



## **AUDIT AND RISK MANAGEMENT COMMITTEE**

**Tuesday, 9 March 2021**

<b>REPORT TITLE:</b>	<b>SCHOOL BUDGETS &amp; SERVICE LEVEL AGREEMENTS</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF RESOURCES</b>

### **REPORT SUMMARY**

Following a request by Members at the 25<sup>th</sup> January meeting of the Audit and Risk Management Committee (ARMC), this report outlines what factors led to Woodchurch Road Primary School reporting a deficit of £442,901 by the end of the 2018/19 financial year and what is in place to prevent a similar situation occurring in other schools. At the request of Members, the report also considers the arrangements in place within the Council to manage school budgets including licensed deficits in its schools and to manage Service Level Agreements (SLAs) with schools.

This matter affects all Wards within the Borough. It is not a key decision.

### **RECOMMENDATION**

The Audit and Risk Management Committee is asked to note the report.

## **SUPPORTING INFORMATION**

### **1.0 REASON/S FOR RECOMMENDATION/S**

- 1.1 To inform Members of the factors that led to the significant deficit arising at Woodchurch Road Primary School and provide Members with assurance that appropriate procedures are in place to prevent a similar situation arising at other maintained schools. To inform Members of the arrangements in place within the Council to manage school budgets including licensed deficits in its schools and to manage service SLAs with schools.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 No other options considered.

### **3.0 BACKGROUND INFORMATION**

- 3.1 Following a request by Members at the 25<sup>th</sup> January meeting of the ARMC, this report considers:
- the factors that led to Woodchurch Road Primary School reporting a deficit of £442,901 by the end of the 2018/19 financial year and the measures introduced to prevent a similar situation occurring in other schools
  - the arrangements in place to manage school budgets including licensed deficits in its schools
  - the arrangements in place to manage service SLAs with schools.

#### **3.2 Woodchurch Road Primary**

- 3.2.1 As at 31 December 2018, the projected budget deficit for the school for the year-ending 31 March 2019, as reported to the school's Finance Committee on 6 March 2019, was £32,754. The actual budget deficit at year-end was £442,901. The factors that led to this budget position are outlined below. For legal reasons, the report does not identify the role of specific individuals; rather collective reference is made to 'the school'.
- 3.2.2 The primary reason for the sudden change in reported deficit was that, to our knowledge since 2014/15, debtor and payment in advance accruals at the year-end had been inflated. This resulted in falsely increasing the level of income and reducing the level of expenditure in the current year, thus concealing the true financial position in school financial reports. This practice, and therefore the true financial position, became evident in March 2019.
- 3.2.3 There were areas where, if financial procedures had been stronger, the concealed deficit may have been identified earlier. These include:
- The school did not have the awareness it should have had that the school's SLA with the Council's Local Management of Schools (LMS) Finance team was only for a standard service. This led to an assumption by the school that the LMS Finance team were providing a service, including a level of controls and checking, that exceeded the service actually in place. As a consequence the school did not put in place additional checks. The school had capacity

within their structure to provide financial support and governance in tandem with the standard level of support purchased from the Council. The school had access to the SLA information each year, which noted the level of service being purchased.

- Detailed financial reports by school employees were not shared by the school in advance of relevant meetings or left with attendees after the meeting. This will have had an impact on the ability of attendees to provide effective challenge.
- Accruals were submitted to the Council's LMS Finance team for processing. Procedures within the school at the time did not require appropriate sign-off. Schools were not required to supply to the Council's LMS Finance team evidence to support high value accruals. Given their significant value, the year-end accruals could have been challenged earlier by the Council's LMS Finance team.

3.2.4 The deficit at the end of the 2019/20 financial year was £558,492. The reasons for the increase from 2018/19 included the impact of addressing issues from 2018/19, identified when the Council's LMS Bursar started to support the school, such as the identification of commitments not accrued, and reduced income due to falling rolls; which together exceeded savings made by the school in-year.

3.2.5 The school acted quickly to strengthen controls once the true deficit became apparent in March 2019. Actions taken included:

- purchasing the Premium Bursar service from the Council's LMS Finance team;
- reviewing all relevant procedures in school and introducing additional person checks where appropriate;
- attending Finance training provided by the Council's LMS Finance team;
- promptly actioning audit recommendations;
- introducing additional checks for the review and sign-off of accruals.

3.2.6 The Council's LMS Finance team acted quickly to strengthen controls for the review of year-end accruals in line with the revised service purchased. For 2019/20 arrangements were strengthened further, with changes including:

- accruals required to be signed by the head-teacher, with an expectation that signed copies may be requested by the LMS Finance team as spot checks;
- evidence required to be submitted to the LMS Finance team for some of the larger transactions, e.g. Debtors / Payments in Advance over £5k, Creditors and Receipts in Advance over £10k.

Some changes have also been made by the Council's LMS Finance team to budget monitoring and budget setting reports to improve reporting and more clearly identify the in-year saving / deficit position.

3.2.7 Additional checks have been added to the Internal Audit school audit programme where a school has only a Standard SLA or no SLA with the LMS team. The existence and type of SLA a school has with the LMS team continues to influence the risk assessment for the prioritisation of schools for audit.

### 3.3 **School budgets including licenced deficits**

3.3.1 Wirral Council, like all Local Authorities, are required to publish a scheme for financing schools, setting out the financial relationship between them and the schools they maintain. The scheme for financing schools has been drawn up in line with Department of Education (DFE) guidelines and includes information relating to a school's responsibility to balance its budget and what the process is if a school has or is expected to have a deficit budget.

The scheme includes the following requirements:

- **Obligation to Carry Forward Deficit Balances** - Any deficit balance at a school will be carried forward to the following financial year. Such a deficit will be deducted from the following year's budget share and cannot be written off by the Local Authority.
- **Planning for Deficit Budgets** - Schools may only plan for deficits in certain approved circumstances. The Local Authority cannot write off the deficit of any school.

3.3.2 The LMS Finance Team review school balances on a regular basis raising concerns with schools where necessary and supporting them in avoiding a deficit position or planning to quickly recover from a deficit position. The status of schools in deficit is reported at each meeting of the Schools Forum.

3.3.3 In addition, the following action can be taken:

- **Licensed deficits** – this is an agreement between the school and the Authority and schools have to request this if they are planning on setting a budget with a deficit greater than 5%. The school specifies the actions it proposes to take to return its budget to a balanced position within a three-year period. Such actions can include reducing staff through redundancy or natural wastage, restructure of staff, ending fixed term staff contracts, review non-staffing costs, ensuring additional services like before/after school clubs are not making a loss.
- **Notice of Concern** – If it is felt that a school cannot recover its deficit position without impacting on the service it delivers, Wirral will issue a notice of concern to the governing body. Such a notice will set out the reasons and evidence for it being made and may place on the governing body restrictions, limitations, or prohibitions in relation to the management of funds delegated to it. Currently, there are 6 Wirral schools that are to be issued with a notice of concern. Five of these schools have been issued with a notice of concern previously with just one school that is being issued with a notice of concern for the first time.
- **Withdrawal of delegated financial powers** – Wirral may suspend a school's right to a delegated budget if the provisions of this scheme (or rules applied by the scheme) have been substantially or persistently breached, or if the budget share has not been managed satisfactorily in the judgement of the Director of Children's Services.

3.3.4 The process in place for agreeing a licensed deficit is as follows:

- Schools budget setting process takes place May/June.
- Expected income and expenditure streams are set out for the year ahead.
- If the compilation of the forthcoming costs against income demonstrates a deficit budget position, i.e. the school cannot set a balanced budget, they must make an application to the Council for a licenced deficit.
- The LMS Finance team review the position with the school and discuss options that can deliver a balanced budget for the school within three years, with specific savings built into the plan.
- This plan must be agreed and signed-off by the Headteacher and Chair of Governors for the deficit budget to be agreed.
- The resultant licenced deficit plan is reviewed at every budget monitoring period until the budget balances again.

### **3.4 Arrangements in place to manage service SLAs with schools**

- 3.4.1 As noted above, a contributory factor to the issues arising at Woodchurch Road Primary was that the school did not have in place additional controls to support the standard service it had commissioned from the LMS Finance team (standard plus or premium services were alternative service choices available, which would have provided additional services/support to that originally purchased). This raises the question as to whether the Council faces other potential risks if schools choose to receive a basic (where service choices exist) or no services for other SLAs where potential risks to the Council could arise – however it should be noted that the risk and responsibility is ultimately with the school as it is at their discretion as to what, if any, external support services are purchased; further to this, school budgets are the responsibility of the school legally and the Council do not have any influence over who they chose to buy services from. Other services considered in this context for the purpose of this report were: HR consultancy, Health & Safety (H&S), IT services and Data Protection services.
- 3.4.2 Currently 78 schools purchase a standard SLA for HR consultancy services and three purchase a bespoke SLA (including two academies). It is the individual school's responsibility to choose how they will receive the necessary advice. The Council does not have access to SLAs that schools enter into with other organisations. Summary guidance is given to schools concerning duties and responsibilities. For schools that are considering purchasing an HR Consultancy Service from an alternative service provider, the guidance includes reminders that:
- the Local Authority remains the employer of staff in Local Authority maintained community, special and voluntary controlled schools, and has statutory responsibilities in managing the contractual rights of employees
  - if the school is considering purchasing HR Consultancy Services from other providers the school needs to ensure that they comply with all statutory obligations, current employment legislation, education legislation and national and locally agreed terms and conditions of service
  - Governors must ensure that the minimum requirements of the service, as governed by the statutory and financial regulations of the Council, are adhered to.
- 3.4.3 The standard H&S SLA is offered to all schools to purchase, including Academies and Diocese schools. 108 schools purchased the service in 2019/20; this reduced to 46 schools in 2020/21. The biggest concern for the H&S service is the possibility of

Community schools that may not have any competent H&S advisors as required under the Management of Health and Safety Regulations. The head of service for H&S wrote to all schools last year to advise them of their statutory duties for H&S and the need for competent advice. He is currently writing again to schools and plans to follow up to enquire who provides the schools with H&S advice. The intention is to seek to check the “quality” of their professional advisers. The H&S Team undertake an arms-length H&S management audit of all Community schools that do not buy the H&S SLA. The Team will follow up any concerns highlighted by the responses to the self-assessment audit tool. Schools are charged an hourly rate for any advice that the H&S Team provide, including for investigations. Ultimately the Governing Body in schools has responsibility for the health, safety and welfare of staff and pupils under the Delegated Budget Scheme.

- 3.4.4 The Council’s IT Technical support SLA is provided currently to 56 schools. As far as officers are aware, all schools who do not have a Council IT support SLA have an SLA with an alternative provider. If a school did not have an appropriate SLA in place it would be at risk of not being able to provide the curriculum or providing online safety for pupils. The IT team only manage / monitor those schools who have an SLA with the Council.
- 3.4.5 All schools are required to have a named Data Protection officer and have records retention, privacy notices and other policies in place. 37 schools have taken out a Data Protection SLA with the Council’s traded service. Schools without this service will need to obtain these statutory documents from other providers and it is known that many have bought into external providers. Only schools that buy into the Council Schools DPO service are monitored.
- 3.4.6 At the Children, Young People and Education Committee agenda setting meeting on 3 February 2021, members asked officers to pull together some information on the Council’s statutory duties to schools and the traded services provided and to arrange a workshop on this issue.

### **3.5 Summary**

#### **3.5.1 In summary:**

- As a result of the issues arising at Woodchurch Road Primary, additional control measures have been put in place that will mitigate the future risk of the primary issue that led to the budget deficit occurring again.
- The Council has appropriate arrangements in place for the oversight of school budgets.
- It is the responsibility of the schools to determine what, if any, external support services are purchased and the level of support. The Council continues to keep under review the mix and package of traded services on offer. A workshop on traded services is to be provided for the Children, Young People and Education Committee.

## **4.0 FINANCIAL IMPLICATIONS**

- 4.1 It became apparent in March/April 2019 that as at 31 March 2019 Woodchurch Road Primary school had a deficit of £442,901. In July 2019, the Assistant Director for Education wrote to the school noting that the deficit at the time was estimated to be

in the region of £600k and confirming that the Director of Finance & Investment had agreed to allow the school six years to turn around the budget deficit (an increase compared to the usual period of three years). Since then, the school has made savings of over £200k; however, the financial impact of falling school rolls has exceeded the value of savings made.

- 4.2 It is the responsibility of the school to manage its budget, however ongoing support is provided through the LMS Finance team as part of the service purchased by the school in addition to the monitoring activity undertaken as part of the licenced deficit position.

## **5.0 LEGAL IMPLICATIONS**

- 5.1 Legal advice has confirmed that to comply with GDPR, personal details of those involved in the events at Woodchurch Road Primary cannot be disclosed in public.

## **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

- 6.1 The school is facing significant resource implications, particularly reductions in school staffing, as a consequence of decisions made to reduce the school deficit.

## **7.0 RELEVANT RISKS**

- 7.1 Woodchurch Road Primary continues to face significant financial risks. There would be financial risks at other schools if arrangements had not been strengthened to prevent a reoccurrence at other schools.
- 7.2 Section 3.4 highlights potential risks to the Council from other service SLAs with schools. A workshop is to be arranged for the Children, Young People and Education Committee.

## **8.0 ENGAGEMENT/CONSULTATION**

- 8.1 Internal Audit consulted with relevant Officers within the Council in the preparation of this report.

## **9.0 EQUALITY IMPLICATIONS**

- 9.1 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision or activity. There are no equality implications from this report.

## **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

- 10.1 There are no specific environment and climate implications arising from this report.

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## **APPENDICES**

### **BACKGROUND PAPERS**

School report and supporting documents.

Internal Audit report May 19 and subsequent follow-up reports.

### **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Audit and Risk Management Committee</b>	<b>16 November 2020</b>
<b>Audit and Risk Management Committee</b>	<b>25 January 2021</b>