

SCHOOLS' FORUM			
REPORT TITLE	Finance Support To Schools		
KEY DECISION	No	Item No.	9
CONTRIBUTORS	Head of Financial Services and Group Finance Manager, Children & Young People		
CLASS	Part 1	Date	22 June 2017

1. Purpose of the report

- 1.1 This report looks at the current support available and provided to schools from the local authority and considers whether this is an appropriate level of support over the short to medium term given the increasing financial burdens through cost pressures and budgets that are likely to be cash frozen on a per pupil basis.

2. Recommendation

- 2.1 It is recommended that the Schools' Forum note the contents of this report.

3. Background

Responsibilities

- 3.1 The 1988 Education Reform Act removed the financial control of schools from local authorities and has given this to the governing body of the school, and by extension, head teachers. The local authority has some continuing responsibilities however, specifically in relation to community schools, in that it employs school staff and owns the land and buildings. However, it does not 'run' the school on a day-to-day basis or have the ability to anticipate the decisions of the head teacher and governors. Interventions by the local authority are very problematic and have to be considered only in extreme cases. To illustrate this, while the local authority will give advice on the appointment of a head teacher, the decision lies with the governing body.
- 3.2 Councils provide some services to schools, but the schools are not obliged to take them up and can choose to look elsewhere. This can include diverse activities like school meals, payroll services and financial services.
- 3.3 Under the School Standards and Framework Act 1998, local authorities are required to draw up a scheme for financing schools ("the Scheme"). This scheme sets out the financial relationship between the local authority and the

maintained schools which it funds. It contains requirements relating to financial management and associated issues, which are binding on both the local authority 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 is updated annually, in consultation with the Schools Forum.

- 3.4 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.
- 3.5 The Scheme provides that in exceptional circumstances a school may have a local authority loan to cover a deficit. Under this provision, the school is able to apply to the local authority for a loan which will be paid back in subsequent years. A local authority loan to cover a deficit is usually granted where a school has found itself in a deficit position due to changes in circumstances e.g. a significant fall in pupil numbers. The 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.
- 3.6 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.
- 3.7 Under the scheme, any loan in respect of a deficit that is in excess of £500k must be approved by the Mayor as it remains a 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.
- 3.8 The school's governing body is responsible for setting the school's budget within its resources and are required to continually monitor the spending. The governing body is required to send a budget to the local authority by 1st May each year and budget monitoring returns at the end of September and December.

Budget pressures

- 3.9 There is now a significant increase in the number of schools in deficit. There are nine secondary schools and three primary schools in deficit, plus the pupil referral unit.
- 3.10 Over the next three years, schools face the impact of the national funding formula and unfunded cost pressures. Depending on the outcome of the

elections and the finer details of the political parties manifesto pledges, schools especially in London, could face spending pressures of up to 11%.

Statutory Roles

- 3.11 The statutory roles of the local authorities with respect to finance are as follows:
- Revenue budget preparation, preparation of information on income and expenditure relating to education, and external audit relating to education (schedule 1, section 20d)
 - Administration of grants (schedule 1, section 20e)
 - Authorisation and monitoring of expenditure not met from schools' budget shares (Schedule 1, section 20f)
 - Formulation and review of local authority schools funding formula (Schedule 1, section 20g)
 - Internal audit and other tasks related to the authority's chief finance officer's responsibilities under Section 151 of LGA 1972 except duties specifically related to maintained schools (Schedule 1, section 20i)

4 School Finance Support Team

- 4.1 The support is delivered in two distinct ways, firstly as an offer to all schools and then through a service level agreement (SLA). The SLA is split into two services, one for technical accounting support and one for strategic budget planning advice.
- 4.2 The finance support team currently comprises three officers: a principal accountant, an accountant and an assistant accountant. The team is then managed by finance manager covering all the children and young people's directorate. This role is split evenly in theory on a 50:50 basis, but in practice the schools' role absorbs more time.
- 4.3 The schools finance team functions are wider than just direct support to schools it includes:

Forum

- Schools Forum Report
- High need sub group
- Early years sub group
- Funding task group
- Response to consultations
- Formula notification
- Schools Forum mutual funds monitoring

Monitoring

- Budget analysis
- Schools monitoring returns
- Support on audit reports
- Escalation process
- Monitoring central budget including high needs

Accounting

- School bank accounts
- VAT
- Bank reconciliation
- Grant claims
- Transaction reports
- Closing the accounts
- Transaction processing
- School queries *
- SLA processing
- CFR
- Capital (PFI, etc)

* During term time an average of about 400 emails are received per month.

Other

- Catering contract accounting
- Statistical returns
- Freedom of Information Requests
- Scheme of Delegation
- Finance Manual
- Advice to directorate and Members (reports, emails, correspondence)
- Training
- Induction for new business managers
- Interview assistance
- Benchmarking

4.4 Sometimes a long list can hide the amount of work involved. For example, for the local authority to check a school budget plan, it takes on average half a day. Therefore, the workload for all schools would be 42 days or over 8 weeks. This is similar with the budget monitoring returns, both for the September and December.

4.5 If a school is in deficit this level of support can grow significantly and can be between a week or two weeks dedicated time and in some cases even more. With some 13 schools now in deficit this is a significant demand.

4.6 The workloads is such that a risk approach was adopted to this in 2010, Further staffing reductions in 2015 then changed these risk levels such that the concentration was on those schools with significant problems.

- 4.7 At one stage the team was much larger, incorporating a number of officers who supported schools directly, however these officers are no longer employed and some now act as peripatetic bursars with separate contractual arrangements with school. In 2010 and 2015, the team was further reduced as the austerity measures being faced by local government continued to impact.
- 4.8 The challenges are growing with a greater focus on finances from schools, governors, members and officers. This is coupled with tight deadlines and turnaround times. Despite this there is a requirement to make further finance team savings in 2018/19 and 2019/20.
- 4.9 There was a recognition of the problems faced and a short-term post until the end of July was recruited to in order to ensure that the earlier corporate deadline for closing the financial accounts could be achieved.

5 Are other Local Authorities more efficient?

- 5.1 There is not a greater deal of evidence on benchmarking of costs. However a specific piece of work was undertaken across London to understand the position and Lewisham's finance team as a whole benchmarked significantly less than the others in terms of cost. There has been no work specifically on schools finance teams, however talking to colleagues the overall position of the finance team would appear to be reflected in the schools finance team.
- 5.2 Most other local authorities have maintained a significant numbers of staff in order to deliver the service level agreement.
- 5.3 The ratios of finance staff would equate to a member of staff to 40 schools for the strategic advice and a member of staff again to 40 schools for technical accounting service. Often there would be a big training arm and this would include financial training per se and also training on the local financial system within the school. Lewisham is in an unusual position as it has never insisted that schools use one system and now we have a number of systems. This is then difficult to support with staff who have the expertise to advise schools appropriately. Indeed most of the system knowledge of the schools own local finance system has now been lost as staff move on.

6 What we would like to do?

- Encourage schools to plan their budgets in the autumn term
- Hold more training course on all aspects of schools' finance
- Move away from our risk based approach to budget challenge and support where resources allow.

7 Essential and desirable functions and the matching resources to workloads

- 7.1 There is not necessarily a consensus regarding what is important and what is not. Particularly interesting in this debate was the confirmation of schools carry forwards. It is true there were delays in confirming carry forwards to schools and the purpose of this report is not to articulate those. It was

interesting to note the comments from schools about then not being able to send in their budget plan. From a finance perspective if a figure was not known an estimate would be made. If schools were to start planning in the autumn term then it would always be a case of an estimate having to be made. Quite often schools say they cannot estimate their income. This is a challenge, but one which most finance personnel are faced with, and the normal course of events would be to do some sensitivity analysis with estimates of likely, worst case and best case scenarios.

- 7.2 There is of course some balance in this and it is a difficult for bursars as they are often isolated in schools and have little peer support. This is not helped by a limited or even non-existent training offer from the local authority.

8. Bringing in staff experience and knowledge skill sets

- 8.1 This has been more difficult than one would hope for. Across local government there has been significant reductions since 2010 and in the early years schools' budgets were in a reasonably healthy position and a lot of the more experienced staff either moved on or retired.

- 8.2 There are a number of key skill sets that staff need: the national funding mechanisms, how resources are allocated and a broad understanding of how schools operate. As we know, school funding is not straight forward and experience tells us that anybody coming into a schools finance team takes some time to acquire this knowledge. Schools finance does move people out of the normal technical accounting skills set most finance professionals have and into a skills set that includes communication, presentation, training, empathy, customer service and customer relations. Some of these are not natural attributes of an accountant.

- 8.3 With the post already advertised, our experience was that there is a dearth of people with these skills at the salaries we can offer.

9. Two new posts advertised

- 9.1 There is a recognition that with the increased focus on schools finance that the set-up of the team is insufficient to meet not only current demands but future demand. In order to address this, one post has already been filled to help out on the technical side and a further post is being advertised to provide more direct support to schools, to provide greater training and work closer with schools on a number of financial issues that impact on them, particularly in the light of the experience of closing the accounts this year.

10 Future of the Service Level Agreement

- 10.1 Should there be one? This is an interesting question; we have redesigned the SLA this year to provide more appropriate support. Probably the schools that need it most are those that are in deficit. However only one of the 13 have bought the service, with the remainder relying on the team to 'step in' as required. Is this fair on the schools who are buying the service?

Services for schools can be broken down as follows

Finance services free to all schools

- Responsibilities under section 151 of the Local Government Act 1972
- ISB calculation and notification
- Administration of banking arrangements and cash advances
- VAT reimbursements
- Schools Finance manual
- Monthly financial transactions
- Bank reconciliation templates and guidance
- Budget plan templates and guidance
- Comments on budget plans if any on a risk based approach
- Comments on budget monitoring statements on a risk based approach
- Closing templates and guidance
- Notification of school balances
- Induction to new business managers
- Interview assistance
- Schools subscribing to the Strategic advice service will also receive
- Strategic advice on budget planning
- Assistance with preparation of multi-year budget plans
- Advice on future year pupils numbers and funding
- Benchmarking and Value for money advice and audit.

Schools subscribing to the Technical accounting service will also receive:

- Advice on coding issues for capital and revenue funds and are within the CFR framework
- Assistance with meeting DfE financial standards
- On-site advice on reconciling schools accounting systems to CFR and local authority budgets
- General accounting guidance
- Visits to new headteachers / School Business Managers (SBMs) on request resolution of issues arising from internal audit recommendations.

10.2 The current income from schools for both these services is £38k. 19 schools subscribe to the strategic advice service and 17 to the technical accounting service. If all schools bought into both packages the income would £162k

11 Schools Local Financial System

11.1 Lewisham is unusual in that there is not a standard local accounting package across all schools. This makes providing any support difficult, partly as the finance staff do not use the systems regularly and the plethora of systems in use. Retention of staff has become difficult and is finding staff with appropriate level expertise difficult. This has been seen particularly with the current issues with one currently widely used package.

Should you have any queries with this report or require any additional information, then please speak to:

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