

TO:	Reading Schools Forum	
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TITLE:	Strategy for schools in Deficit	
SERVICE:	Education, Children & Early Help Services	WARDS: All
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. This report provides an update on the local authority's strategy for working with maintained schools facing, or predicting budget deficit. The report suggests a stepped approach to supporting schools facing potential deficit and a shortfall in funding, but also how the local authority will intervene where schools are at risk financially.

2.0 CONTEXT

2.1 This policy is linked with the Scheme for Financing Schools paragraph 4.9 which is in the process of being updated and where the requirements of all schools in deficit are set out in greater detail. In the main, Reading's maintained schools have been mostly financially secure in the recent past due to the effective and efficient financial planning between governing bodies and school leaders, the growth in pupil numbers in Reading in recent years, particularly among primary schools, and financial information provided to support schools. However, a few schools have, for several reasons, faced financial challenges and have required additional support, budgetary controls and monitoring from the local authority. Current policy exists to ensure that schools with budget surpluses over a particular percentage of the school's overall budget are raised with school's forum, with the opportunity for schools forum to request further information on such surpluses, and to reclaim any unjustified surplus amounts.

2.2 Where a school has a financial deficit and academises, the financial deficit owned by the school is transferred to the academy trust. However, where a school is academised on instruction due to an Ofsted judgement of inadequate, the DSG retains the deficit and therefore it affects the finances of all schools once the school transfers. In recent years, one inadequate school has academised with a deficit of over £250,000. The local authority has had to cover the deficit. Where a school is in financial difficulty and has demonstrated a lack of capacity to manage its finances, the local authority does have the power to withdraw financial delegation. In two cases during this last year, schools have had their

finances de-delegated to manage the recovery plan and to avoid increasing financial risk to the local authority.

2.3 Due to a number of factors, some maintained primary schools have faced financial challenges this year due in part pupil enrolment versus capacity, and in some cases, legacy issues. As schools move towards the national funding formulae, finances may become tighter for some schools in the future. Informal processes have been in place in the past for how the local authority supports and intervenes. It is an appropriate time for the local authority to formalise an approach.

3.0 Recommended Strategy for supporting schools facing financial challenges

3.1 For schools facing a potential deficit budget, practice has involved the local authority school's finance officer, the Senior School Standards Officer, and Head of Education meeting with the school leaders, chair of governors, and bursar to understand the school's plans to balance the budget, or plan to return to a balanced budget over an appropriate time frame. In the main, this has led to the local authority being confident in the school's plans, accepting of the budget submission, and with no further action required or taken by the local authority. For the very few cases where budget deficit is significant and there are no realistic plans to reduce the deficit, the local authority has used its powers of intervention. Any future strategy needs to recognise that schools have responsibility to manage their finances and therefore any action taken by the local authority needs to be reasonable. However, it also needs to recognise that any significant deficit that goes unchecked does risk the broader financial resources available to all schools within the local authority.

3.2 In providing a balanced approach to supporting schools and using the local authority's powers of intervention, the following suggested strategy is recommended for schools forum to consider.

Maintained schools facing temporary financial deficit or moving into deficit for the first time

- Governing Bodies and headteachers undertake their initial budget planning and, where there is a risk that the budget submission will be a deficit budget, early notice will be provided to the local authority's schools finance officer;
- The school's finance officer will engage with the school to support and advise as appropriate;
- Where the school is planning to submit a deficit budget, the chair of governors and school Headteacher will formally notify the local authority of this. A meeting will be arranged with the school's Senior Standards Officer and schools finance officer to talk through the budget plan and to question and to provide challenge where appropriate. Within, and following this discussion, the school will be required to detail a recovery plan to ensure that the projected deficit is reduced to a break even over an appropriately agreed timeframe;
- The local authority will work with the school to agree the recovery plan and, where the plan is agreed, a six monthly review of spending and implementation of the plan will take place involving the school, the Senior Standards Officer, and school finance officer. If this plan is on track, no further action will take place;

- The school will be required to provide the local authority with the information prescribed by the LA to enable them to have full sight of all issues linked to the school's finances and plans for recovery;
- Where an initial recovery plan cannot be agreed, a further meeting will take place with the school, and both finance and Senior School Standards Officers, along with the Head of Education. The intention of this meeting is to help the school consider its resources, organisation structures, and also financial commitments. The meeting will seek to agree a shared plan for returning the school to a break even budget over an appropriate timeframe without this compromising the quality of provision. Any plan will need to be phased appropriately. The local authority will maintain a quarterly review of progress against the plan alongside the school. Where the plan is working well and the deficit reduction is managed, the local authority will continue working with the school providing support and light touch monitoring of the progress until the school returns to break even; and
- The cost of any additional support will be charged to the school.

Maintained schools facing significant, or growing debt, and without the ability to manage debt reduction and a recovery plan.

- Where discussions, and work with the school and governors, has not been able to secure the appropriate reduction in debt, or implementation of the agreed recovery plan, the local authority Head of Education, Senior School Standard Officer and school's finance officer will hold a meeting with the school leadership, bursar, and chair of governors. This will involve discussion on how the local authority and school can manage the debt reduction plan. It may lead to a re-scoping of the strategy and engagement of the local authority in supporting and monitoring spending and the financial capacity building at the school. It will involve agreeing detail of the local authority's close monitoring of spending against the budget, including the provision of data and out-turns. It may involve agreeing local authority support at governing body financial subcommittee meetings. This may include discussion on temporary removal of financial delegation, the re-allocation of financial and administrative resources. It could involve discussion with HR and the Senior Standards Officer on staffing structures and school organisation, and discussions on consultation linked to the school's PAN. The specific actions taken will be dependent upon the specific circumstances of each school. These discussions will explore a range of options with governors and the school's leadership on consideration of a range of options to bring about the budget savings required.
- Where schools are unable to manage their finances and, following support and guidance, are unable to maintain and reduce their deficit, the local authority may exercise its responsibilities to intervene and remove financial delegation. This will involve formally writing to the governing body and outlining the local authority's plans. These could include removing financial authority, establishing agreed processes for the schools to follow in agreeing and authorising expenditure within set parameters. In exceptional circumstances, it could include closing the school's bank account and managing the financial planning, accounting and decisions on staffing directly from the local authority. If this action is taken, a strategy group

will be established to include the school's Headteacher, chair of governors, school bursar and local authority Senior Standards Officer and school finance officer to agree the procedures and spending priorities . The intention would be to work with the school governors and leaders to ensure that any decisions met the debt reduction plan over an appropriate timeframe without this putting the quality of the school's provision at risk. It would:

- involve close working with governors to ensure that there was transparency on budget plans and spending;
- involve dedicated financial resource funded from the school's budget and resources;
- involve working alongside the school's leadership to build capacity to enable the budget control to return to the school as soon as is practically possible and when the debt recovery plan is secure.