Agenda Item 6

Report Status

For information/note ☒
For consultation & views
For decision ☒

Report to Haringey Schools Forum – 13th March 2025

Report Title: Schools in Financial Difficulty Update
Authors: Muhammad Ali Schools Finance Manager Email: Muhammad.Ali@haringey.gov.uk Neil Sinclair Head of Finance (People) Email: Neil.Sinclair@haringey.gov.uk **Report authorised by:** Jane Edwards Assistant Director Email: Jane.Edwards@haringey.gov.uk
Purpose: 1. Update the Schools' Forum on schools experiencing financial difficulty. 2. Provide an update on the current number of schools with loans and cash flow advances. 3. Provide an overview of the primary financial challenges impacting schools and an update on the council's responses. 4. Consider a proposal to increase the funding available to provide targeted support to schools in financial difficulty
Recommendation: For Schools' Forum to 1. Note the updated financial position of maintained schools across Haringey 2. Approve the De-Delegated budget of £150,000 for targeted support for schools facing financial difficulty.

1 Introduction

1.1 This report provides an update on the year-end financial balances of schools over the past five years, up to 31st March 2025 (based on Q3 forecast).

1.2 The report also includes an update on the number of schools with licensed deficits and cash flow advances, as well as changes in the total number of deficits funded by Haringey Council.

1.3 Additionally, the report sets out the main factors of financial risk that are having an impact on schools and their ability to operate in within a balanced budget.

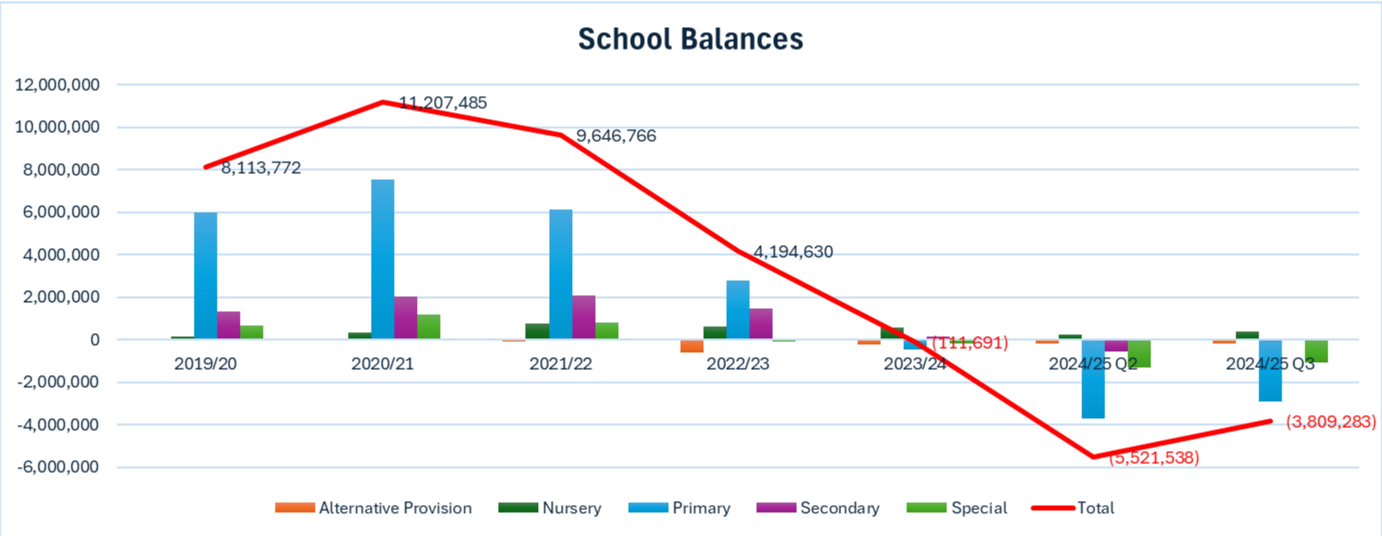
1.4 This report considers the existing capacity of the school's finance team in the context of supporting and addressing the increasing financial risks faced by maintained schools across the borough.

1.5 To set a balanced budget for 2025/26 the council has requested and had approved exceptional financial support (EFS) of £37m from the Ministry of Housing, Communities and Local Government. Any use of EFS must be a last resort and therefore, although the proposed budget for 2025/26 will be set based on this level of financial support from Government, the Council will continue to take the immediate actions to reduce spend and increase income so to reduce the final level of support that is needed to be drawn down and any reliance in future years. As a result the council must take proactive steps to mitigate future financial risks.

1.6 The report highlights that, due to limited resources, that whilst the council's schools finance team is taking proactive steps, it is limited in capacity to support schools experiencing financial difficulty or those at risk of financial hardship. Given the wider council financial challenges there is no likelihood of increased council to expand the schools finance team.

2 Analysis of Schools balances

2.1 The following graph represents school closing balances over the last 5 years, along with projected closing balances as of March 2025.



2.2 The chart above and table on the next page illustrate the deficit amounts categorised by school type over the past five years. Key observations are:

- **Declining Balances**: We have now a net forecast deficit at Q3 of £3.8m, made up of 36 schools with a forecast deficit and 28 with a forecast surplus. Whilst the position has improved between Q2 and Q3, it is believed that this is as a result of improved forecasting rather than improved performance. There remains a risk that as with last financial year that the year-end outturn position will be materially different from the Q3 forecast.

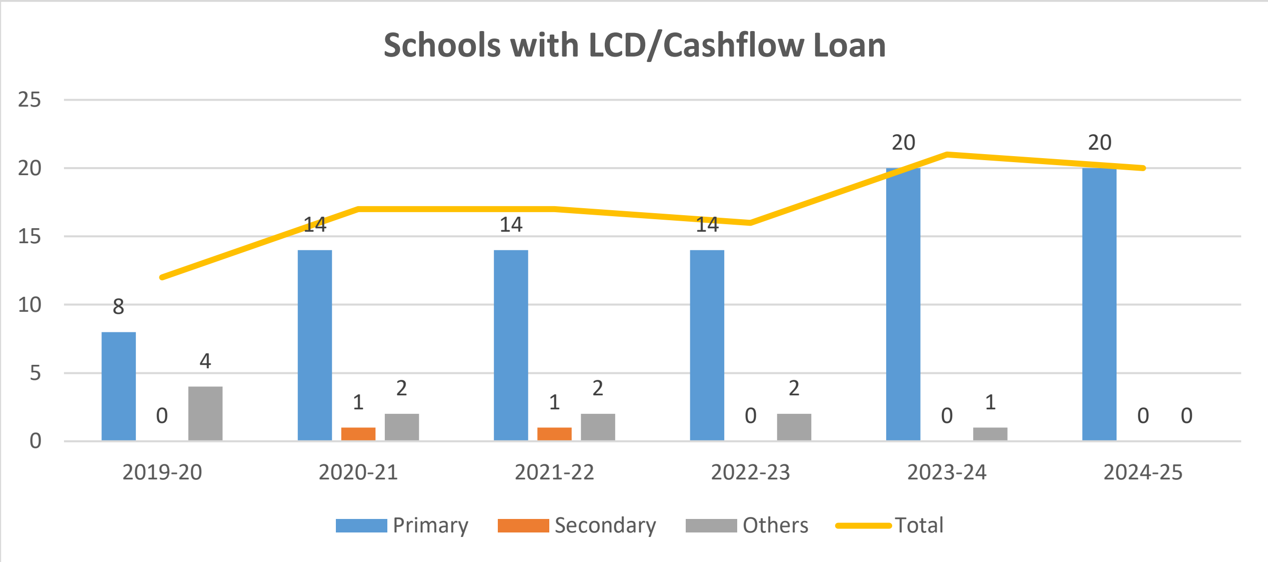
  Producing the Q3 forecast took four weeks longer than expected, as a result of late submissions and data quality checks that were required to verify numbers.

- **Primary and Special Schools**: Show the most significant negative trends, with primary schools moving into a severe deficit.
- **Nursery Schools**: Continue to maintain positive balances but have shown a noticeable decline.
- **Overall Impact**: The total balance for all schools combined has shifted from a surplus of £11.2m to a substantial deficit of between £3.8m and £5.5m over the last 4 years, indicating increased financial strain and potential funding challenges across the board.

2.3 The following table represents projected closing balances as of March 2025.

Type of School	Number of Schools with Forecast Deficit	Forecast Deficit £'000s	Number of Schools with Forecast Surplus	Forecast Surplus £'000s	Forecast Net Surplus / (Deficit) £'000s	Schools with licensed deficit recovery plan
Nursery	2	(206)	1	611	405	0
Primary	28	(6,220)	23	3,316	(2,903)	20
Secondary	2	(918)	3	855	(62)	0
Special	3	(1,115)	1	43	(1,073)	0
AP	1	(176)	0	0	(176)	1
Totals	**36**	**(8,634)**	**28**	**4,825**	**(3,809)**	**21**

2.4 The following represents the number of schools with a licenced deficit funded by Haringey Council.



2.5 The following represents the number of schools and amount of licenced deficit funded by the Council, position as at November 2024.

Licenced Deficit	No of Schools	Closing Balance at 31 March 2024	Additional loans YTD (Nov 24)	Repayment (expected)	Outstanding Balance at 31 March 2025
Primary	20	3,714,777	445,348	-1,698,517	2,461,607
Secondary	0	0	0	0	0
Others	1	516,666	0	-516,666	0
Total	**21**	**4,231,443**	**445,348**	**-2,215,183**	**2,461,607**

2.6 While the financial report for Q3 indicates that 36 schools are facing deficits, only 20 schools have sought licensed deficit loans or cash flow assistance. At this point, we expect that the remaining 17 schools do not require loans or cash flow support, as they are effectively managing their finances. However, this situation may evolve in response to ongoing financial pressures.

- 2 primaries and 1 special are forecasted to finish paying off their loans
- 3 new schools loans application received during the year but not yet agreed, awaiting SRMA (School Recourse Management Adviser) final report
- 3 new loans issued during the year

3 Financial pressures facing schools

3.1 Examples of areas which are having an impact on financial stability of individual schools:

- Falling pupil numbers – reduced birth rates and migration have affected not only reception intake but smaller class numbers across all year groups, particularly in primary schools. Reviews of staffing to pupil numbers is necessary to ensure a sustainable staffing structure is in place. Going through an SRMA review gives assurance to check the school's structure best suits forecasted pupil numbers.

- Whilst we have comparable numbers of children with EHCPs against London and national averages within our mainstream schools, a contributory factor for schools in financial difficulty will be insufficient funding levels from the high needs block (HNB) which to meet the needs of children with complex SEND. The bandings work has ensured that there is increased and equitable funding within mainstream settings, however the overall level of funding is based on a national formula.

- Reduced income from school activities. It is recognised that reduced lettings and cost pressures on organised activities has impacted on the amount of income that schools receive compared to pre-Covid times.

- Rising food and utility costs – these are the main inflationary factors affecting schools. Ensuring that the best rates are obtained during the procurement process is essential for schools. The Council hosted webinars with the ESFA for schools on procurement from April 2024 onwards.

- Staffing costs – Where staffing numbers, costs and pay rates are not commensurate to the school size, particularly where there has been a PAN reduction. This has an impact on overall schools' staffing costs.

4 Schools Scheme of Finance Regulations and Standing Orders

4.1 Having previously been shared with Schools' Forum in July 2024, Cabinet on 10th December 2024 approved the updated Scheme of Financial Regulations and Standing Orders for schools.

4.2 The scheme sets out the financial relationship between the local authority and the maintained schools which it funds and describes the requirements relating to the financial management and associated issues, binding both on the local authority and on schools.

4.3 The regulations and standing orders set out the controls expected to be maintained, procedures that should be in place and responsibilities of school officers in managing the schools delegated budget.

4.4 The financial regulations and standing orders will be updated annually and shared and approved at Schools' Forum. In the event of major changes to the regulations governing schools and which may require a major update to the financial regulations and standing orders, a report will be brought back cabinet to approve a new set of financial regulations and standing orders.

5 Current work in progress

5.1 Currently with the limited capacity, we cannot support all schools who need support, but where we can provide support, schools are being supported in the following areas:

- Improve core competencies of Schools Business Managers that include how to monitor the school budget effectively.
- Schools with a deficit are required to submit a deficit recovery plan, which will be supported by the Council.

- Submission of quarterly budget monitoring reports along with full set of accounts.
- Cash flow forecasts.
- Indicative Budget templates and training for schools and governors.
- Development of a school's finance traded service to support schools in need of financial management support.
- Schools in deficit to go through School Resource Management Advisor programme (SRMA) funded by the DfE or by the school.
- Sign posting to procurement frameworks e.g. Crown Commercial Services
- Future recruitment oversight by council Finance and HR teams for maintained schools

    - The schools finance team is currently assisting 10 schools with their deficit recovery plans. The number of schools requiring assistance is growing as more schools enter licensed deficit agreements, placing additional strain on the team's already limited resources.

    - However, it is Haringey's intention to provide a more proactive approach to schools in providing support and guidance to financial management.

6 Proposed strategy for supporting schools under the programme

6.1 To support schools facing financial challenges, targeted assistance will focus on three key areas, **Budget monitoring and forecasting**, **procurement practices**, and **restructuring support.**

6.2 Scope of work and outcome for the programme has been outlined below:

6.2.1 **Budget Monitoring and Forecasting: Objective:** Help schools maintain financial health by creating robust 3-year financial plans, aligning budgets with pupil numbers, and using data-driven tools like Integrated Curriculum Financial Planning (ICFP).

- **Scope of work/Action plan:**
    1. **Conduct Initial Assessment:** Analyse current financial performance of schools, identify areas of concern using ICFP metrics, and categorise budgets into red, amber, and green areas for targeted focus.
    2. **Align Staffing Budgets with Pupil Numbers:** Review staffing structures to ensure they align with current and projected pupil numbers, addressing surplus or shortfall early.
    3. **Develop Long term Financial Plans:** Provide training to schools SBMs for long-term financial planning, incorporating contingencies for fluctuating pupil numbers, inflation, and policy changes.
    4. **Monthly Monitoring Support:** Establish regular check-ins to review budget performance against forecasts, flagging variances early for corrective action.
    5. **Training for SBMs:** Equip SBMs with the skills to interpret ICFP data, present financial scenarios to leadership teams, and make evidence-based decisions.
- **Outcomes:**
    1. Improved financial planning accuracy.
    2. Early intervention for schools in Red/Amber categories.
    3. Better alignment between financial and operational strategies.

6.2.2 **Procurement and Review of SLAs: Objective:** Optimize procurement practices, reduce costs, and ensure compliance by leveraging DfE frameworks and collective purchasing agreements.

- **Scope of work/Action plan:**
    1. **Audit Existing SLAs and Leases:** Review service-level agreements for equipment, catering, and cleaning to assess cost-effectiveness, quality, and alignment with school needs.
    2. **Benchmarking:** Compare existing contracts with similar schools and identify opportunities for cost savings through renegotiation or alternative providers.
    3. **Leverage DfE Frameworks:** Promote the use of DfE-approved frameworks for collective buying in areas such as energy, technology, and facilities to achieve economies of scale.
    4. **Centralised Procurement:** Create a toolkit for SBMs, including templates and checklists for evaluating contracts, writing specifications, and assessing bids.
    5. **Training on Procurement Compliance:** Provide up-to-date guidance on procurement law, ethical practices, and value-for-money principles.
- **Outcomes:**
    1. Reduced expenditure through improved procurement practices.
    2. Enhanced contract management and compliance.
    3. Higher satisfaction with outsourced services.

6.2.3 **Restructuring Support: Objective:** Facilitate effective restructuring processes to address financial challenges while maintaining educational quality and staff morale.

- **Scope of work/Action plan:**
    1. **Initial Consultation:** Work with leadership teams to assess the need for restructuring and define objectives clearly.
    2. **Scenario Planning:** Develop and present multiple restructuring options, considering curriculum delivery, staffing ratios, and cost implications.
    3. **Compliance:** Ensure restructuring adheres to legal and regulatory requirements, including consultation periods and redundancy protocols.
    4. **Post-Restructuring Support:** Monitor the effectiveness of new structures and offer follow-up support to address unforeseen challenges.
- **Outcomes:**
    1. Smooth restructuring processes that minimises disruption.
    2. Financial stability and sustainability post-restructuring.
    3. Improved stakeholder confidence in leadership decisions.

6.3 These strategies create a comprehensive framework for targeted support, enabling schools to overcome financial difficulties while safeguarding educational quality.

- **Proposal to increase capacity of School's Finance Team**

    - The size and composition of the team has largely remained unchanged in recent years, being setup when schools largely operated in surplus. Currently the team comprises 4fte, all funded by Council Budget

Schools Finance Manager
Principal Accountant x2
Accountant, mainly handling schools cash flow

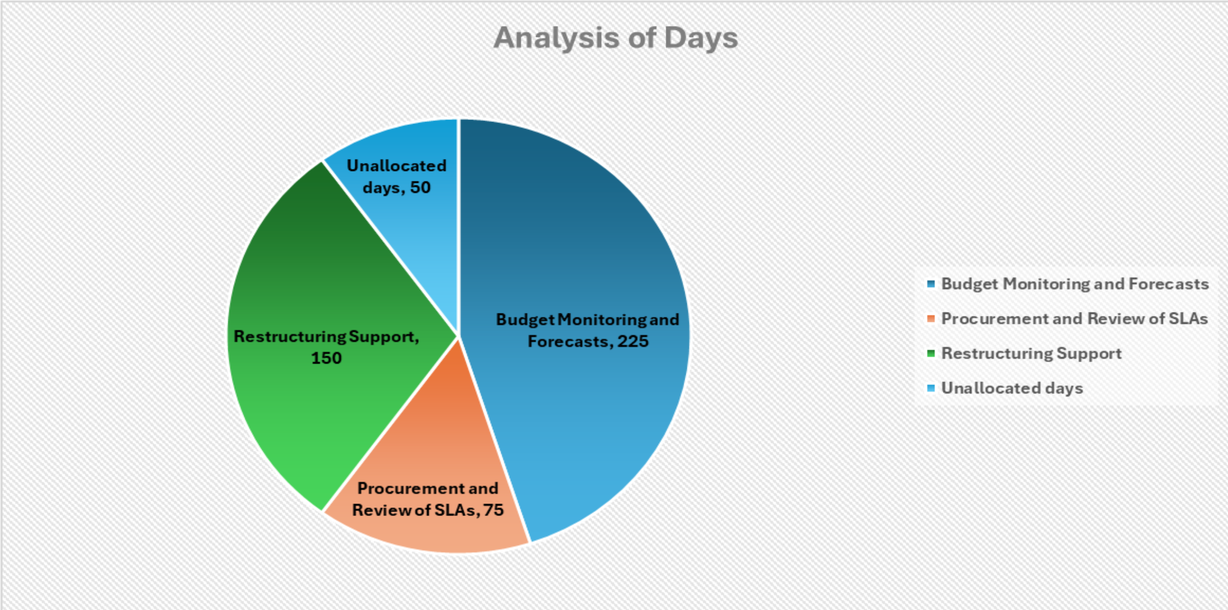
- The proposal is to develop a **Schools Targeted Support Programme** designed to allocate resources for financial oversight and restructuring in 57 schools. To deliver the programme it is requested to de-delegate £150,000 from the Schools Block to increase the capacity of the School's Finance team. This would be equivalent to £7.15 per child based on APT 2025-26 using October 2024 census data.

- The de-delegation would be for one year and subject providing regular updates on progress of the programme and spend on funding to the Schools' Forum. Should the Targeted Support Programme be successful, consideration will be given to requesting a further de-delegation to cover an on-going programme. Any unspent funding at the end of the financial year will be returned to schools.

- The allocation of time could be directed as follows:

  - **Days Allocation**:
    - If we recruited on fixed term contracts that would generate up to 500 **consultant days** are available, an initial allocation as follows would allow focussed prioritised support with some flex to respond to new challenges:
      - **Budget Monitoring and Forecasts**: 225 days (50% of allocated days).
      - **Procurement and Review of SLAs**: 75 days (16.7% of allocated days).
      - **Restructuring Support**: 150 days (33.3% of allocated days).
    - **Unallocated days** amount to 50 days (10%), providing a buffer for unforeseen needs
  - **Support Distribution**:
    - With 57 schools supported, the programme ensures approximately 6 days of direct intervention per school on average.

This visualisation illustrates the distribution of allocated days for Primary and Secondary schools, categorised based on the scope of work outlined above.



6.4 Scoring Allocation for Identifying Schools in Financial Difficulty for Deficit Recovery Planning

The following criteria focus on identifying schools experiencing financial challenges that require a targeted deficit recovery plan. This approach ensures that resources and interventions are directed to schools with the greatest need and the potential to benefit from structured financial recovery support.

A. Financial Indicators (Maximum: 40 Points)

- **Budget Deficit Trends (15 points)**
  - Consistent operating deficits over two or more financial years: **10 points**
  - Current-year deficit exceeding 10% of the annual budget: **15 points**
- **Cash Flow Challenges (15 points)**
  - Insufficient reserves or cash balance: **10 points**
  - Reliance on cashflow loan or licensed deficit loan: **15 points**
- **Debt Levels (10 points)**
  - High outstanding liabilities relative to income base: **5 points**
  - Missed or delayed payments to creditors: **5 points**

B. Staffing Expenditure (Maximum: 25 Points)

- **Payroll Proportion (15 points)**
  - Direct and non-direct Employee cost >80% of total budget: **15 points**
  - Direct and non-direct Employee cost 70-80% of total budget: **10 points**
- **Agency Staffing (10 points)**
  - Overstaffing relative to pupil numbers or curriculum needs: **5 points**
  - Excessive use of temporary staff or consultants: **5 points**

C. Pupil Numbers and Income Generation (Maximum: 20 Points)

- **Declining Enrolment (15 points)**
  - 15%+ drop in pupil numbers since 2020: **15 points**
  - 10%-15% drop in pupil numbers since 2020: **10 points**
  - 5%-10% drop in pupil numbers since 2020: 5 points
- **Income Shortfalls (5 points)**

- Failure to meet income targets from grants, fees, or initiatives: **5 points**

D. Benchmarking Against Peers (Maximum: 15 Points)

- Spending per pupil, administrative costs, or other performance metrics significantly out of alignment:
    - 20% higher than average: **15 points**
    - 10-20% higher than average: **10 points**
    - Slightly above average: **5 points**

Total Scoring: 100 Points

Priority Levels for Action

- **High Priority (Critical Need)**: **70-100 points**
  Schools in severe financial difficulty requiring immediate deficit recovery planning.
- **Moderate Priority**: **40-69 points**
  Schools with financial concerns needing targeted intervention and monitoring.
- **Low Priority**: **0-39 points**
  Schools with manageable financial issues; no immediate action required but regular monitoring recommended.

This scoring framework ensures a transparent and consistent process for identifying and prioritising schools requiring deficit recovery plans. It helps allocate resources to address the most urgent needs effectively.

6.5 Expected cost for the programme requires Schools' Forum approval

- To support schools, the local authority (LA) will require £150,000 through de-delegated budgets, which will be deducted from schools' annual budget allocations for 2025-26.

- The mode of delivery of the programme of work has yet to be finalised but will be require a range of skills and experience to successfully deliver on the outcomes set out above. Sourcing and appointment of suitably qualified capacity will draw on experience within the maintained schools within the borough.

- Provide regular reports on progress of the programme and spend

- The actual cost per pupil is calculated at £7.15 per year, based on 2025-26 APT using October 2024 census.

- Schools' Forum is requested to approve the de-delegated budget to support all maintained primary and secondary schools during the financial year 2025-26.

- Any remaining funds will be reported to the Schools' Forum and redistributed to schools based on an agreed formula.