:

	2017-18	2018-19	2019-20
Number on roll (Y7 - Y11)	518	604	660
Balance brought forward () = deficit	(100,000)	(416,354)	(424,778)
In-year use of balance () = deficit	(316,354)	(8,424)	240,337
Balance carried forward () = deficit	(416,354)	(424,778)	(184,441)

- 31 The updated budget plan forecasts for the school are still for it to set an in-year surplus budget in 2019/20, but the forecasts for 2018/19 are different (a worsened position) to this time last year:

	2017-18	2018-19	2019-20	2020-21
Number on roll (Y7 - Y11)	518	609	697	756
Balance Brought forward () = deficit	(487,000)	(487,000)	(590,000)	(358,000)
In-year use of balance () = deficit	(385,000)	(103,000)	232,000	496,000
Carried forward () = deficit	(487,000)	(590,000)	(358,000)	138,000

- 32 The school is still forecasting significant increases in pupil numbers over the next three years and that it will be able to set an in-year surplus budget in 2019/20 and start to pay down the accumulated deficits it will have built up by that point. The forecasts are inclusive of the additional staff required to provide for the additional pupils that are forecast to be admitted in September 2018. The in-year surplus in 2020/21 does not include any additional staff that may be needed to cope with increased pupil numbers in September 2019, so the in-year surplus in that year is likely to be smaller than the figure shown here.
- 33 The school is changing from specialising in Design & Technology to Humanities and is currently restructuring its staffing accordingly and to prepare for a further increase in pupils for 2019-20, which would be reflected in admissions this September.
- 34 The school could have been asked to make changes to its budget plan in order to have an in-year balanced budget position in 2018-19, but this would involve further redundancies in 2018-19, (which would be a cost to the Council), with the need to recruit more staff in 2019-20 due to increases in pupil numbers.

Wolsingham School

- 35 This school forms part of the first wave of the review of schools provision across the County agreed by Cabinet in October 2017. The school has previously had approval to set a deficit budget for 2017-18 and 2018-19, whilst the review is undertaken. In approving the deficit budget previously, the financial forecasts were as follows:

	2017-18	2018-19	2019-20
Number on roll (Y7 - Y11)	479	504	507
Balance brought forward () = deficit	(854,103)	(1,267,353)	(1,591,303)
In-year use of balance () = deficit	(413,250)	(323,950)	(333,198)
Balance carried forward () = deficit	(1,267,353)	(1,591,303)	(1,924,501)

- 36 The updated budget plan forecasts for the school are still for it to not to be in a position to set an in-year balanced position across the coming years. The forecasts for 2018/19 are different (a worsened position) to this time last year:

	2017-18	2018-19	2019-20	2020-21
Number on roll (Y7 - Y11)	479	496	499	521
Balance brought forward () = deficit	(854,000)	(1,239,000)	(1,737,000)	(2,288,000)
In-year use of balance () = deficit	(385,000)	(498,000)	(551,000)	(549,000)
Balance carried forward () = deficit	(1,239,000)	(1,737,000)	(2,288,000)	(2,837,000)

- 37 The Council is currently consulting about the future organisation of education in Weardale, with the aim of finding a financially sustainable solution for education in the dales that recognises the relatively small number of pupils in the area.

Wellfield School

- 38 This school also forms part of the first wave of the review of schools provision across the County agreed by Cabinet in October 2017. The school had approval to set a deficit budget for 2017-18 and 2018-19, whilst the review is undertaken, capped in line with the forecasts at that time, which were as follows:

	2017-18	2018-19	2019-20
Number on roll (Y7 - Y11)	567	635	690
Balance brought forward () = deficit	(2,737,789)	(3,029,179)	(3,030,891)
In-year use of balance () = deficit	(291,390)	(1,712)	173,907
Balance carried forward () = deficit	(3,029,179)	(3,030,891)	(2,856,984)

- 39 The updated budget plan forecasts for the school show that the school has breached the cap set out in terms of the financial deficits previously approved, with the in-year performance in 2017/18 being worse than previous forecasts and approvals. Whilst the school is a position to set an in-year balanced budget in 2018/19, for the first time since 2011/12, the aggregate deficit carried forward at 31 March 2019 is forecast to be circa £363,000 higher than previously forecast.

	2017-18	2018-19	2019-20	2020-21
Number on roll (Y7 - Y11)	567	653	722	801
Balance brought forward () = deficit	(2,738,000)	(3,393,000)	(3,393,000)	(3,198,000)
In-year use of balance () = deficit	(655,000)	-	195,000	538,000
Balance carried forward () = deficit	(3,393,000)	(3,393,000)	(3,198,000)	(2,660,000)

- 40 The financial forecasts for 2019-20 are for a £195,000 in-year surplus. The forecasts are inclusive of the additional staff required to provide for the additional pupils that are forecast to be admitted in September 2018. The in-year surplus in 2020/21 does not include any additional staff that may be needed to cope with increased pupil numbers in September 2019, so the in-year surplus in that year is likely to be smaller than the figure shown here.
- 41 The Council is currently consulting about the future organisation of education in the Wellfield area, with the aim of finding a financially sustainable solution.

Other Schools

- 42 There are a number of other schools who requested permission to set a deficit budget in 2018/19:

		Number on roll (Y7 - Y11)			Brought Forward at 31 March 2018 () = deficit	Planned Expenditure in Excess of Income In Year	Carried Forward at 31 March 2019 () = deficit
		17/18 Funded	18/19 Funded	Change			
Seascope	Primary	242	246	4	25,000	-128,000	-103,000
Tow Law Millennium	Primary	89	84	-5	47,000	-55,000	-8,000
Ferryhill Station	Primary	85	80	-5	26,000	-46,000	-19,000
Sherburn	Primary	182	169	-13	165,000	-181,000	-15,000
Howletch Lane	Primary	373	376	3	68,000	-69,000	-1,000
Ingleton CE	Primary	70	66	-4	33,000	-44,000	-11,000
St. Thomas More RC	Primary	101	94	-7	12,000	-35,000	-24,000
Our Lady of Lourdes RC	Primary	150	157	7	29,000	-32,000	-2,000

		Number on roll (Y7 - Y11)			Brought Forward at 31 March 2018 () = deficit	Planned Expenditure in Excess of Income In Year	Carried Forward at 31 March 2019 () = deficit
		17/18 Funded	18/19 Funded	Change			
The Durham Federation	Secondary	674	649	-25	-3,000	-15,000	-18,000
The Croft Comm. School	Special	130	131	1	-74,000	18,000	-56,000
Villa Real School	Special	95	95	-	451,000	-531,000	-80,000

Seascape

- 43 The figures included in the table are based on continuation of current expenditure plans and prior to consideration of any restructure plans in year. The school is expected to be able restructure in order to balance its budget in year.

Sherburn

- 44 This school has been awaiting a decision about whether to maintain two sites, (Sherburn Village and Sherburn Hill), or to eliminate the split-site and consolidate the school onto a single site, which would be the Sherburn Village site. The school is planning a restructuring process to adjust the budget once the decision is known.

St. Thomas More RC, Belmont

- 45 This school is federated with St Joseph's RC in Gilesgate. The Diocese has begun consideration of merging the two schools, because of concerns about the budget position of St Thomas More.

The Croft Community School / Villa Real School

- 46 These are both special schools and both have experienced difficulty in balancing their budgets. Officers from Finance and Education are working with the schools to review their budgets and to review whether pupil funding reflects the correct funding bands. Any adjustment to funding bans could place further pressure on the DSG High Needs Funding block, which overspent in 2017/18 and continues to be significantly under pressure in 2018/19.
- 47 If the schools do not have sufficient resources, particularly staffing, they may not be able to admit pupils who will have to be sent to more expensive out-of-county provision, which tends to cost more per pupil and increase transport costs.

Others

- 48 All the other schools are expected to be able to balance their budgets by the end of the financial year and the School Funding Team will work with them to achieve this.

- 49 All 11 schools on this list, including Seascope, Sherburn, St Thomas More and the special schools have been notified that they must commit to having a revised budget plan, which shows a balanced in-year budget by the end of the summer term, either through agreeing a re-structuring or including a savings target in their budget plan.

Conclusions

- 50 This report describes the process for school budget-setting and summarises the initial plans for 2018-19, with forecasts provided for the following two years for those schools where there remains significant financial viability concerns.
- 51 The report notes concerns about the number of schools using significant amounts of accumulated surpluses to balance their budgets, and the number of schools forecast to have relatively small balances at 31 March, 2019.
- 52 The outlines the action taken by the Corporate Director, Resources with regards to exercising his judgement in terms of approving the setting of deficit budgets, in accordance with the Council's constitution and the Scheme of Financing for Schools.

Recommendations

- 53 Cabinet is asked to note the contents of this report and the action taken, under delegated powers, where the Corporate Director of Resources has considered requests to set deficit budgets from a number of schools and agreed the following:
- (a) note the updated position and agree to the proposed budget plans for St Bede's, Tanfield, Wolsingham and Wellfield for 2018/19;
 - (b) note the position in respect of the 11 other schools who submitted deficit budget plans and the action taken where these schools were not be given permission to set a deficit budget and instead were instructed to revise their budget plans such that they will be able to balance their budgets by the end of the summer term.

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Appendix 1: Implications

Finance

Schools are funded through Dedicated Schools Grant and operate to delegated budgets, which are the responsibility of individual school governing bodies. Where a school wishes to set a deficit budget (where its spending exceeds its resources in year) it can only do so in accordance with EFA guidance and the Scheme of Financing for Schools and with the permission of the council's S151 Officer.

School budgets have come under increased pressure in recent years, because of the cumulative effect of cash-flat DSG funding. In addition, changes (restrictions) placed on the council through formula funding regulations, has made funding for mainstream schools more sensitive to changes in pupil numbers, and has reduced the scope of local authorities to use its funding formulas to target funding to schools that are struggling financially.

From April 2013 schools now have the powers to accept pupil numbers above their Pupil Admission Number, which is what the council (through the Schools Admissions Team) previously used to cap the admission numbers to an individual school and help manage demand across schools. In addition, from April 2015 schools that had a poor Ofsted judgement were required to become sponsored academies.

There are a number of schools in financial difficulty across the council, with insufficient capacity to accommodate the pupil numbers displaced should these schools need to close. Notwithstanding this, should a school close, the additional cost of providing home to school transport to pupils' nearest schools can be significant. There would also need to be significant capital investment to expand other secondary schools to accommodate additional pupils should a secondary school close for financial reasons.

Where a school is in financial difficulties, EDPs can advise schools about where there is scope to make savings and Finance can advise on the value of these savings.

Staffing

Staffing within schools is continually reviewed as schools consider arrangements for balancing their budgets on an annual basis. The fact that the DSG has been cash flat for a number of years, together with formula funding changes and changes to way admissions works, has meant that this is becoming more prevalent and difficult to manage. Any staff restructuring exercises are considered in line with the council's existing schemes and the School Brokerage Scheme to minimise redundancies wherever possible.

Risk

If schools become financially unsustainable there is a risk to their ability to deliver a good standard of education. This would normally lead to a school failing an Ofsted inspection and being required to become a sponsored academy and the Council would have to meet the cost of writing-off the deficit.

In such a situation, the Council is at risk of damage to its reputation by being perceived to have failed to monitor the performance and financial position of maintained schools.

Equality and Diversity / Public Sector Equality Duty

None

Accommodation

None

Crime and Disorder - None

Human Rights – Human Rights are not affected by the recommendations in this report.

Consultation – None

Procurement - None

Disability Issues - None

Legal Implications

Section 15 of the Education and Inspections Act requires a Local Authority to publish statutory proposals where it is considering discontinuing a maintained school. Section 16 of the Act requires the Local Authority to consult such people as they feel to be appropriate and to have regard to guidance published by the Secretary of State before publishing such proposals.

The Corporate Director Resources is responsible by virtue of Section 151 of the Local Government Act 1972 for the administration of the authority's financial affairs. The Corporate Director Resources also has a duty to report certain matters to the authority by virtue of Section 114 of the Local Government Finance Act 1988.

Schools have delegated budgets, but if a school closes or converts as a sponsored academy then any deficit balance remains with the council, which must meet the cost of writing-off the deficit from its general funds. Surplus balances of closing schools are credited to the council, but it does not retain any surplus balance for a school becoming a sponsored academy: the academy receives the balance upon conversion.

The funding framework governing schools finance, which replaced Local Management of Schools, is based on the legislative provisions in sections 45-53 of the School Standards and Framework Act 1998. Under this legislation the council is required to publish a Scheme of Financing for Schools. The scheme sets out the financial relationship between the authority and the maintained schools which it funds, including the respective roles and responsibilities of the authority and the schools. The scheme does not limit unreasonably the flexibility of schools to control

and deploy their budgets, recognising the need for public monies are involved to be properly accounted for and recorded. The scheme includes provisions which are binding on both parties. Under the scheme, any deficits of expenditure against budget share (formula funding and other income due to the school) in any financial year will be charged against the school and will be deducted from the following year's budget share to establish the funding available to the school for the coming year.

Schools cannot set a deficit budget without the prior agreement in writing of the authority. For clarity, a deficit budget is one where the gross expenditure in the budget plan exceeds the total of funding, income and the balance (surplus or deficit) brought forward from the previous year. This consent is given by the Section 151 officer - Corporate Director, Resources.

The scheme of delegation allows for deficit budgets, but only for three years, and no more than 20% of the school's budget share, up to a maximum of £750,000.