

1 October 2020

TITLE OF REPORT: Apply to Set a Deficit Budget

Purpose of the Report

To bring to Schools Forum the updated procedure for Schools to Apply to Set a Deficit Budget.

Background

Gateshead has had a procedure to apply for and deficit budget for a number of years. The procedure was in need of updating but the response to the September 2019 Department for Education (DfE) consultation on more transparency in maintained schools was awaited to ensure that the new procedure was consistent with any new guidance. The DfE issued their new guidance in the directed revisions to local authorities (LA) Schemes for Financing Schools at the beginning of August 2020. These revisions included updates to the scheme on how LA must deal with schools that have a deficit budget.

Following this publication Gateshead's deficit recovery procedure has been amended and updated and is attached in appendix 1. The new procedure has added additional guidance for schools on areas for review and has also made the distinction between structural (past) deficits and in year deficits with the aim to help schools set a balanced in year budget.

As this procedure will be part of Gateshead's Scheme for Financing Schools, which all schools and Schools Forum will be consulted on in due course.

Proposal

To start the process on the consultation on the whole Scheme for Financing Schools and to start to use the new procedure in draft form Schools Forum is requested to approve the attached procedure.

Recommendations

That the attached draft Apply for a Deficit Budget Procedure is approved by Schools Forum.

For the following reasons: -

To comply with new DfE guidance on schools that have a deficit budget.

**APPLYING TO SET A
DEFICIT BUDGET**
July 2020

APPLYING TO SET A DEFICIT BUDGET

Introduction

The Department for Education (DfE) have issued a mandatory amendment for all Schemes for Financing Schools to ensure all schemes have a deficit recovery process for all schools that have a deficit of 5% or more. The updated Scheme does not give a definition of how the 5% deficit should be calculated therefore in Gateshead this will be 5% of all revenue income of the previous year.

The Gateshead Scheme for Financing Schools (GSFFS) sets out the financial relationship between the authority and the maintained schools which it funds and puts in place requirements relating to financial management and associated issues which are binding on both the authority and on schools.

Section 4.5 of the GSFFS prohibits schools from setting a deficit budget, except in extenuating circumstances and with the prior permission of the Council.

A deficit budget is defined as when a school's planned expenditure is greater than its planned income inclusive of all reserve funding in any financial year.

A hyperlink to the GSFFS is set out below:

<http://www.gateshead.gov.uk/DocumentLibrary/Education/Strategies/Scheme-for-financing-schools.pdf>

To ensure that all schools comply with this requirement the GSFFS requires:

- Schools to return a governor approved annual budget to the Council by the 31st May each year – in exceptional circumstances this can be extended.
- Schools unable to set a balanced budget must make an application to the Council to apply for a deficit budget.

Schools should only apply for a deficit budget where they cannot set a balanced budget (i.e. where planned expenditure is less than planned income inclusive of all reserve funds) without seriously impacting on the educational provision at the school.

A deficit budget in excess of either £20,000 or 5% of the schools annual budget (including expected additional income) must be approved by the Service Director, Financial Management and the Director of Education, Schools and Inclusion.

A deficit budget below either £20,000 or 5% of the schools/PRUs annual budget (including expected additional income) can be approved by the Business Partner (Schools).

The application for a deficit budget allows the Council to provide the support needed to prepare a deficit recovery plan that sets out the action the school will take to achieve a sustainable balanced budget position over an agreed period. The Council has no power to write off the deficit balance of any school.

A deficit recovery plan will usually cover a three-year period however in exceptional circumstances where a school cannot deliver a recovery plan over three years without seriously affecting its educational provision, a deficit recovery plan can be extended to five

years. If this is still not feasible then these schools will be reviewed on an individual basis and a suitable action plan put in place.

Schools with large deficits should in the first year aim to set a balanced in year budget, to ensure that the deficit does not increase, before the historic or structural deficit is tackled.

Financial Resource Management (FRM), Educationgateshead and other Council Officers will work with any school entering a deficit budget to ensure that the school have taken all reasonable steps to formulate an achievable deficit recovery plan and to ensure that the school is no longer in a deficit budget position at the end of agreed deficit recovery plan period.

A deficit budget will only be approved in circumstances, where the school cannot balance its budget in year without a significant impact on the provision of education.

If schools persistently fail to implement the actions agreed under their deficit recovery plan and fail in reducing their deficit, the council will challenge the school and ultimately may lead to further intervention by the Council.

The following range of support is available to schools applying to set a deficit budget:

- Recovery planning workshop/meeting
- Possible peer mentoring
- Advice from Human Resources and Educationgateshead
- Financial management advice – strategic financial planning, financial systems and controls, multiyear budget projections from Financial Advice & Support team

Applying to Set a Deficit Budget

Step 1: Submit Application for Deficit Budget

If a school is in a deficit budget position, they must submit an application for a deficit budget and a deficit recovery action plan by the 31st of May. In exceptional cases this can be extended.

The Deficit Recovery action plan must demonstrate how the school intends to balance their budget over the agreed period. This may be through a combination of increased pupil numbers income generation, or a reduction in expenditure.

The deficit recovery action plan must be supported by a multi-year budget showing the cumulative effects of the proposed action.

Appendix 1 shows an example deficit budget application.

Appendix 2 shows an example of the deficit recovery action plan

Appendix 3 provides examples of areas that should be reviewed

Where schools are unable to complete a deficit recovery action plan, the Council will determine the appropriate type support required by the school to enable it to complete a plan based on:

- Significance of the deficit both in year and structural
- Length of time the school has been in deficit
- Level of financial competency based on audit and compliance checks
- Governor involvement

- Benchmarking data
- Contextual data
- Curriculum Audit

Financial advice and information will be available to support schools in recovering from a deficit financial position by Council officers.

- Telephone support providing advice and guidance
- Recovery planning workshop/meeting – these sessions will be aimed at those schools that with some additional financial advice are able to effectively control and manage their future financial position. Schools may find that by working with colleagues in other schools were applicable, (peer mentoring), they are able to share ideas and best practice which result in reducing the financial deficit of the school.
- Consultancy Support – this support will be provided to those schools where the magnitude of the deficit makes it difficult for them to resolve the position without professional advice and some intervention by the Council.

Step 2: Deficit Budget Application and Action Plan Checked and Validated

Following the submission of the deficit budget application and a deficit recovery action plan several validation checks will be completed by the Council to ensure that the plan is reasonable.

These checks include:

- Comparing the current year's income and expenditure budgets with previous years' actual income and expenditure to identify any significant differences and verify that the budgets are reasonable and accurate.
- Checking that the correct balances have been accounted for in the current year and all funding delegated by the Council has been considered.
- Ensuring actions included in the recovery plan are realistic and that by implementing them the required level of savings can be achieved.
- Any areas that are unclear or considered unachievable will be queried with the school and clarification sought.

Where the plans are deemed to be suitable, they will be passed to the Strategic Director, Resources and Digital and the Director of Education, Schools and Inclusion for approval (where the deficit being recovered is more than either £10,000 or 2% of the schools annual budget or if they are below this limit to Finance Business Partner (Schools)).

Where the plans are not deemed to be suitable the school will be requested to review their budget and recovery plan and submit a revised version for review and approval.

Step 3: Deficit Application and Deficit Recovery Action Plan Approved

Written confirmation from the Council will be sent to the school once the deficit recovery plan has been approved.

Step 4: School Deficit Recovery Monitoring

The school must have robust internal budget monitoring arrangements in place to ensure that the deficit recovery action plan is being achieved. The progress of the deficit recovery action plan should be communicated to the governors and the Finance Business Partner (Schools) on a termly basis. A governor, usually the chair or vice chair, must be appointed to overview the deficit recovery plan. Review of the deficit recovery plan must be minuted in the termly full governing body meeting.

Where it is a multiyear action plan this should be updated on an annual basis to show what has and has not been achieved against the original action plan. Updated future projections using the latest information and funding allocations, are to be used to update the action plan, add additional items to be included or remove items that no longer need to be undertaken.

Where a school's financial position worsens they will be referred to Finance Business Partner (Schools) and Educationgateshead for more intensive support.

Additional Council Monitoring and Intervention

Further Council monitoring and intervention will be required where:

- The school is persistently in breach of the Scheme for Financing Schools
- The school will not set a balanced budget
- The school will not engage in the deficit budget process
- The deficit is worsening, and no action is being taken by the school
- There is evidence of financial mismanagement by the school

Intervention will escalate to three levels but could also include a request to internal audit to undertake a review of the school.

1. Financial Review Meeting
2. Notice of Concern
3. Suspension of delegated financial powers

1 - Financial Review Meeting

Schools that do not return a balanced budget or apply for a deficit budget may be required to attend a Financial Review Meeting with the Council.

A similar requirement will apply to schools with a worsening deficit and for those schools who persistently breach the Scheme for Financing Schools.

The review meeting will include Senior Officers from Resources and Digital, Educationgateshead, Human Resources Advice, the Headteacher and Chair of Governors or representative Governor.

The meeting will:

- Review the financial position of the school

- Seek an explanation from the school about the action being taken to safeguard the school's financial position
- Assess what support and challenge the school may require
- Agree an updated action plan
- Account for interest to be charged on the deficit to recognise the seriousness of the situation for the school.

2 - Notice of Concern

A school that continues to refuse to take the necessary action will be required to attend a meeting with senior officers. Following this meeting they will be given a formal notice of the action the Council recommends they should take to bring the budget back in to balance including the possible charging of interest on the deficit. The school will be given a month to respond.

3 - Suspension of Delegation

Where a school still refuses to take the action identified by the Council the ultimate sanction will be to suspend delegation following a meeting with the Director of Learning and Children and the Strategic Director, Resources and Digital. Under the suspension of delegation, the Council would take control of the budget and take the necessary action before returning control to the Governing Body. During the suspension school staff would be responsible to the Council for the day-to-day financial administration in the school.

Step 5: Reporting and Review

The Council will consider the financial position of schools with a deficit budget each term. Any significant detrimental variances from the deficit recovery action plan will be raised with the school who will be asked to provide an explanation and details of the management action they are taking.

The deficit recovery action plan must be refreshed as part of the annual budget setting process.

A summary report will be provided to the Schools Forum on an annual basis. The Council will report to portfolio holders where it is felt that intervention is required.

Appendix 1

Gateshead Metropolitan Borough Council

Application for Deficit Budget

Please complete the following information:

1. Name of school: *ABC School*
2. Value of deficit: *£100k*
 - a. Projected in year deficit to recover: *£25,000*
 - b. Structural deficit to recover: *£75,000*
3. Deficit recovery period: *3 years*
4. Reasons for deficit: *Falling pupil numbers and resultant funding over the past 2 years has resulted in current staffing structure being too high and which is financially unsustainable.*
5. Summary of actions taken to eliminate deficit and financial impact of each action (savings made or additional income generated to reduce deficit):

Staff Restructure – Saving £100k – see 3 year plan and Deficit Recovery Action Plan for details
6. Date of Governing Body resolution requesting the deficit: *19/02/20*

We understand that we will:

- Consult with Resources and Digital prior to advertising any new posts.
- Not commit the school to any further expenditure other than that included in our recovery plan without Resources and Digital approval.
- Implement the savings within the timescale agreed.
- Notify Resources and Digital of any deviation from the recovery plan (once completed) for example long term sickness, disputes.
- Provide any other information as and when required by the Council
- Be liable for interest charges on the deficit
- Chair or Vice Chair of Governors to have overview and monitor the deficit recovery progress
- Arrange for our Chair of Governors/ Management Committee to attend a Council Deficit Recovery training session

Name:

Name:

Signed:

Signed:

Position: Chair of Governors

Position: Head Teacher

Date:

Date:

Please also provide the following information:

1. Minutes of Governing Body meeting where deficit budget request was agreed
2. A three-year budget plan forecast demonstrating the changes in income and expenditure anticipated by the school together with the financial impact of the management action to clear the deficit.
3. An up to date budget forecast position

Appendix 2

DEFICIT RECOVERY ACTION PLAN (Confidential)

		School Name:						
		Period covered by Deficit Recovery Plan:						
Action	Detail	Amount of saving (£)	Year of saving	Date of action	Cumulative Saving	Date of effect (if different)	Responsible	Achieved or Unachieved
reduce by one temp TA	TA contract ends Sept 20	£5,543 £12,303 £12,303	20-21 21-22 (22-23)	give notice May	£30,149	Sept	HT	Achieved
Reduce teaching staff by 1FTE	Temp contract ended Sept 20 M1	£19,224 £32,956 £32,956	20-21 21-22 22/23		£85,136	Sept 20	HT	Part achieved as needed to retain 0.5 M1

I confirm that the actions listed above will be implemented to recover the deficit position of the school and that any changes to the plan will be advised to the Finance Business Partner - Schools.

Name _____
 Signature _____
 Date _____
 Head Teacher

 Chair of Governors

Appendix 3

Areas for review for recovering from a deficit situation

Overall

Schools should consider accessing the school resource management self-assessment tool, which will show how the schools own data compares against a range of performance measures that are indicators of good resource management. It should assist in identifying “hotspots” where remedial action can then be considered.

Salaries

Salaries form the main portion of expenditure, so any deficit recovery plan that does not start with consideration of salary costs is not a serious one. Governors must challenge the assumption that salary costs are fixed. Even when there is no pressing need to shed staff, there should still be opportunities for economies. Options for identifying long-term savings in respect of staffing include:

- reduce staffing budgets via natural wastage and a moratorium on recruitment wherever operationally possible
- review pupil teacher and pupil adult ratio to see if they can be reduced
- consider mixing classes if numbers permit it
- internal promotion of lower paid staff rather than recruiting more expensive teachers (assuming parity in operational effectiveness)
- review use of any surplus staffing including non-contact times in excess of statutory PPA allowances
- review TLR allowances. Are they truly being used to recognise additional responsibilities or to address retention? Have some been in place for some time and which reflect legacy issues rather than current ones? Schools should develop middle leaders, but if scrutiny of the staffing structure indicates that the majority of MPS teachers are “leaders”, how realistic is this?
- look at redeployment in areas with potential surplus staff (classroom support could be reviewed enabling redistribution of duties and hours)
- review any fixed term contracts. Can the school operate without these posts? Consider non-renewal at earliest opportunity

Schools will know that they have taken serious steps to control their staff costs once the budget shows that staff costs fall within reasonable parameters. An ideal level (as a rough guide) would be between:

- 70% and 75% to grant revenue income
- 65% to 70% of total income
- 60% to 75% total expenditure

Performance related pay

Performance related pay for teachers is highly regulated and inevitably represents an ongoing upward pressure on costs. This is to be kept under review.

Controlling staff supply costs

Schools taking steps to recover deficits commonly see reducing supply costs as a way to close the gap. Budgeted supply costs may look high, but often there is a gap between ambition and reality, with the result that a recovery plan hinging on a cut in supply costs may be simply a paper exercise with no real buy-in from the SLT. Both cultural and organisational steps must be taken to make the ambition a reality. Supply is a legitimate response to an unforeseen staffing shortfall through sickness, but some schools routinely buy-in teaching supply to cover PPA. PPA sessions are planned and

predictable, so alternatives may exist. For instance, the hourly rate of a HLTA or sports or dance coach is likely to be less than that of a supply teacher. Could PPA sessions be clustered to allow for scheduled cover using non-teachers? Is there a member of the SLT, such as an AHT or DHT that could step in for half a day a week to provide backfill for PPA? In the case of longer-term absences, if it is necessary to use supply cover then a reduced day rate should be negotiated, reflecting the extended period. However, schools should look to their own resources and see if there is a way to re-assign existing teaching staff, with appropriate backfill. If a MPS teacher can cover for a UPS teacher, then a NQT may be able to cover for that MPS teacher in turn, and a sports coach or HLTA may be able to cover for that NQT for some of the time. Such considerations highlight the extent to which financial recovery needs the active involvement of the schools teaching leadership. Cluster schools may want to look into shared arrangements for supply to negotiate better day rates.

Goods and services

Schools must review all goods and services contracts to identify potential savings. Are these services still needed? Could they be undertaken in-house at reduced cost? For example:

- subscriptions and licences: these should all be reviewed. Has the school signed up to a “free trial” that has rolled over? Has a subscription been taken out for a product or service that is no longer relevant? Are you paying a licence for software that you no longer use?
- printing and newsletters: could the school reduce its copier and printing costs by moving to an on-line newsletter? Might a school app with push notifications be more effective than newsletters and letters home? Consider not just the direct costs involved but also the “opportunity cost” of in office staff time
- training: does the school still routinely send staff off-site for classroom style training for things like first aid or fire risk refresher training? There may be options available for accredited training to be provided on-line on a self-service basis at a much cheaper cost and with less disruption to school life
- Paying invoices promptly to ensure any early settlement discounts are taken

Is planned expenditure capital or revenue?

There may be items on the margins of revenue and capital where, previously, the revenue budget would have paid for it such as painting or replacement of lights. Can these costs be capitalised? Schools will need to speak to finance about this as they may not agree. Schools should halt or defer, wherever possible, any planned site development until the budget can sustain it, though if some discretionary grant or matched funding might be lost because its availability is time-limited this should be discussed with finance.

Furniture and equipment

Except for action to address health and safety risks, when possible Schools should defer plans for refurbishment of classroom furniture until the budget allows. A prioritised list of areas requiring furniture and equipment renewal should be made so that when funds become available the appropriate areas can be addressed. If old or redundant furniture or equipment needs to be disposed of then residual value should be realised, either on auction sites or even just scrap payments (though caution should be taken with IT hardware where there is risk of data loss).

Joint projects and external service providers

Schools should review all joint projects and subscriptions. Do they provide value for money? What is their impact on the learning outcomes of pupils? Are they still relevant?

Can savings be made by not renewing? Does the school have clear agreements for any outcomes of consultancy services procured?

Pupil premium funding

Pupil premium funding must be spent on the identified pupils. These funds may be used to offset some salary costs, but only if the staff are working directly with the identified pupils and with a clear remit in respect of improving attainment. Many schools work hard to ensure that they receive all the pupil premium funding due to them, but this requires constant attention. Since the advent of universal infant free school meals (UIFSM), the number of children registered for means-tested free school meals has fallen. Schools should focus on reception children, and also those transitioning into KS2. Some schools have found that take-up (and, so, funding) increases if parents better understand that the additional funding will directly improve the experience of their own children.

Debt recovery

It is easy to lose track of parental debt especially in relation to school lunches. The daily focus will be on understanding the numbers of pupils in attendance and ensuring that kitchen staff are notified quickly. Even when cashless payment systems have been adopted, it is easy to allow sizeable debt to accumulate. Parents can make mistakes, some choosing to pay in advance, others in arrears and others on a pay-as-you-go basis. All uncollected monies are a strain on the budget, and even a weekly shortfall of a few pounds by a number of parents can, over time, build up into individual debts of hundreds of pounds, and thousands for the school as a whole, perhaps making the difference between a budget that breaks even and one that is marginally in deficit. Cashless systems may signal to both parent and finance staff the balance owing at any one time, but schools must instigate regular reconciliations and reporting of debt through to the head teacher and governing body. Decisive action may be difficult where the staff need and want to maintain a healthy relationship with families that could be facing challenges in addition to their ability to pay for school lunches. But, in cases where it is evidently a case of unwillingness rather than inability to pay, the result of mounting debt that produces increasing financial strain affecting all pupils, schools need a clear-sighted approach that parents understand.

Nursery Class

Ensure that your nursery class is at least covering its direct cost, e.g. staff that work in in the nursery class and resources. Nurseries are a good way to secure children into the rest of the school but not at the cost of the whole school. It might be worth considering an early years foundation stage unit depending on overall numbers in nursery and reception.

Post 16

As with nursery classes, post 16 provision can also be a drain on resources due to the more specialist nature of the courses and the smaller class size. Again in secondary schools post 16 provision can be a draw for students in the main body of the school, however schools should keep the courses provided under review and ensure that they at least cover their direct costs e.g. staffing and resources.

Wraparound care

Many schools provide wraparound care to provide families with stability and less transition for children. Parents, however, may not appreciate that the major cost of

running a breakfast club is not simply the cost of cereal and juice. Adequate staffing cover must be provided and, whether the club is attended by 10 pupils or 30, this is effectively a fixed cost. Care should be taken when calculating the charge of all types of wraparound care to take into account all direct costs incurred: food, supervisory staff, additional cleaning, administration, etc. schools may decide that this non-statutory provision is something where it would not be appropriate to charge pupils from deprived backgrounds, but if each aspect of wraparound care is treated as a “profit center”, then the notional contribution from pupil premium or the general school budget will be visible. Schools should charge the “going rate” for those who can pay. If the school checks its charges with those of other local providers, it will be able to see if it is out of step. Generally, parents prefer their children at school so that wraparound at both ends of the day is seamless. Schools should consider implementing a system where parents book sessions on at least a weekly or half term basis and with the agreement that all of these sessions will be paid for even if they have not been taken. If it is not viable for the school to provide wrap, then they should consider allowing a private provider to use school facilities at cost to provide this service to parents.

