

MAYOR & CABINET		
Report Title	APPLICATION FOR A LICENSED DEFICIT FOR PRENDERGAST LADYWELL SCHOOL AND FOREST HILL SCHOOL	
Key decision	No	Item No.
Ward	N/A	
Contributors	EXECUTIVE DIRECTOR FOR CHILDREN AND YOUNG PEOPLE EXECUTIVE DIRECTOR FOR RESOURCES & REGENERATION	
Class	Part 1	Date: 9 November 2016

1. Summary

- 1.1 At the end of the 2015/16 financial year Prendergast Ladywell School had overspent its budget by £173k and Forest Hill School had overspent its budget by £129k. This was not forecast in the budgets that the schools had set at the start of the financial year.
- 1.2 This report sets out the details of both schools' budgets and the action that the respective governing bodies are planning to take to recover the situation. It shows that the total deficit can be recovered by 2021/22 in both schools.

2. Purpose

- 2.1 This report seeks approval for Prendergast Ladywell School and Forest Hill School to each receive a licensed loan and to agree both schools' financial recovery plan.

3. Recommendations

That the Mayor agrees

1. Prendergast Ladywell School budget plan and agrees a loan of £558k to cover the school's budget shortfall in the first year of the recovery plan.
2. Forest Hill School's budget plan and agrees a loan of £879k to cover the school's budget shortfall in the first year of the recovery plan.
3. That the Mayor agrees in accordance with the Scheme of Delegation and loan agreement that both schools pay back the loan over a five year period.

4. To delegate authority to the Executive for Resources and Regeneration in consultation with the Executive Director for Children's Services and the Head of Law to agree the terms of the Loan Agreements

4. Policy Context

- 4.1 "Shaping our future" 2008- 2020 is a summary of Lewisham's Sustainable Community Strategy. There are six priority outcomes which say what our communities should look and feel like in the future. One is "ambitious and achieving" where people are inspired and supported to fulfil their potential by removing the barriers to learning and to encourage and facilitate access to education, training and employment opportunities for all our citizens.
- 4.2 One of the Council's corporate priorities is for young people's achievement and involvement; raising educational attainment and improving facilities for young people through partnership working. This report looks at ensuring that the school can provide these in the longer term.

5. Background

- 5.1 Under the School Standards and Framework Act 1998, Local Authorities (LA) are required to draw up a scheme for financing schools (The Scheme). This scheme sets out the financial relationship between the LA and the maintained schools which it funds. It contains requirements relating to financial management and associated issues, which are binding on both the LA and on the schools. Any proposed revisions to the scheme are subject to consultation of Schools Forum for approval pursuant to regulation 27 of The Schools and Early Years Finance (England) Regulations 2015. The Scheme for Lewisham was recently updated, in consultation with the Schools Forum, earlier in 2016.
- 5.2 In line with national requirements which have been in place for many years, the Scheme gives schools freedom to exercise choice over their spending plans. Like other local authorities, Lewisham can only impose regulations which are consistent with the need for accountability and control over expenditure of public funds. The Scheme expects all schools to set a balanced budget and manage within the resources made available to them. This is specifically a duty on the governing body of the school.
- 5.3 The Scheme provides that in exceptional circumstances a school may have a licensed loan to cover a deficit/loan. Under this provision the school is able to apply to the LA for permission for a loan which will be paid back in subsequent years. A licensed loan to cover a deficit/loan is usually granted where a school has found itself in a deficit position due to changes in circumstances e.g. significant fall in pupil numbers. The

licensed deficit/loan will be granted on the basis that some cost reductions may not be possible immediately, either logistically (contracts with staff or service providers or because of risks of detrimental impact on the curriculum or because the reduction in staffing levels may be temporary so that it does not make sense to incur unnecessary redundancy costs.

- 5.4 Before a loan is approved, the school must be able to demonstrate that through its recovery plan it will be able to pay back the loan over the agreed timescale.
- 5.5 Under the scheme any loan in respect of a deficit that is in excess of £500k must be approved by the Mayor as it is a very serious matter for a school to accumulate a deficit of this size. The agreement of smaller loans against deficits is delegated to the Executive Director for Children and Young People.
- 5.6 Both the school's governing body and the LA must continually monitor the school's budget to ensure the agreed amount of deficit is not exceeded.

6 School Budgets

- 6.1 There are currently 8 secondary schools who have a deficit budget. This compares with 2 in the last financial year. Only the two already in deficit were projecting a deficit for 2015/16. While schools across the country have to manage within their means, there have been some cost increases which schools have had to absorb and secondary schools in Lewisham have seen fluctuations in their rolls. Schools have also struggled with legacy issues around funding of alternative education places and special educational needs. Nonetheless, schools in Lewisham are well-funded compared with the majority of schools in the country and LA officers have been working with them to encourage benchmarking with similar schools in less well funded boroughs.
- 6.2 Since 2010 the schools financial settlement has seen school resources cash frozen, with schools needing to find savings to meet cost pressures such as inflation. This has been particularly acute over the past two years as there has been significant increases in pension contributors and national insurance rates. The total of this amounts to 2.8% this year and in 2015/16 it was 2.0%.
- 6.3 The pupil numbers in the primary sector have been growing steadily over the last few years and this has helped cushion the effect of cost pressures for that sector. The primary bulge in numbers has not yet worked its way into the Secondary sector but will do so in 2017/18. The current planning data shows the following increases over the next few years

2016/17	2417
2017/18	2557
2018/19	2768
2019/20	2817
2020/21	2968

- 6.4 For those secondary schools currently operating below pupil capacity, this anticipated increase provides a challenge since they need to downsize to meet current resourcing level while at the same time planning over the next few years to expand. In particular they are rightly anxious not to incur unnecessary redundancy and recruitment costs.
- 6.5 In projecting pupil numbers there is always an element of uncertainty. It is estimated that by September 2018 the number of pupils in secondary education in Lewisham will exceed the number of current places available. The unknown is the extent to which parents are able to access schools in neighbouring boroughs where school places are also under increasing pressure. The LA is part of a London Councils project to ensure secondary sufficiency London-wide and it is important through this to avoid over-provision as well as under-provision.

7 **Budget process and Escalation process for schools in deficit**

- 7.1 Schools for this current financial year had to submit budget plans to the Local Authority by the 31 May (with the agreement of the Schools Forum, the Executive Director has changed this deadline to 1 May for future years – under national regulations it cannot be before this date). When those returns are submitted officers undertake a number of checks. These are based on the reasonableness of the information provided by schools. Such checks include
- Does the budget plan income agree to funding notification?
 - Is the carry forward quoted in the budget plan incorrect?
 - Do the budgets set align to previous year's income and expenditure?

Given the numbers of deficits which have come through from the last financial year, officers have introduced a much stronger focus on schools' in-year position – to avoid the situation where a school is storing up problems by balancing its budget by burning through its balances. There is also a stronger focus on questioning schools' income assumptions beyond their budget share, pupil premium etc e.g. income from lettings to ensure that they are not making over-optimistic projections in order to balance the budget artificially.

- 7.2 A more systematic escalation process has been introduced when a school has a deficit as shown below

Step 1	Review by the Schools Finance Team.
Step 2	Joint School visit by the Schools Finance Team / School Improvement.
Step 3	If the deficit < £500k, Chair & Headteacher may be called in to meet the Executive Director of CYP.
Step 4	If the deficit > £500k, Chair & Headteacher will be called in to meet the Executive Director of CYP.
Step 5	A budget plan and accompanying action plan will be agreed. If this cannot be agreed, a warning notice will be given.
Step 6	If the warning notice is not complied with, suspension of delegation or the establishment of an IEB will be considered .

7.3 Challenge and support to schools

7.3.1 To ensure that schools are managing their finances a mixture of briefing and training sessions are being held with all schools. This year the provision has been stepped up and targeted at those who need it most, with much greater emphasis on the role and effectiveness of governing bodies who take responsibility for school budgets.

7.3.2 Budget roadshows were held on both the 1st and 8th March, these roadshows helped schools understand the budget and were designed to assist schools who needed to undertake staffing reorganisations.

7.3.3 A 'Deficit Workshop' was held on the 21 June 2016 to help schools with budget problems to face up to their difficulties and to challenge them on their thinking

7.3.4 A presentation on school finances was made to a well attended meeting for all Lewisham Chairs of Governors on 12 September 2016 highlighting the financial issues – the risks and challenges for schools and the dire consequences of not interrogating the budget properly. The presentation is attached as Appendix A.

7.3.5 On the 1st November a further session was held to explain the cost pressures facing school budgets coupled with the likely future reductions in funding, how to balance the challenge of increasing educational standards as delivering a balanced budget.

7.3.6 In November more sessions are planned but of a different format. The training still has the same purpose of assisting schools but we have invited groups from schools: the whole teams from a school who are responsible for the budget (managers and governors) are invited to learn and be challenged together on helping them plan change in these uncertain financial times.

- 7.4 In order to provide a holistic support service to schools a number of the council's professional disciplines work closely together and with school to help a school in deficit map the best way forward.

The package of support offered for schools is as follows

Finance

- Challenge budget plans / recovery plan
- Check the budget plans
- Help with benchmarking

HR

- Help with reorganisation, redundancy and redeployment processes

School Improvement

- Assessment of the impact on the curriculum

- 7.5 Both Forest Hill School and Prendergast Ladywell School have engaged openly and fully with officers of the Council, welcoming all the support available.

8 Prendergast Ladywell School

- 8.1 Prendergast Ladywell School overspent its budget at the end of 2015/16 financial year by £173k. The school has been subject to a decline in pupil numbers over the past 4 years from 879 to 765, a fall of 13%. This has led to a reduction of income of £0.8m. There has been a parallel loss of pupil premium entitlement of £132k since 2014/2015. The school has also had to manage a reduction in the SEN budget of at least £80,486 since 2015.

- 8.2 The management action to keep the school budget in balance over the past few years includes reducing the number of FTE teaching staff from 58 in September 2015 to 47 in September 2016 while protecting curriculum provision.

The Governors have:

- Achieved staffing reductions through natural wastage
- Introduced a recruitment panel to approve the recruitment to any post
- Reduced the use of temporary staff, whilst recognising their employment rights
- Reduced working hours where staff are in agreement

- Used existing staff to fill vacancies within the school and Federation.

Through these actions the school has secured efficiencies in 2015/16 amounting to £543,000.

- 8.3 The budget recovery plan shows the school in deficit at the end of 2016/17 financial year by £558k. The deficit will still grow until 2018/19 but will be recovered in full by 2021/22
- 8.4 The school has been trying to manage the staffing costs and the plan is built around the pupil numbers growing which will allow the school to start paying off their deficit.
- 8.5 For each extra pupil the school receives extra funding of £6,900, which includes additional pupil related factors.

The school is forecasting that with the primary bulge entering secondary the school in-take will be 180 in September 2017 and this will then grow to 210 in from September 2018.

	2016/17 pupils for funding purposes	Forecast 2017/18 Funding	Forecast 2018/19 Funding	Forecast 2019/20 Funding	Forecast 2020/21 Funding
Year 7	138	180	210	210	210
Year 8	148	138	180	210	210
Year 9	143	148	138	180	210
Year 10	166	166	148	138	180
Year 11	170	170	166	148	138
Census					
Total	765	802	842	886	948
Increase in pupils*		37	77	121	183
Increase in Funding* £2,884,000					
		£255,000	£531,000	£835,000	£1,263,000

*From 2016/17 base

- 8.6 As well as the increasing pupil numbers the school will make staffing adjustments of £200k and reduce the cost of children's placements off site by £60k. The staffing adjustments will cover management, pastoral managers, learning support assistants and reducing supply cover.
- 8.7 The benchmarking data indicates that all the main staffing groups' costs are broadly in line or just below similar size schools within

Lewisham. The balance between the staffing reductions proposed and the reliance on increase pupil numbers seems reasonable

- 8.8 The school is working hard to raise standards and achieved improvements in GCSE results in 2016 but still has further to go. The Governors in drawing up the recovery plan tried to maintain the balance of reducing costs while sustaining the curriculum and vital extra-curricular activities available in the school. This is one of the reasons they have elected to ask for the 5 year period to recover the deficit as this will give them increased scope to achieve this and allow the increase in pupil numbers to offset the financial shortfall.
- 8.9 The current financial difficulty at the school has been created by the reduction in pupil numbers. In particular financial pressures were created by the small year 7 intake in September 2015 of 133 – and year 8 and 9 are not much larger. As these year groups' progress through the school the financial position will remain tight and require strong financial management control in order to keep to the financial plans. A review of budget management and finance processes has been made to make sure they are more rigorous.
- 8.10 The school has worked with the Local Authority on the actions in the recovery plan and is now confident that proper arrangements are in place to manage the budget effectively. LA monitoring of the school's budget will be more active than is normally the case to assure the progress of the school against the deficit recovery plan.
- 8.11 Under the scheme of delegation the normal maximum loan for an individual school is up to 10% of the schools budget share. However, subject to a detailed business plan, the Local authority may approve a loan in excess of this limit, provided it is satisfied that the school can meet the ongoing commitment. This is the case for Ladywell
- 8.12 The school was audited in July 2016 and had a satisfactory audit opinion. The school has an audit every three years.

9 Forest Hill

- 9.1 The school overspent its budget at the end of 2015/16 financial year by £129k. Following national changes, the school has had to face a reduction in the Post 16 funding of £150k.
- 9.2 During the 2015/16 financial year the school operated an in-year deficit of £463k and avoided a larger year end deficit by spending its reserves.
- 9.3 The budget recovery plan shows the school in deficit at the end of 2016/17 financial year by £879k. The deficit will still grow until 2017/18 but will be recovered in full by 2021/22

- 9.4 The school has been trying to manage down its staffing costs to a sustainable level and has already put in motion a re-organisation of admin and teaching support staff. The recovery plan is built around reducing the teaching complement by
- Reviewing the delivery of curriculum
 - Considering contact time
 - Reviewing management structures

In total the staffing costs within the school will reduce by £1.3m.

- 9.5 Unlike Prendergast Ladywell School, Forest Hill School is not affected by roll numbers since it is virtually full in all year groups and the impact of the pupil bulge in primary schools coming through to the secondary schools will therefore have minimal impact.
- 9.6 The benchmarking data indicates that the teaching costs at Forest Hill are £125 per pupil above the average for similar size schools within Lewisham. The other staff groups are broadly similar. The similar size schools are spending at the high end in national/regional terms, so the reductions in staffing being undertaken are reasonable.
- 9.7 The schools budget for 2016/17 is set to spend 62% on teaching staff. When the staff reductions are implemented this will reduce to 57%. This is more in line with the national secondary benchmark of 56%.
- 9.8 The school has a new headteacher and chair of governors, both of whom are working hard to improve standards at the school as well as address the budget crisis. The Governors in drawing up the recovery plan tried to maintain the balance of reducing costs while sustaining the curriculum and vital extracurricular activities available in the school. This is one of the reasons they have elected to ask for the 5 year period to recover the deficit as this will enable them to make the changes needed to achieve a speedy improvement in standards at the school.
- 9.9 The school has worked with the Local Authority on the actions in the recovery plan and is now confident that proper arrangements are in place to manage the budget effectively. LA monitoring of the school's budget will be more active than is normally the case to assure the progress of the school against the deficit recovery plan.
- 9.10 Under the scheme of delegation the normal maximum loan for an individual school is up to 10% of the schools budget share. However, subject to a detailed business plan, the Local authority may approve a loan in excess of this limit, provided it is satisfied that the school can meet the ongoing commitment. This is the case for Forest Hill.

- 9.11 The schools was audited in February 2016 and had a satisfactory assurance. The school has an audit every three years.

10. Schools' General Financial Position

- 10.1 The government is proposing to introduce a new national funding formula for schools in April 2018. With the current details available through the release of the first stage consultation earlier in the spring, it is not possible to see the exact impact on Lewisham. The most likely scenario is that schools in Lewisham will see a circa 10%, or £17m reduction in funding over the next three years.
- 10.2 The government released a consultation document on High Needs Funding, while this is managed by the Local Authority in conjunction with schools the vast majority of funding is spent in schools. The indications here at Lewisham may see a reduction in this area of 10% or £4.5m.
- 10.3 It is expected that schools will have to meet pay awards, general inflation and further increases in pension costs over the next few years.
- 10.4 This is a fairly bleak outlook for schools' finances and it is important that schools get their finances into shape. While the impact of all these changes is highly uncertain, there is no doubt that it will add to the pressures schools are facing

11. Legal Implications

- 11.1 Section 48 of the Schools Standards and Framework Act 1998 requires every local authority to maintain a scheme dealing with such matters connected with the financing of its schools. In accordance with the Scheme of Delegation to Schools, schools are required to abide by the local authority's requirements on financial controls and monitoring. Schools are required to comply with the Schools Finance Manual, the Council's Standing Orders and Financial Regulations.
- 11.2 The School and Early Years Finance (England) Regulations 2015 specifies those matters connected with the financing of maintained schools which must be set out in the scheme which includes the carrying forward from one funding period to another of surpluses and deficits arising in relation to schools budget shares.
- 11.3 In accordance with the provisions of the local authority's Scheme of Delegation to Schools, the local authority has no power to write off the deficit balance of any school. The Scheme does however permit deficit budgets in particular circumstances. The funding to allow such a deficit budget is provided from the collective surplus of school balances held by the local authority on behalf of schools.

- 11.4 Under the local authority's Licensed Deficit/loan Scheme the amount of the deficit can be no higher than 10% of the school's Individual Schools Budget. Applications for a licensed deficit/loan above £500,000 are required to be authorised by the Mayor.

Equalities Legislation

- 11.5 The Equality Act 2010 (the Act) introduced a public sector equality 5ty (the equality duty or the duty). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- 11.6 In summary, the Council must, in the exercise of its functions, have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
 - advance equality of opportunity between people who share a protected characteristic and those who do not.
 - foster good relations between people who share a protected characteristic and those who do not.
- 11.7 It is not an absolute requirement to eliminate unlawful discrimination, harassment, victimisation or other prohibited conduct, or to promote equality of opportunity or foster good relations between persons who share a protected characteristic and those who do not. It is a duty to have due regard to the need to achieve the goals listed at 11.6 above.
- 11.8 The weight to be attached to the duty will be dependent on the nature of the decision and the circumstances in which it is made. This is a matter for the Mayor, bearing in mind the issues of relevance and proportionality. The Mayor must understand the impact or likely impact of the decision on those with protected characteristics who are potentially affected by the decision. The extent of the duty will necessarily vary from case to case and due regard is such regard as is appropriate in all the circumstances.
- 11.9 The Equality and Human Rights Commission has issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled "Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice". The Council must have regard to the statutory code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with the equality duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code

and the technical guidance can be found at:
<https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-codes-practice>

<https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-technical-guidance>

11.10 The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:

- [The essential guide to the public sector equality duty](#)
- [Meeting the equality duty in policy and decision-making](#)
- [Engagement and the equality duty: A guide for public authorities](#)
- [Objectives and the equality duty. A guide for public authorities](#)
- [Equality Information and the Equality Duty: A Guide for Public Authorities](#)

11.11 The essential guide provides an overview of the equality duty requirements including the general equality duty, the specific duties and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice. Further information and resources are available at:
<https://www.equalityhumanrights.com/en/advice-and-guidance/public-sector-equality-duty-guidance#h1>

12. Financial Implications

The school budget forms part of the Dedicated Schools Grant. In the event that the school deficit was not to be recovered, no costs will fall upon the General Fund of the Council.

13. Crime and Disorder Implications

There are no direct or indirect Crime and Disorder implications.

14. Equalities Implications

These schools, like most in Lewisham, have high proportions of BME pupils and have promoting equality and social mobility as part of their mission to improve children's lives.

15. Environmental Implications

There are no environmental implications arising from this report.

If you have any questions on this paper, please contact Dave Richards – Group Finance Manager, Children and Young People Finance Team, 3rd Floor, Laurence House, SE6 4RU (telephone 0208 314 9442 or email Dave.Richards@lewisham.gov.uk).