

# School Budgets 2018/19 and Schools in Financial Difficulty

**Report being considered by:** Schools Forum on 16<sup>th</sup> July 2018

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**Item for:** Discussion **By:** All Maintained Schools Representatives

## 1. Purpose of the Report

1.1 All (but one) maintained schools have now submitted their three year budgets. This report sets out the overall position, highlights some key observations, and details the strategy that the Council intend to follow for schools in financial difficulty.

## 2. Recommendation(s)

2.1 That the report be noted.

<b>Will the recommendation require the matter to be referred to the Council or the Executive for final determination?</b>	Yes: <input type="checkbox"/>	No: <input checked="" type="checkbox"/>
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## 3. Overall Position

3.1 Appendix A shows the budgets submitted by maintained schools for 2018/19 plus their two year strategic forecast, alongside their closing balance budget and actual for 2017/18 and the 2018/19 main school budget forecast submitted a year ago. The first set of figures combine together all the revenue accounts, so include the main school budget, resource unit, pupil premium and sports premium. The three year forecasts are for main school budget only.

3.2 The overall position of the 71 maintained schools (66 budgets submitted as 5 sets of federated schools now operate with one single budget for 2 schools) is shown in Table 1 – this is the total Revenue budget balances.

TABLE 1	2018/19 number	2017/18 number	2016/17 number	2015/16 number
Surplus budget	51 (77%)	48 (72%)	48 (70%)	54 (73%)
Balanced budget (contingency nil or less than £2k)	5 (8%)	8 (12%)	13 (19%)	16 (22%)
Deficit budget	10 (15%)	11 (16%)	8 (11%)	4 (5%)
<b>TOTAL</b>	<b>66</b>	<b>67</b>	<b>69</b>	<b>74</b>

3.3 The number of schools setting a deficit budget has decreased slightly, whilst those setting a surplus budget has increased. The value of the Revenue budgets set at a

deficit is over £800k, which is worrying compared to the value of budgets set at a deficit last year of £559k

3.4 Table 2 shows the overall balances compared to the original budget/forecast:

TABLE 2	2017/18 Total Revenue Budget Balance	2017/18 Total Revenue Actual Balance	2017/18 MSB Budget Balance £'000	2017/18 MSB Actual Balance £'000	2018/19 Forecast MSB (last year) £'000	2018/19 Actual MSB Budget
Nursery	31	121	30	121	-11	23
Primary	508	1,548	223	1,035	-904	328
Secondary	45	479	45	479	-862	76
Special	55	481	21	366	-793	207
Pupil Referral Units	141	253	141	253	-242	8
<b>TOTAL</b>	<b>780</b>	<b>2,882</b>	<b>460</b>	<b>2,254</b>	<b>-2,812</b>	<b>642</b>

3.5 In 2017/18 the actual Revenue balances were over £2m higher than the original budget (with the Main School Budget outturn nearly £1.8m higher than the original budget). The total Main School budgets set for 2018/19 are forecasting a net surplus of £642k which is £3.5m higher than the forecast as set a year ago. These swings are no different to previous years and it may be that many schools will generally set a “worst case scenario” budget for years 2 and 3 of their forecasts, but will manage spending decisions carefully during the year with sight of the longer term position; and/or assistance from the Schools Accountancy team in relation to the forecast deficit position has helped manage the budget deficits down.

#### 4. Deficit Budgets

4.1 The deficit budgets set for the Main School budget (MSB) for 2018/19 total £923k. The schools setting a deficit budget in 2018/19 are shown in Table 3. Note that the balances in this table are the main school budget only and *exclude* pupil premium grant, resource units, and sports grant.

<b>TABLE 3</b>	<b>2017/18 Opening Balance £</b>	<b>2017/18 Budget £</b>	<b>2018/19 Opening Balance £</b>	<b>2018/19 Forecast Closing Deficit Balance £</b>	<b>2018/19 Balance as Forecast Last Year £</b>
Beenham	-34,360	-61,870	-64,783	-36,150	-18,809
John Rankin Schools (federation)	-109,190	-88,450	-189,992	-130,670	-73,490
Kintbury	24,960	-22,240	-12,317	-15,576	-6,346
Parsons Down Schools (federation)	16,150	-47,447	-22,432	-92,210	-158,092
St Finian's	-7,714	0	-31,909	-61,540	-42,637
St John the Evangelist	-22,730	-50,110	-37,759	-45,260	-39,060
Westwood Farm Schools (federation)	-67,110	-99,426	-82,753	-99,426	-40,571
The Willows	-17,826	1,227	-212,694	-130,800	23,707
The Willink	137,890	-147,088	-98,684	-311,590	-253,592
<b>TOTAL</b>	<b>-79,930</b>	<b>-515,404</b>	<b>-753,323</b>	<b>-923,222</b>	<b>-608,890</b>

4.2 There are nine schools setting a MSB deficit budget for 2018/19 compared to eleven last year (three of the eleven schools setting a deficit in 2017/18 have set a balanced budget for 2018/19). The table above shows that seven schools are continuing in deficit from the position in 2017/18 and a further two schools closed in deficit and set a deficit budget for 2018/19. Even though the number of schools predicting a deficit has decreased the value compared to last year has increased considerably as has the closing position for 2017/18 compared to 2016/17 (ie opening positions for 2017/18 and 2018/19 respectively). The current 2018/19 deficit budgets as set are also considerably more than was forecast for 2018/19 at this time last year.

4.3 The WBC schools finance team are currently reviewing the deficit recovery plans for each school. A report on each will be brought back to Schools' Forum later in the year.

## 5. Year Two and Three Forecasts

5.1 The overall three year forecasts for the Main School budget are shown in Table 4

<b>TABLE 4</b>	<b>2018/19 Forecast £'000</b>	<b>2019/20 Forecast £'000</b>	<b>2020/21 Forecast £'000</b>
Nursery	23	9	-25
Primary	328	-874	-3379
Secondary	76	-416	-907
Special	207	-439	-1331
Pupil Referral Units	8	-347	-747
<b>TOTAL</b>	<b>642</b>	<b>-2,067</b>	<b>-6,389</b>

- 5.2 If schools take no action, a significant overall net deficit balance would occur. 19 schools have forecast a year 2 (2019/20) deficit of greater than £25k, compared to 24 schools in 2017/18. The total value of deficits set in 2019/20 is approx. £2.4m compared with £2.8m last year. Since schools have delegated budgets they are not required to submit budget monitoring reports until month nine unless they have set a deficit budget or closed the previous year in deficit. It would therefore be recommended that schools be required to submit a budget monitoring forecast at month 6 at the end of September in order that the Local Authority and Schools Forum are alerted to problems earlier than month 9.
- 5.3 It is evident from Table 2, that the year 2 position is unlikely to materialise, as most schools will do what it takes to balance their budget, with some taking difficult decisions regarding changes to the way they operate.
- 5.4 During the autumn term once staffing structure and salaries are settled for the academic year and pupil numbers are known, schools will re-evaluate the position, and if still showing a deficit for year two, should start looking at savings options. Many of the schools that have closed the 2017/18 financial year with an unplanned deficit and have gone into deficit in 2018/19 are those that have left it too late to take action, particularly if the deficit is large and the only option is to restructure.
- 5.5 Schools that are showing an increase in their balance rather than going into deficit, are generally those where pupil numbers (hence funding) are rising greater than costs.
- 5.6 In their forward planning, schools will have assumed that funding rates per pupil will remain the same; however the proposed new national funding formula has changed the funding each school receives. As soon as the new rates are known, schools will need to reassess their position.

## 6. West Berkshire Strategy for Schools in Financial Difficulty

- 6.1 The Council has adopted a strategy aimed to minimise the number and size of deficits. It is in two parts – first, to be proactive in helping schools to reduce their deficits or prevent going into deficit by providing a supportive role; and second, the intervention required when a school is not reducing or eliminating its deficit. With the current staffing structure the strategy so far has been more reactive rather than proactive. However there is a proposal to have additional resource within the team to ensure that both parts of the strategy are carried out effectively and to ensure that the strategy is sustainable.

### **Proposed strategy to reduce the number and size of deficits**

- 6.2 Schools currently in deficit – required for 9 schools in 2018/19:
- (1) Senior finance and education staff are to meet with the school to review, challenge and advise on their deficit recovery plan. This is to ensure that plans are realistic and to explore if more can be done to reduce the deficit and/or clear it sooner.

- (2) Finance staff review monthly monitoring reports (from month 4 to month 11). This is also a requirement for schools which closed in deficit in 2017/18 but set a balanced budget for 2018/19.
- (3) Senior finance and education staff to meet with each school for in year review and look forward (prior to setting 2019/20 budget).

6.3 Schools at high risk of going into deficit ie setting a deficit budget for 2019 onwards:

- (1) Senior finance and education staff are to meet with the school in the Autumn term to review their position. HR staff may also be required to attend such meetings to advise on staffing restructures.

6.4 All schools:

- (1) Facilitate workshops for groups of schools on specific savings strategies, such as for alternative staffing structures.
- (2) Support the reorganising of small and/or unviable schools. For example, suggest/assist with school mergers, review admission numbers in schools within same geographical area to ensure make financial sense.

**Proposed intervention for schools not meeting their deficit recovery plan**

6.5 The trigger points for intervention are as follows:

- (1) A school's deficit has grown compared to the approved budget (either by the end of the financial year or the following year's budget)
- (2) The deficit repayment period increases.
- (3) The monitoring meetings identify an unrealistic or high risk deficit recovery plan without any contingency plans.
- (4) The monitoring process identifies that the school is not adhering to its recovery plan and the deficit will potentially grow.

6.6 The schools that require intervention immediately:

John Rankin

The Willows

The Willink

Westwood Farm

All have significant deficits.

- 6.7 A "task force" will review the school's budget and staffing structure and determine options to repay the deficit, and make recommendations. The task force will consist of senior finance, education and HR staff in addition to an existing/recently retired head teacher either from within the local authority or neighbouring local authority, and/or bought in professional expertise. This will be at the school's own expense.

- 6.8 If a school does not follow the recommendations made by the task force (or determine their own realistic alternative), the “notice of concern” route will be followed, with the final stage being removing the Governing Body and replacing with an Interim Executive Board.

## **7. Conclusion**

- 7.1 Many schools in West Berkshire have successfully managed to balance and control their budgets, and have taken action to reduce costs, for which they must be commended. However, it is evident that some schools don't take the necessary actions to avoid going into deficit and don't seek advice at an early stage. It is these schools that need to be identified and targeted for additional support.
- 7.2 The strategy will hopefully prevent many more schools going into deficit in the future, and ensure that those schools currently in deficit have robust plans to repay the deficit as soon as possible.

## **8. Appendices**

Appendix A – Maintained School 3 Year Budgets 2018/19