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| AGENDA ITEM 4 |

**Title of report: Strategic Support for Schools in Financial Difficulty.**

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**Details on who has been consulted with on this paper to date: Christine McInnes.**

**Executive Summary:**

The increasing financial difficulties faced by schools, including issues associated with the Primary Place review, requires a strategic approach to supporting schools through financial difficulties.

A meaningful strategy will require challenge as well as support and the report begins (sections 1 and 2) by looking at the responsibility of governing bodies for financial planning and setting balanced budgets as well as the support available to them in discharging these responsibilities.

The report then looks at the centrally retained budgets targeted on providing additional support to schools (Section 3). As well as the funds retained in Tower Hamlets this section also looks at the option for retaining targeted funding for mainstream schools with disproportionate numbers of pupils with special needs (Section 3.5). The report notes that the Falling Rolls Fund was discussed by the working party looking at supporting schools in financial difficulty. The recommendation following that discussion is that the Fund is not used and should be redistributed to schools in 2020-21.

The report looks in Section 4 at the level of surplus balances as the end of 2018-19 and the provisions in Tower Hamlets Scheme for Financing Schools for dealing with surpluses. A theme common to this and the next section is the lack of timely returns from schools making it difficult for officers to gain an overall and confirmed position on school finances.

Section 5 focuses on those schools identified as being in financial difficulty. To date 19 schools have been identified but the section notes that 12 approved budgets are still outstanding. It is noted in this section that local authorities have no power to write off school deficits.

Section 6 looks at Licensed Deficit Agreements that can allow governing bodies to set a deficit budget for up to three years. New templates have been developed for this purpose and are attached as Appendix 3. The templates were reviewed by the working party and Forum is asked for comments on their suitability.

Section 7 reports on the meeting of the working party and Section 8 considers the next steps.

**Details of recommendations and timescales for decisions:**

Schools Forum is asked to:

1. Agree that the Falling Rolls Fund is not used and is carried forward into the next financial year for distribution to mainstream schools.
2. Comment on the proposed templates for Licensed Deficit Agreements and Deficit Recovery Plans.
3. To agree the Terms of Reference for the Supporting Schools in Financial Difficulty Working Party set out in Appendix 4a.

1. **Responsibility of Governing Bodies.**
   1. Governors are expected to give clarity on strategic direction and to oversee their school’s financial performance, ensuring money is well spent (Governance handbook P9).
   2. To give strategic direction governors need to have an understanding of the internal and external factors that affect their school. Major factors include:

* Current and projected pupil numbers. In 2019-20 the overall percentage of pupil led funding in Tower Hamlets’ budget shares was 92.2%; therefore changes in pupil numbers have a significant impact on funding available.
* The external financial environment. The national funding settlements and the effect of national decisions on costs, particularly staffing costs, pressures on high needs funding.
* The internal financial environment. The impact on the budget of changes in pupil numbers, the staffing structure, cost pressures.
* Balances. The level of surplus or deficit balances brought forward and how they have changed over the preceding years.
  1. Governing bodies are expected to operate within their budget share. All schools are funded on an agreed formula and governing bodies need to take a longer term strategic view of the factors in 1.2 to ensure timely action is taken to keep expenditure within the income available.

1. **Support for Governing Bodies.**
   1. A variety of resources exist to support governing bodies in discharging their financial responsibilities.
   2. School Resource Management Materials. These have been developed by the DfE and the Education and Skills Funding Agency (ESFA) and provide a range of materials on resource management, workforce planning, purchasing, and benchmarking, supported by case studies. The material can be found at:

<https://www.gov.uk/government/collections/schools-financial-health-and-efficiency>

* 1. The materials include a link to the School Financial Values Standard (SFVS). This is the annual assurance statement that every governing body must complete and which must be presented to the full governing body. The Standard’s assessment form is supported by a range of materials (more detailed in 2018-19) that give an insight into what is required for the efficient and effective management of school finances. The 2019-20 Standard has been developed to include a ‘dashboard’ and RAG (Red, Amber, Green) ratings. The material can be found at:

<https://www.gov.uk/government/publications/schools-financial-value-standard-sfvs>

* 1. The materials also include links to benchmarking resources. Governing bodies are asked in the SFVS questionnaire if they benchmark their school income and expenditure annually against that of similar schools and investigate further where any category appears to be out of line.

<https://www.gov.uk/guidance/schools-financial-efficiency-financial-benchmarking>

* 1. Independent financial advice. The ESFA have compiled a list of financial advisors who can provide, advice, support and financial health checks. Information can be found at:

<https://www.gov.uk/guidance/get-financial-advice-for-schools>

* 1. Tower Hamlets Governor Services. The service supports schools in recruiting governors with the skills required for effective governance. It also runs an annual central training programme and offers bespoke school-based training. The service also offers a clerking service and termly governors briefing.

1. **Central Financial Support for Schools.**

Schools Forum is asked annually to agree to retain various budgets with which to support schools facing particular difficulties. These are:

* 1. **The Contingency for Schools in Financial Difficulty.**
     1. This contingency is ‘de-delegated’ from maintained mainstream schools only and can only be accessed by such schools. In 2019-20, the contingency is £436k plus a roll forward of £413k from 2018-19, giving a total of £849k.
     2. Guidance in the School and Early Years Finance Regulations (the Regulations) identifies the following possible uses for a contingency:
* To support schools in financial difficulty; this can include funding an expert financial/educational advisor to support and challenge the school in its preparation of financial recovery plans.
* The writing off of deficits of schools which are discontinued, excluding any associated costs and overheads.
* To support new, amalgamating or closing schools.
* To help governing bodies to meet circumstances which were unforeseen when the school’s budget share was initially determined.
  + 1. The historical criteria agreed by Forum for its use are, changes in formula allocation, or changes in other costs covering, rents, rates and legal costs.
    2. Under current funding arrangements unexceptional changes in rates would be adjusted the following year and there are rarely changes in formula allocations; consequently the contingency is used to help governing bodies facing exceptional circumstances.
    3. Consideration is being given to how this fund can best be used and a clear statement on proposals will be reported to Forum with any requests for future de-delegation.
  1. **The Growth Fund.**
     1. This Fund is top-sliced from the Schools Block and is therefore available to both maintained and academy mainstream schools. In 2019-20 the Fund was agreed at £1.496m, in addition £0.722m was rolled forward from 2018-19 giving a total of £2.218m.
     2. The criteria for its distribution must be agreed by Forum and the current ones are set out in Appendix 1. These will be reviewed prior to the request for top-slicing for 2020-21. Forum should also receive an annual report on how the fund has been used.
  2. **The Falling Rolls Fund.**
     1. This Fund is also top-sliced from the Schools Block and is therefore available to both maintained and academy mainstream schools. It was introduced in 2019-20 when £600k was set aside.

* + 1. The Falling Rolls Fund (FRF) is to protect schools rated outstanding or good that face a temporary fall in pupil numbers where local planning data shows that the surplus places will be needed within the next three financial years.
    2. Criteria for allocating falling rolls funding should contain clear objective trigger points for qualification, and a clear formula for calculating allocations. Differences in allocation methodology are permitted between phases. In addition to the criteria in 3.3.2 trigger points would normally include:
    - The surplus capacity exceeding a minimum number of pupils, or percentage of the published admission number
    - The formula funding available to the school not supporting the provision of an appropriate curriculum for the existing cohort and may require the school to make redundancies in order to contain spending within its formula budget
    1. The purpose of and methodology for distributing the Fund has been discussed at previous Forums. The methodologies explored spread the funding relatively thinly over some 20 plus schools. Although it is for the Forum to decide the methodology, officers are of the view that such methodologies do not deliver the levels of funding that can really make a difference. In addition, they do not always sufficiently target those schools crucial for the Authority’s place planning responsibilities, nor does it always satisfy the criteria that funding should only support a temporary fall in roll at schools where greater capacity will be required in the future.
    2. This fund was discussed with the new Forum working party, Supporting Schools in Financial Difficulty. The view of the working party was that the Fund should not be used and the funding rolled forward into 2020-21 for re-distribution to schools. Forum is recommended to accept this proposal.
  1. **Early Years Centrally Retained Budgets.**
     1. The Regulations allow Local Authorities (LAs) to centrally retain up to 5% of its allocation for three and four year old funding. In Tower Hamlets this amounts to £1.265m for 2019-20. Forum agreement is required on the use of this money and for 2019-20 £0.755m was allocated to provide central support services to all early years providers and £0.51m was allocated as additional support to maintained nursery schools.
     2. Proposals for central retention in 2020-21 will be brought to Forum in December and January.

* 1. **High Needs Block (HNB).**

* + 1. The use of the HNB is determined by the LA, in consultation with the Forum. The HNB is currently allocated to delegated budgets in specialist provision and to devolved top-up funding for all settings. The HNB also funds centrally retained support services.
    2. An option exists to use the HNB to target additional funding at mainstream schools and academies meeting agreed criteria. If used this must allocate funding on a consistent and fair basis to schools where the number of their pupils with SEND and/or high needs cannot be reflected adequately in the funding they receive through the local funding formula.
    3. Additional funding can also be provided for schools with a disproportionate number of pupils with a particular type of SEND. For example, a primary school may have developed a reputation for meeting the needs of high achieving pupils with autistic spectrum disorder, or pupils with physical disabilities, and it’s not possible to target additional funding to the school through factors in the school funding formula.

* + 1. If this option is used it should be allocated through a formula or other method agreed with schools. The distribution methodology should be simple and transparent, and devised so that additional funds are targeted only to a minority of schools which have particular difficulties because of their disproportionate number of pupils with SEND or high needs or their characteristics.

1. **School Surplus Balances.**
   1. The Tower Hamlets Scheme for Financing Schools (the Scheme) sets out the criteria whereby excess surplus balances can be clawed back from schools when these balances are deemed to be uncommitted. Any money clawed back remains part of the overall Schools Budget and Forum would agree on how it was to be used.
   2. The balances for Tower Hamlets’ schools at the end of 2018-19 are set out in Appendix 2. These were reported as provisional to Schools Forum on 19th June 2019. The School Finance Team wrote to each school in mid-May attaching a breakdown of its balance carried forward and requesting confirmation of the balance (it is understood that some schools experienced difficulty in accessing some of the information provided). Schools with revenue surpluses exceeding the allowed limits were asked to provide plans for its use. The deadline for responses was 4th June. As at 10th September only 29 out of 84 schools had responded; 12 of the 39 schools with surpluses above the threshold had confirmed the balances but only four had responded on plans.
   3. The average level of surplus per school in Tower Hamlets is high compared with other London Boroughs. In 2017-18 it was 1.5 times higher than the median for London Boroughs[[1]](#footnote-1).
   4. Any proposal to remove funding from schools, particularly in the current financial climate, will meet opposition from the schools affected and needs to be based on clear and objective criteria, for clear purposes and negotiated with the governing bodies concerned.
2. **Schools in Financial Difficulty.**

* 1. The nine schools with deficits at the end of 2018-19 can be seen in Appendix 2. In addition to the £1.009m shown, a further three schools had loans attached to a licensed deficit (no longer allowed) that in two cases masked a deficit position, these added a further £2.346m giving a total deficit position of £3.355m over 11 schools. In addition a school had a loan for expansion that is repayable to the LA.
  2. Governing bodies are required to submit their budget returns by 31 May. As at the 10th October 72 of the 84 returns required had been received, of these three had only provided the current year, without projections for future years. Without these returns it is impossible for the LA to get a clear picture of school finances.
  3. From these returns and other sources a further seven schools have so far been identified as being in difficulty.
  4. ***It should be noted that local authorities have no power to write off school deficit balances.***

1. **Support for Schools with Deficit Budgets.**
   1. The Scheme requires governing bodies to operate within their budget share, taking account of balances brought forward. However, the Scheme provides for Licensed Deficits Agreements (LDAs) where this is not possible or feasible. A LDA is an agreement to allow a governing body to run a deficit for up to three years. The governing body must formally apply for a LD. Its application must be accompanied by an action plan setting out the measures to be taken to bring annual income and expenditure into line and to make further, temporary, reductions to eliminate accumulated deficits. A LDA requires the approval of the Corporate Director, Children and Culture and the Corporate Director of Resources. As part of the agreement, monitoring arrangements will be put in place to ensure the action plan is being implemented as agreed. A LDA will usually include a cash advance to fund the deficit, but this is not shown as income to the school and so does not mask the deficit.
   2. Draft LD application, agreement and recovery plan templates are attached as Appendix 3 for comment.
   3. The recovery plan asks for information on staffing numbers and estimates of redundancy and early retirement costs. These should link with any restructuring information provided to the School Restructure Panel.
   4. A LD application should be a considered response to an unavoidable deficit rather than an emergency solution to short-term cashflow difficulties. Towards the end of the 2018-19 financial year several schools required emergency cashflow injections in order to meet their short-term commitments. To avoid the need for this greater emphasis needs to be placed on cashflow planning by schools.
   5. If officers have concerns about the ability of the governing body to deliver the action plan the local authority can issue a Notice of Concern, imposing conditions on the governing body. If this does not achieve the improvements desired the ultimate sanction is removal of delegation, with the responsibility for financial decision making transferring to the LA.
2. **Supporting Schools in Financial Difficulty Working Party.**
   1. The working party met on 17th September. The proposed Terms of Reference for Forum approval is set out in Appendix 4a and the notes of the meeting in 4b. A decision on a date for any future meeting has been deferred until after the Heads Consultative meeting on 27th November.
3. **Next Steps.**
   1. This report summarises governor responsibilities, governor support resources, centrally retained financial support and issues around school deficit and surplus balances; it identifies the lack of timely responses from schools. It sets out the arrangements for licensed deficits and looks at the treatment of surplus balances.
   2. Among the next steps will be:
      1. Improving the timely flow of information to and from schools. The LA needs to greatly improve its provision of information to schools and is developing the Finance Pages in the SLA Portal to facilitate this. Responses from schools also need to improve and the LA will look to use reports to Forum and to Chairs through Governor Hub to highlight non-compliance by schools.
      2. The criteria for accessing centrally retained funds, such as the Contingency for Schools in Financial Difficulty, will be updated for recommendation to Forum for 2020-21. Forum will be informed annually on the use of the funds.
      3. Guidance on the process for clawing back uncommitted surplus balances in excess of those allowed will be strengthened for the 2019-20 closure of accounts, returns from schools more rigorously chased (see 8.2.1), and, where appropriate, balances clawed back and used for the benefit of the schools budget.
      4. The new licensed deficit arrangements are being introduced and will be subject to more rigorous monitoring than in the past. Forum will receive regular updates on the position

**Appendix 1: Criteria for Schools Accessing Pupil Growth Contingency**

The criteria that will be used and applied to allocate funding to schools under Tower Hamlets Council, Education, Social Care & Wellbeing Growth Policy.

In particular funding will be allocated on four criteria.

a) Where there are planned permanent expansions (i.e. the school’s admission and the building capacity has been permanently increased specifically to meet additional pupil number growth) the contingency fund will meet the cost of any additional pupils on the October or January census date, compared to the previous admission number for that year group. For instance, a school that already started to move from 2 forms of entry (60 places) to 3 forms of entry (90 places), may have actual pupil numbers in Year 2 of 85, in the first year that the expansion affects Year 2. If there were 85 pupils on the October census, the school would get ((85-60) x AWPU x 7/12) or 3/12 for a January start. A minimum 20 pupils per class (or 10 for ½ a form entry) is calculated to ensure both staffing and teaching resources are covered for this provision i.e. a class of 30 pupils that has only 19 pupils at the October or January census date would be entitled to 20 x 7/12ths x AWPU rate. These arrangements apply for only the first year that any new admission places for a year-group are offered.

b) Where there is only a temporary one-off expansion in a single year group (bulge class), the maintained school or Academy will receive an extra £200 per pupil towards the cost of additional resources over and above the AWPU. These arrangements apply for only the year of opening of the class.

c) Where planned expansion of the maintained school or Academy is by at least 2 forms of entry, the Local Authority will provide additional Leadership and Management funding worth £40,000 per year over the first three financial years in recognition of the increase in management costs associated with significant expansion. (Year 1 of this funding is the school year before opening if that is agreed by the school and LA – i.e. to reflect the planning ahead requirement for the change).

d) Permanent expansions are generally implemented over time by admitting the additional pupils at Reception or Year 7 only until the additional capacity fills. Where a school has specific facilities management or ICT contract arrangements which provide services as though an expanding school were full, the contingency fund will provide proportionate support for individual schools on the basis of the year groups which are operating below full capacity. For instance, a four form of entry school offering 5 year groups is expanding to a five form of entry school. Before the expansion, there were 600 places available in total and, after the expansion there will be 750 places in total. In the first year after the expansion, however, there will be (150 x 4 + 30) = 630 places with 120 unfilled places. The contingency fund would pay for 120/750ths of the annual cost of those contracts.

**Appendix 4a**

**Supporting Schools in Financial Difficulties Working Party.**

**Terms of Reference.**

1. To act as a working-party of the Tower Hamlet Schools Forum in working with council officers to review the arrangements for supporting schools in financial difficulty, within the limits imposed by the School and Early Years Finance Regulations.

2. To draft the Terms of Reference and proposed membership of the working-party for approval by the Forum. The working-party should as far as possible be representative of all educational settings with delegated budgets funded by the Dedicated Schools Grant. To achieve this balance, membership of the Group is open to non-Forum members.

3. To agree the time-scale for and milestones of the review and agree the schedule of meetings for the working-party.

4. To liaise with the various peer-groups keeping them informed of the progress of the review and feeding back peer-group views into the process.

5. To facilitate the Council’s consultation with schools and the Schools Forum on any changes proposed.

**Appendix 4b.**

**Tower Hamlets Schools Forum**

**Supporting Schools in Financial Difficulty Working Party.**

**Meeting at 8.30 on Tuesday 17th September 2019**

**Room 103 PDC.**

**Notes of Meeting.**

Present: Lorraine Flanagan, Monica Forty, Stewart Harris, Conor Magill, Alan Morton, Christine McInnes, Steve Worth.

1. Terms of reference and membership.

The terms were agreed following discussion on the role of members. The view of the meeting was that members were to look at the wider picture rather than represent constituencies. It was noted that there were no secondary representatives and it was suggested that secondary business managers might be approached.

1. Future Meetings.

Following discussion of the draft report it was agreed to defer decisions on future meetings pending outcomes from Forum on 16th October and Heads Consultative meeting (27th November). Governors were not aware of the Forum dates: **Action SW. Ask Governor Services to circulate dates.**

1. Draft Report.
   1. The role of governors was discussed and the need to source people capable of strengthening governing bodies. The question of who challenges the governing body was raised and the clerks role in challenge. The lack of resources in the LA to allow challenge was noted. The importance of a good School Business Manager was noted. Small schools may struggle in affording support but could explore shared arrangements. External financial support was also discussed as a way of challenging governing bodies. The need for timely and accurate information from the LA was noted with PFI contributions cited as a significant current issue.
   2. Centrally retained financial support was discussed. The view of the meeting was that the Falling Rolls Fund would not be used and would be added back to delegated budgets in 2020-21. The criteria for the Contingency for Schools in Financial Difficulty would be reviewed and proposed changes recommended to Forum. Proposals might include supporting schools facing financial difficulties because of falling rolls and the funding of expert advice for schools in financial difficulty. The difficult timescale of getting agreement to de-delegated services was noted with a request for information to go to the Headteachers Consultative meeting (27th November). **Action SW. De-delegation requests prepared for meeting.**
   3. Centrally retained early years funding. It was noted that maintained nursery schools receive £0.51m of this. Centrally retained budgets need to be agreed annually by the Forum and will be reviewed for 2020-21.
   4. School surplus balances were discussed. The lack of response from schools was noted. The view of the meeting was that, with the financial pressures facing schools, clawback of uncommitted surplus balances in excess of that allowed in the Scheme should be pursued in future. The difficulty in adequately monitoring the reported use of balances would not be straightforward.
   5. The lack of timely responses leading to a lack of clarity on the number of schools in difficulty was noted. The revised templates for Licensed Deficit Agreements were reviewed and accepted.

1. Based on an analysis of published Statements of Accounts. Authority approaches may not be consistent so this can only be taken as an indication. [↑](#footnote-ref-1)