

Report to: Education and Social Care Overview and Scrutiny Committee

Date: 11th March 2020

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Title: School Financial Deficit Reductions

Status: For Noting

1. Purpose of Report

To update the Education and Social Care Overview and Scrutiny Committee on the current and previous position on schools' financial deficits and measures being taken to try and reduce the level of deficits.

2. Background

There are a range of measures in place to seek to try and reduce the level of school financial deficits in Birmingham. These include work of teams within and outside the Council which seek to both support and where necessary challenge schools and include:

- Schools Financial Services
- Human Resources
- Birmingham Audit
- Finance & Governance Group within Education & Skills – focus on schools in Financial deficits
- Birmingham Education Partnership
- Interim Executive Boards

Within this there are a series of measures in place which seek to track deficits and ensure action, include:

- Pre-warning notices
- Financial written warnings
- Deficit Recovery plans
- Financial management training for staff and governors
- School Financial Value Standard monitoring
- Schools Causing Financial Concern and Rating system

3. Schools Causing Financial Concerns Report and Rating System

Critical to the tracking of schools' financial deficits is the 'Schools Causing Financial Concern report and Rating System'. A report is produced on a monthly basis on Schools Causing Financial Concerns. The report focusses on schools which have either accumulated deficits or have a surplus position though are reporting an expected deficit in the current financial year.

The report is discussed at the Finance and Governance Board on a regular basis and actions taking place and proposed.

The report ranks schools through colour coding from the schools with the most significant issues (Red rated) to those with emerging issues (Pink rated). The full rating system is as follows:

Rating	Description
RED Rated - High Risk	Mainly schools with Directive Academy Orders and the deficits will revert to the Local Authority at the point of conversion. Other schools deemed to be Red rated are those where insufficient action is being taken to manage long standing and high level deficits.
AMBER Rated - Medium Risk.	These are schools that need support and guidance from the Local Authority on managing their deficits.
BLUE Rated - Medium to Low Risk.	These are schools that are taking actions to reduce their expenditure.
GREEN Rated - Low Risk.	These are schools that have formulated and agreed Deficit Repayment Plans with the Local Authority.
PINK Rated – Emerging risk?	Schools that have currently got an in-year deficit and their surplus balances from previous years are reducing. In some cases the surplus balances will have reduced due to planned school improvement priorities but in other cases the surplus balances will have been used to set the 2019/20 financial year budget.

4. **Summary Position on School Deficits at the end of January 2020.**

The latest report on School Deficits is the position at the end of January 2020.

A summary of the position comparing the position at 1st April to 31st January is included in the table below:

SUMMARY OF DEFICIT BALANCES : MARCH 2019 TO JANUARY 2020								
			31 March 2019		1st January 2020		Changes Since March 2019	
Rating			No of Schools	Actual Deficit Balances 2018/19 £m	No of Schools	Forecast Deficit Balances 2019/20 £m	No of Schools	Forecast Deficit Balances 2019/20 £m
RED - Current			12	7.049	15	5.133	3	-1.916
RED - Academy Conversions			3	2.407	9	5.849	6	3.442
AMBER			20	3.793	12	1.491	-8	-2.302
BLUE			13	1.093	16	2.371	3	1.278
GREEN			4	0.293	8	0.602	4	0.309
Total			52	14.635	60	15.446	8	0.811
Total Excluding Academy Conversions			49	12.228	51	9.597	2	-2.631
PINK (In-year deficits)			84	5.995	148	17.266	64	11.271
2018/19					2019/20			
Schools that converted to academies with a deficit in 2018/19					Schools that have converted to academies with a deficit to date			
			£					£
Bordesley Village Primary			264,237		Al Hirah All Through			2,930,777
Small Heath Secondary			1,475,154		Balaam Wood Secondary			515,787
Springfield Primary			667,137		Holy Souls Primary			20,350
					Holy Trinity Secondary			252,186
					John Willmott Secondary			1,767,780
					Sacred Heart Primary			88,000
Total			2,406,528		Total			5,574,880

Overall messages are as follows:

- In overall terms the forecast deficit, including those which have converted to academy status has increased by £0.811m.
- Excluding Academy conversions, which have taken place, the overall deficit with LA maintained schools has reduced by £2.631m
- 8 Amber - Medium Risk schools have moved into RED rated – HIGH RISK
- 3 schools have lowered their risk and are now rated as Blue schools as they are deemed to be taking action to reduce deficits.
- The number of schools in the Green category which have deficit recovery plans has increased from 4 to 8.
- The number of schools in the Pink category with in year deficits has increased, from 84 to 148 schools and, though the majority of these schools still have a cumulative surplus, this is a concern.

Further measures

Further key actions that have been implemented in the past 6 months are:

- The Schools Finance & Governance Board has been strengthened and is now jointly chaired by the Director Education & Skills and the Assistant Director Education & Early Years.
- The issuing of Pre-Financial Warning Notices leading to formal Financial Warning Notices for persistent non-compliance by schools
- Engagement with the Department for Education's Schools Resource Management Adviser
- Input and advice from CIPFA Business Consultancy
- A new requirement for all maintained schools to produce a 3 Year Financial Plan on an annual basis that will be submitted to Schools Financial Services for analysis
- Increased engagement with School Forum over the management of schools causing financial concerns
- Approval from Schools Forum for a Policy for the Clawback of Surplus Balances from schools that have retained balances over the approved thresholds with no plans for spending
- Engagement with the Birmingham Association of School Business Managers and potential attendance at the next conference to discuss the management of deficits and to discuss examples of good practice
- Engagement with the Chair of the Nursery Federation to discuss the levels of overspending within the Federation and to agree a way forward

CIPFA have been engaged recently to give a view on the activities undertaken within Birmingham to address schools' deficits and were positive of the current approach and recent developments. Below is an extract from their findings:

You asked for our views on the adequacy or otherwise of the actions that you are taking to deal with School deficits. Your strategy of moving Schools from your classification of Red – Blue – Green is a sound one and the tools that you have to implement that strategy appear sensible. In particular increasingly holding Chairs of Governors and Heads to account for their budget management is an entirely reasonable course of action and I look forward to seeing how much of an impact that has when you do bring them in to explain their positions. I also note the creation of the Schools Finance Governance Forum which is Chaired by the Director as a positive move. You may consider widening the Membership of that Group to include representatives of the different phases of School and not simply from the Forum.

You are working with the ESFA's School Resource Management Adviser and have found that of benefit. Do not be afraid to take them up on their offer of extending that level of support.

Finally, you are to be applauded for instigating a policy on the clawback of school surpluses and including that in your Funding Scheme. Whilst that may not generate significant levels of cash it will send a strong message around your Schools Community.'

Conclusions

A significant number of measures are in place and have been enhanced by further recent developments. Schools' budgets are stretched, and the financial challenges remain, though with an appropriate mix of support and challenge the position can be contained. Further measures will continue to be progressed.

Recommendations

That Overview and Scrutiny Committee note the actions being taken and note the position on school deficits as at the end January 2020.