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**Report to: Schools Forum**

**Date 11th March 2021**

**Report of: John Betts, Interim Finance Business Partner (Education & Skills)**

**Title: Authority approach to managing school deficits**

**Status For information**

At the previous Schools Forum meeting (when discussing the High Needs Block allocation), a query was raised regarding the Local Authority’s approach to both supporting and challenging maintained schools with financial deficits. This report lays out the Authority’s approach.

 **Context**

As at 31st March 2020, Birmingham had 198 maintained schools with a total of £60.8m in surplus surpluses; alongside 40 schools that had deficits totalling £8.8m. Whilst the number of schools in deficit has stayed the same as last year (at 40), the cumulative value of deficits has increased by £1.6m to £8.8m.

In terms of deficits, Birmingham’s position is at odds with the national position:

* Nationally 30% of secondary schools are in deficit, whilst for Birmingham it’s just 11%
* Conversely, nationally only 8% of primary schools are in deficit, whilst for Birmingham it’s 13%
* For special schools, nationally 10% are in deficit, whilst for Birmingham, nearly 1/3rd of special schools are in deficit.

**Scrutiny of Maintained Schools With Deficits**

Maintained schools that can’t achieve a balanced budget have to apply for a Licensed Deficit. This does not attract any extra funding; it is simply permission to set a deficit budget. The school develops and implements a recovery plan within the conditions set out in the local Scheme for Financing Schools. Conditions include a maximum period for the Licensed Deficit (usually three years) and regular monitoring.

There are a number of other controls in place to promote good financial management in Birmingham Maintained Schools:

* All *school budgets plans* must be sent to the Local Authority and are reviewed by Schools Financial Services for reasonableness
* All schools are required to produce *termly financial monitoring returns* to the Council (and, in particular, these are used to monitor progress against budget or against the deficit recovery plan)
* There are also termly multi-disciplinary *Schools in Financial Deficit meetings* held by the Local Authority, to share intelligence. The Schools in Financial Deficit group has set up sub groups to address specific issues facing the nursery school and special school sectors
* *School Audits* – internal audits are undertaken, of both individual schools as well as themed audits across schools, focussing on high risk schools. Monitoring and support follow up visits are provided to those schools causing greater concern.
* *Interim Executive Boards* (IEBs) are implemented when there are concerns regarding school governance and this can include protecting the financial interests of the Local Authority

 **Other Processes & Scrutiny**

The Authority closes manages schools’ budget positions, particularly looking at indicators such as fluctuating pupil numbers, staff absence / sickness and OfSted inspections

Deficit recovery plans are discussed with Headteachers / Governing Bodies and formalised. The deficit recovery plans are monitored termly. Where the deficit recovery requires staffing reductions, a business case is considered by representatives within the Local Authority’s HR and Finance services, with final sign off of the case by the Education & Early Years service.. If agreed, generally the Local Authority picks up the tab for redundancies and schools pick up early retirement costs – this approach is set out in legislation.

Schools not producing deficit recovery plans are escalated to senior management, which can lead to a Warning Notice being issued and / or delegation withdrawal, which results in the introduction of an Interim Executive Board.

All schools are RAG rated and considered termly at the multi-disciplinary *Schools in Financial Deficit meetings.* There is more work to do here, in terms of defining criteria for categories. There is increased monthly financial monitoring for schools in special measures and /or with a deficit and Direct Academy Order.

In light of the processes highlighted above, the Local Authority is being more robust about issuing Notices of Concern and has put in place processes for greater monitoring and review.