

Agenda Item:

Cabinet

12

Dorset County Council



Date of Meeting	9 July 2008
Officer	Chief Financial Officer
Subject of Report	School Budget Deficits
Executive Summary	<p>School budget deficits have become an increasing problem over the past few years. Budget projections show a significant increase over the next couple of years although the outturn for 2007/08 was better than anticipated. Action is required now to prevent any more schools from going into deficit and to help those that are in deficit to repay them.</p> <p>A new policy has been produced which will help achieve these aims. An Equalities Impact Assessment needs to be undertaken as this is a new policy and this has been commissioned.</p>
Budget/Risk Implications	The cost of any initiatives to reduce school deficits will be borne by the Dedicated Schools Grant. There will therefore be no impact on County Council finances. If no action is taken then there is a risk that deficits could over take surpluses. This would lead to a top-slice of the DSG to cover the deficit and result in a reduction in the funding for all of Dorset's schools.
Recommendation	That the Cabinet approve the new policy on school deficits
Reason for Recommendation	The active management of school budget deficits will help maintain a well-managed council that is fit for the future.
Appendices	Appendix 1: Financial Efficiency in Schools Policy and Procedures

Background Papers	None
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1 Background

- 1.1 The number and level of school deficits has been increasing significantly over the past few years. This is very much against the trend nationally where most local authorities, including authorities with similar levels of funding per pupil, are not facing the same problem. A summary of the position for Dorset is shown below :-

Phase	Deficit 31/03/05	Deficit 31/03/06	Deficit 31/03/07	Deficit 31/03/08	Number in Deficit 31/03/08
Primary	£271,318	£555,515	£851,241	£477,476	19/139
Boarding	£Nil	£Nil	£Nil	£49,510	1/1
Special	£Nil	£64,081	£Nil	£Nil	0/5
Middle	£66,347	£77,532	£301,087	£348,013	4/14
Secondary	£1,324,972	£2,066,390	£2,997,581	£2,718,018	12/20
TOTAL	£1,662,637	£2,763,518	£4,149,909	£3,593,037	36/179

- 1.2 Whilst some action has been taken in the past financial year to bring deficits under control, projections over the next 3 years show a significant increase in the number of schools in deficit in the size of deficits. Further action is therefore needed.

2 New Policy on Budget Deficits

- 2.1 The Schools Forum established a working party to look at the issue of school budget deficits over the past few months. A draft policy document was produced and this was the main focus of the Schools Forum Conference on 29 April 2008.
- 2.2 The Schools Forum endorsed the policy document at their subsequent meeting on 6 June 2008. This does however need to be a policy of the local authority rather than the Schools Forum.
- 2.3 The draft policy is attached at Appendix 1 and some of the key elements of the new policy are detailed in the following paragraphs.
- 2.4 Submission of Deficit Budgets

Any deficit budgets submitted by schools will not be accepted by the local authority. These will be returned to the school for re-consideration. Help and advice will be given to produce a balanced budget for the year. This will come from a number of sources including School Improvement Partners (SIP's), School Administration and Financial Support staff (SAFSO's) and Pupil and School Improvement team (PSI).

- 2.5 Excess surpluses

There will be much stricter treatment of excess surpluses. The "shopping list" of reasons which is currently available for schools to justify their excess balance will be

removed. The intention will be that more of these will be clawed back and the funds used to help schools in deficit as set out below.

2.6 Financial Help for Schools in Deficit

Some schools in deficit wishing to review their management structure as a cost saving exercise are currently put off by the need to pay three years protection to staff. These costs will in future be met from funds set aside to deal with school deficits.

Schools will be encouraged to repay their deficits through an incentivisation scheme. An element of match funding will be granted to schools alongside any repayment which they are able to make which will speed up the time taken for the deficit to be repaid. The level of match funding will be limited to the funds available which will be agreed annually by the Schools Forum.

2.7 Funding Formula Review

Some issues have been identified that may have partly caused some of the historic school deficits and these will now be examined in more detail. Examples include the impact of falling rolls, “small” middle and secondary schools and the comparative level of funding between the different school phases.

2.8 Training

Additional training is to be made available for head teachers, deputy heads and governors. Some of this will be targeted at schools in deficit and some at all schools to increase financial awareness.

2.9 These measures aim to prevent any further schools from getting into a deficit position and to help schools who are currently in deficit to repay the deficit as soon as possible.

2.10 A number of changes will be necessary to the Dorset Schools Scheme of Financial Management which will be consulted upon with schools in the Autumn term.

3 Budget Implications

3.1 Any initiatives to reduce school deficits will be paid for from within the remit of the Dedicated Schools Grant (DSG). There will therefore be no impact on the rest of the County Council’s budget.

3.2 Two main sources for funding have been identified. Firstly, any excess balances clawed back from schools. This is likely to be around £125,000 for the end of 2007/08 balances. Also, the Schools Contingency was underspent in 2007/08 by £696,000. The School’s Forum will need to decide how much of this to allocate to the repayment of deficits.

4 Conclusions

4.1 Action needs to be taken to prevent school deficits from increasing. Application of the new policy on school deficits should help to achieve this.

Paul Kent
Chief Financial Officer

Financial Efficiency in Schools Policy and Procedure

Introduction

Dorset is in the unacceptable position of having a high level of deficits in its schools. Although the Local Authority is relatively poorly funded it is clear that other authorities receiving similar settlements are not experiencing the same level of deficits.

The increase in deficits is currently more than balanced by high surpluses however this model is not financially efficient and is therefore not supporting Dorset's schools in their provision of high quality education. Dorset is committed to enabling high quality education for all children and recognises the impact of fair funding and financial efficiency on this. It is therefore vital that action is taken immediately to safeguard education for the children and young people of Dorset.

Overall figures for Dorset:

	2005	2006	2007	2008
Number of schools in deficit	25	44	47	36
Total Level of Deficits	-£1,662,637	-£2,763,518	-£4,149,909	-£3,593,037
Number of schools in surplus	158	138	131	143
Total Level of Surplus	£8,968,626	£7,903,746	£7,095,721	£8,914,291

All schools are required to be financially efficient and return a balanced budget therefore measures are required to reduce both deficits and surpluses. It is the policy of the Department for Children, Schools and Families (DCSF) and the Local Authority that schools should be provided with three year budgets to enable better planning. However it is also recognised that funding is allocated to schools to educate the pupils on roll today not the children of the future. Schools are therefore expected to budget in year.

The unacceptable state of schools' balances is a Dorset issue that has come about as a result of a number of factors and needs to be approached as such by both the Local Authority and schools. Consequently, there will be no restrictions placed on the movement of funds should it become necessary.

The Local Authority is committed to tackling this issue in a number of ways to ensure fair treatment of all schools;

1. Planned reduction of current deficits and a preclusion against any other school entering into deficit,
2. Elimination of excess surpluses
3. Improved financial training and LA support
4. Review of the current funding formula to support phases/types of schools

Application

All maintained schools in Dorset will be covered by this policy however it is recognised that Voluntary Aided schools are subject to different rules regarding capital funding. These variances are taken into account in the procedures.

This policy is effective from September 2008.

Actions - Deficit Budgets

Any budget submitted to the Children's Services Accountancy Team in Corporate Resources showing a predicted year end deficit will be rejected and returned to the school. A copy will be forwarded to the Schools Admin & Finance Support Team. The SAFSO team will then work with the school to set a balanced budget and the revised version will be forwarded to the Accountancy Team. Any budget submitted to the Accountancy Team that does not reflect the agreements made with the SAFSO team will again be rejected.

The SAFSO team will work with those schools with current licensed deficits and deficit recovery plans to establish the method and timescale for removal of the deficit.

Where a school has a significant and increasing deficit the SIP manager, having undertaken discussions with the SAFSO team, will work with the school's SIP to agree the methods by which the school will be able to balance its budget.

As a matter of course a Budget Monitoring Group (BMG) (comprising a member of the SAFSO team, a finance rep and the school's SIP) will be decided for each school in deficit. Since progress within recovery plans will normally be monitored by the SAFSO team as part of their termly monitoring procedure there will be no need for the BMG to meet however where a school struggles to adhere to the plan the BMG will be brought together. The decision to invoke the BMG will be made by the SAFSO team.

Where it is felt that the Planned Admission Number is impacting on a school's financial efficiency a member of the Admissions Team will be asked to join the BMG.

Actions - Surplus Budgets

Current allowable surplus levels are 5% for secondary and special schools and 8% for the primary phase. Where schools are predicting a year-end excess surplus the budget will be rejected and referred to the SAFSO Team in order that a balanced budget can be agreed.

Where schools are carrying a current excess surplus from the previous financial year this will be liable to clawback. A report detailing possible clawbacks will be taken to the Schools' Forum and the School Provision / Effectiveness Consultative Panel in July of each year. Any school included on this list will be contacted by the SAFSO team prior to any decisions being made. Where the holding of an excess surplus is approved by the School Provision / Effectiveness Consultative Panel a surplus recovery plan will be produced. If the surplus is not reduced according to the plan there will be a clawback of any excess in the following financial year.

There are currently a number of circumstances where excess surpluses have been permitted but from September 2008 there will not be a specific set of reasons.

Where it is felt that the Planned Admission Number is impacting on a school's financial efficiency a member of the Admissions Team will be asked to join the BMG.

Schools Causing Concern (financial management)

In cases where the financial circumstances of a school give cause for concern the school will be included on the authority's Schools Causing Concern register and support will be provided as specified in the procedure.

Where a school is having difficulty in complying with the terms of a deficit recovery plan the Local Authority will consider strengthening the governing body by appointing one or more Local Authority Governors. Their role would be to support the headteacher and the governing body in managing the recovery process as the authority is well aware of the very difficult decisions that will need to be made.

Where this occurs the BMG will provide information to the School Provision / Effectiveness Consultative Panel for monitoring purposes.

Where a School Causing Concern is not adhering to an agreed recovery plan a financial Notice of Concern will be issued. In severe cases it will be necessary to remove delegation; in this case the Budget Monitoring Group will be joined by others (including the Chair of Governors, Headteacher and HR representative) to manage the school's budget. This would initially mean the authority taking full control of the budget but much of the day to day budgeting could be returned to the school very quickly with only staffing decisions retained centrally.

Cases where no recovery plan is viable will be forwarded to the School Provision / Effectiveness Consultative Panel for consideration of the options.

Support to Schools - Headteacher and Governor Training

Where a school is in a deficit or excess surplus recovery situation the SAFSO team will arrange a support visit to a governors' finance meeting to ensure that governors are completely aware of their role and also that they have all the necessary information.

Financial training is being made available to assistant and deputy headteachers in 2007-2008. Further training for headteachers and governors is planned.

An annual conference for schools will be organised; headteachers, management teams and governors of schools experiencing financial difficulty will be expressly invited to attend. The conference will promote and facilitate financial efficiency in schools but will at the outset focus on reducing deficits.

Support to Schools - Financial

The Local Authority is committed to supporting schools willing to undertake change in order to improve their financial position. Schools that may benefit from such financial support will be suggested by the SAFSO team and information about the possible use of this fund will be taken to the Forum for consideration. A recommendation regarding any spend will be taken to the School Provision / Effectiveness Consultative Panel for approval and any decisions will be clearly communicated to phase associations. Excess surpluses clawed back from

schools, plus other uncommitted sums funded from the Dedicated Schools Grant (DSG), will be used to fund this support.

At the end of the 2007/08 financial year, 36 schools were in deficit. In order to speed up the repayment of these deficits excess surpluses clawed back from schools, plus other uncommitted sums funded from the Dedicated Schools Grant (DSG), will be set aside to match fund any deficit repayments made by these 36 schools. This financial support would be subject to strict adherence to the deficit recovery plan and supported by the Budget Monitoring Group; the decision will rest with the School Provision / Effectiveness Consultative Panel. NB: Overall match funding will be limited to the sum of funds available, with a maximum £1 for every £1 repaid.

Information about the sum available for the current financial year will be taken to the meeting of the Schools' Forum in July of each year.

Schools' Funding

Funding for schools must respond to changing circumstances but also offer stability and predictability.

Work to gather, collate and interpret technical data to inform the development of the schools' funding formula is ongoing.

The authority is committed to providing robust three year budgets and in order to do this the formula review process will maintain strong links with the three year Comprehensive Spending Review (CSR) period for future years.

Review

Information about progress will be taken to the Dorset Schools' Forum but also Headteacher and Chair of Governor briefings.

The impact of this policy will be reviewed annually at the July meeting of the Forum.