



**Dorset
County
Council**

**Policy Document
Agreed at Schools' Forum: Friday 19 September 2014
Ref: Children's Services' Sufficiency & Funding Team**

Financial Efficiency in Schools Policy and Procedure Version 4

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1) Application

- 1.1 All maintained schools in Dorset are covered by this policy however it is recognised that Voluntary Aided schools are subject to different rules regarding capital funding. These variances are taken into account in the procedures.

1.2 This policy is effective from September 2008; this version was released in September 2014 and is linked to the Dorset Scheme for Financing Schools.

1.3 This policy promotes effective financial management in schools and offers guidance for schools on deficit and surplus management.

1.4 In order to plan the effective use of resources, schools should take account of the following principles:

- Have a school development plan that is underpinned by sound resource planning and identifies priorities and targets for: ensuring that pupils achieve high standards and make progress; increasing teachers' effectiveness and securing school improvement.
- Link the multi-year budget (minimum of 3 years including the current year) to the school development plan to ensure resources are available to meet priorities and targets.
- Ensure the multi-year budget takes into account predicted changes in pupil numbers and forecasts likely changes in income and expenditure.
- Set an annual budget that is approved by the Full Governing Body and submitted to the Local Authority (to the Sufficiency & Funding Team) by the 15th May each year.
- Not set a deficit budget.
- Not set a budget with a large surplus with no specific plans to spend it.
- Monitor the budget on a regular basis (at a minimum termly, but half termly or monthly would be more effective).
- Establish sound internal financial controls.

2) Actions - Deficit Budgets

2.1 3 year budgets

2.1.1 Schools are expected to set three year budgets with a year-end surplus shown in the first year, at a minimum. Any budget submitted to the Sufficiency & Funding Team showing a predicted year end deficit in the first year will be rejected and returned to the school. If a year-end deficit is shown in the second or third years, schools will be expected to develop a strategy for deficit avoidance.

2.1.2 Once a budget has been accepted by the Sufficiency and Funding Team, the budget will be forwarded to the Children's Services School Accountancy Support Team in Corporate Resources, to be uploaded onto DES. Any budget submitted to the Accountancy Team that does not reflect the agreements made with the Sufficiency & Funding Team will again be rejected.

2.2 Process to agree a deficit recovery plan

2.2.1 The Sufficiency & Funding Team will work with those schools with potential/actual deficits to agree a strategy to achieve sustainable balanced financial position over an agreed period of time. Deficit recovery should generally be achieved in three years, but this will be agreed on an individual basis. Both local and national benchmarking comparisons will be made during this process. The deficit recovery plan should also take into consideration the expected outcomes of pupils in the school, to ensure that these are not compromised unduly. Once a full recovery strategy and plan is in place, a licensed deficit application can be completed by the school. The licensed deficit application and recovery plan must be adopted by the Full Governing Body and then checked and signed off by the LA Chief Accountant and Senior Manager, Schools & Early Years.

2.2.2 Schools with a new deficit as of 31st March 2014, or an existing deficit that is not licensed, will be issued with a notice of financial concern. The notice will show required actions and timescales. Restrictions on expenditure may be included in the Notice.

2.3 On-going monitoring arrangements

2.3.1 The Sufficiency & Funding Team will continue to work with schools that hold licensed deficits and existing deficit recovery plans to ensure that they are adhered to and reduce the deficit as planned.

2.3.2 Once the licensed recovery plan is agreed, any changes of circumstance can be discussed, but the expectation is that expenditure will be cut if the plan is not being met. Early repayment of the deficit is expected if it can be achieved without compromise to standards.

2.3.3 The school must have robust internal budget monitoring arrangements in place to ensure that performance against the budget and recovery plan is sufficiently monitored and tracked on a regular basis (See Section 5).

2.4 Significant and increasing deficits

2.4.1 Where a school has a significant and increasing deficit, enhanced challenge and support will be set in place. The school leaders and Governors will work with the Sufficiency & Funding Team and other LA Officers as required (from Early Years and Education Improvement, HR, Governor Services and Accountancy), to agree the methods by which the school will be able to balance its budget. A number of specific options will be considered according to the circumstances of the school:

- a. A New Deficit Recovery Plan, potentially with longer time periods for repayment of the deficit;
- b. Inclusion of the school on the Local Authority's Schools Causing Concern Register for financial reasons;
- c. Strengthening the governing body by appointing one or more Local Authority Governors. Their role would be to support the headteacher and the governing body in managing the recovery process as the authority is well aware of the very difficult decisions that will need to be made;
- d. Recommend appropriate training for school staff and Governors to address any identified weaknesses in the financial management of the school;
- e. A financial Notice of Concern stating the reasons for issuing the notice and detailing specific actions to be completed in an agreed timescale. Restrictions on expenditure may be included in the Notice;

- f. In severe cases where the financial Notice of Concern does not prompt the required action it could be necessary to remove delegation. In this case, Local Authority representatives will be nominated to manage the school's budget. The Headteacher and Chair of Governors will be kept fully informed during this process. This would mean the authority taking full control of the budget, including all decisions relating to staffing. Much of the day to day budgeting might be returned to the school, but this will be agreed on an individual basis.

3) Actions - Surplus Budgets

3.1 Current allowable surplus levels are 5% for secondary and middle schools and 8% for primary and special schools. These allowable levels should be viewed as maximum levels, not prudent levels and schools should plan to spend the budget they receive on the pupils in school in that year. Where schools are predicting a year-end excess surplus the budget will be rejected and the Sufficiency & Funding Team will work with the school to agree a balanced budget.

3.2 The Dorset Scheme for Financing Schools allows the Local Authority to remove funds in excess of the allowable levels. Where schools are carrying a current excess surplus from the previous financial year this will be investigated on an individual level but may be liable to clawback. Monitoring year end balances enables the LA to ensure that today's money is being spent on today's pupils.

3.3 The following challenge and support process will be used to ascertain if the retention of an excess surplus is appropriate and if a clawback should be made:

- During the financial year, schools prepare three outturn reports (June, November and February) that are submitted to the Sufficiency & Funding Team. If a school is predicting an excess surplus, there is space available to include information on the planned use of the excess surplus.
- During the budget setting process for the following year, schools can include information on planned projects using the excess surplus.
- Once final year end balances are available, schools with an excess surplus will receive a letter asking if they wish to submit any additional information or evidence to the LA.
- A group of LA Officers review all the information received from schools before the end of the summer term and decide if the surplus can be retained, or whether it should be referred to the Dorset School's Forum for clawback consideration. The following criteria is used when deciding to approve an excess surplus:
 - A specific scheme of repair or refurbishment which cannot be financed from one year's budget share. For schools where land and building assets are owned by the Local Authority, the Local Authority property team must be informed of any planned refurbishment scheme.
 - A specific scheme of building work, furnishing or equipping which cannot be financed from one year's budget share. In this case the school must have spent or committed all Capital funding before using revenue to fund these schemes. For schools where land and building assets are owned by the Local Authority, the Local Authority property team must be informed of any planned building work.

- Monies held on behalf of other schools or organisations (including nurseries) that will be distributed or spent in the following financial year.
 - Funds set aside for up to 2 years to manage change related to awkward class sizes, school reorganisation, falling pupil numbers or staff secondments. For example, a school/PRU may wish to retain 4 classes even though reception intake shows that only 3 classes are needed however, the following year the pupil number intake rises and 4 classes are required.
 - Purpose of unspent donations. (These should exclude balances held in trust funds or other private or non public accounts).
 - ICT replacement or development programme.
 - Very exceptional circumstances which will be scrutinised. These could include VA schools seeking LCVAP from the Diocese saving their contribution towards a capital project.
 - Unspent grants issued for an academic year (for example, Pupil Premium, Year 7 Catch Up Grant), which will be spent in the summer term.
 - Evidenced known future expenditure on redundancies or ill-health retirements.
- The Dorset Schools' Forum is notified of excess surplus levels and school reasons for retention in the autumn term. Any excess surplus balance levels not approved will be discussed before a clawback decision is made.
 - If it is deemed appropriate to clawback an excess surplus balance, following discussion at the Dorset Schools' Forum, the Director for Children's Services and the Children's Services Portfolio Holder will be involved in any appeals made by the school and will make the final decision.
 - Schools with an excess surplus in each of the last three financial years will be visited by an Officer from the Sufficiency and Funding team to discuss progress of excess surplus projects and whether the holding back of funds is impacting on the education of the children and young people on roll.
 - In cases where the financial circumstances of a school are of significant concern, the school will be included on the authority's Schools Causing Concern Register for financial reasons.
 - Where a School Causing Concern is not adhering to an agreed plan to reduce the excess surplus, a financial Notice of Concern will be issued. The notice will give targets for the reduction of the excess surplus, on agreed projects, within an agreed timescale.
 - In severe cases where the Notice of Concern does not prompt the required action it will be necessary to remove delegation; in this case Local Authority representatives will be nominated to join the Chair of Governors and Headteacher in managing the school's budget. This would initially mean the authority taking full control of the budget but much of the day to day budgeting might be returned to the school very quickly.

4) Support to Schools - Headteacher and Governor Training

4.1 Where a school is in deficit or excess surplus recovery, the Sufficiency & Funding Team will arrange a support visit to the school and/or one or more governors' finance meetings to ensure that the governors are equipped with all the necessary information and skills to fulfil their role in rectifying the situation.

4.2 Headteacher and governor training will be made available as appropriate.

5) Monitoring of School Budgets and Levels of Support

5.1 All schools are required to provide estimated outturn statements to the Sufficiency & Funding Team on a termly basis, enabling the team to forecast the impact of possible deficits or excess surpluses across all schools.

5.2 Schools that are a major concern i.e. those that have an increasing deficit or are unable to adhere to a recovery plan, receive bespoke support from the Sufficiency & Funding Team and LA Advisers. Schools in this position may also have the governing body strengthened via the appointment of one or more Local Authority governors. It may become necessary to include them in the authority's Schools Causing Concern register and in some cases issue a Financial Notice of Concern or remove delegation.

5.3 Schools conforming to recovery plans and with reducing levels of deficit or excess surplus continue to be monitored by the Sufficiency & Funding Team and supported by LA Advisers if necessary. The projected outturn position should be reported to the Governing Body/ Management Committee at least half termly. (NB – there does not necessarily need to be a meeting of the Governing Body/ Management Committee each half term, but a monitoring report should be communicated to them for their review).

5.4 All schools receive a budget calculator in the autumn term to enable early consideration of possible changes to funding levels and aid financial planning. The multi-year budget should be revisited at this point, to look at the effect of updating pupil numbers any staff changes and forecast funding levels.

6) Support to Schools – De-delegated fund to support redundancy costs for schools in financial difficulty

6.1 If school phases choose to de-delegate a fund towards redundancy costs, this will be available to support schools in financial difficulty undertaking a redundancy/restructure process in order to set up a financially sustainable staff structure. The necessity of the redundancy to avoid deficit must be verified by a member of the Sufficiency & Funding Team before it can be agreed that the school can access the fund. The de-delegated fund will not be available for Headteacher redundancies if schools choose to federate, amalgamate or become a Multi Academy Trust. If a school becomes an academy during the financial year, access to the fund can still be agreed if the school has paid into the de-delegated fund.

7) Schools' Funding

7.1 Funding for schools must respond to changing circumstances but also offer stability and predictability.

7.2 Work to gather, collate and interpret technical data to inform the development of the schools' funding formula is on-going and will be discussed with the Dorset Schools' Forum at regular intervals. All schools will be consulted if necessary.

8) Review

8.1 Information about progress is taken annually to the Dorset Schools' Forum but also Headteacher and Chair of Governor briefings.

8.2 The impact of this policy is reviewed annually at the July meeting of the Forum.

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