

**REGULATORY AND OTHER COMMITTEE REPORT**

<b>NAME OF COMMITTEE:</b>	Schools' Forum
<b>DATE OF MEETING:</b>	13/10/10
<b>SUBJECT:</b>	Managing Change policy and school redundancies
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<b>IS THE REPORT EXEMPT?</b>	No
<b>IS REPORT CONFIDENTIAL?</b>	No

**SUMMARY**

The purpose of this report is to seek the Schools Forum's support for the Local Authority's (LA) proposal to amend the charging policy for school redundancies.

**DISCUSSION**

**Background**

In 2006/07, the Schools Forum supported the LA's proposal to set aside £0.5m from the Dedicated Schools Grant (DSG) to help fund redundancy costs in schools. Since then, the Schools Forum has supported further increases to that budget, including in January 2010, when the budget was increased to £2m.<sup>1</sup> A sum of £0.25m also exists to support redeployment of staff in schools.

In April 2007, the Managing Change policy was introduced following consultation with the Schools Forum. It offered advice and guidance to schools to help them manage changes in the workforce.

<sup>1</sup> Not all of the budget has been used each year. As previously reported, costs are often charged to non-DSG budgets at year end to help maximise the funding available to Children's Services.

One aspect of that policy was the introduction of the charging regime in April 2008, which required schools to fund:

- a. The first £5,000 of the capitalised cost of any redundancy or interests of efficiency; or
  - b. 25% of the capitalised cost of any redundancy or interests of efficiency;
- whichever is the greater (subject to a maximum of 2% of the school's budget share for that financial year),

with the LA funding the balance.

Total spending on school redundancies in the last three years has been:

2007/08	£2.456m
2008/09	£1.520m
2009/10	£1.065m

and current expenditure for this financial year is £2.122m.<sup>2</sup> Although school and DfE' contributions of £0.218m and £0.118m are expected, the remaining budget could still be committed, as a number of school business cases are still being brought before the Staffing Reduction panel.

### **Current issues**

The current situation can be characterised by:

- A variation in total expenditure from year to year, with no clear trend.
- A projected overspending on the budget in this financial year.
- A high number of low value TA redundancy costs, especially in primary schools.
- A few secondary schools incurring very significant costs in order to address budget deficits.
- Several individual redundancy cases within secondary schools costing in excess of £50k and sometimes more than £100k.
- Most secondary schools not incurring any redundancy costs, but others doing so more than once over a period of several years.
- Some, but not complete success in redeploying staff.
- More schools overspending in the last financial year.
- An increasing number of secondary schools with very significant deficits.
- The prospect of much tighter Government budget settlements over the next few years.

Given the last point above, it is essential that all DSG and other budgets are examined closely to ensure best use is made of resource. A review has therefore been undertaken of the schools redundancy budget and the analysis reveals that major contributors to the redundancy budget are:

1. Closure of small schools
2. 'Old style' academies
3. Teaching Assistants
4. Secondary schools with large deficits

Each of these areas has been considered in turn, to identify the cost drivers behind them and to consider what actions can be taken to minimise future costs:

#### **Closure of small schools:**

Significant costs have arisen in recent years from the closure of Billingham The Lafford school and a small number of primary schools, including Aby and Baumber. The closure of The Lafford was designed to deal with structural issues within the secondary sector and this will ensure much better use is made of the DSG in the future. The same is true of the small primary school closures. With the fall in numbers on roll for the younger age groups, some of the smallest schools have become financially unviable and have decided to close.

To help reduce future costs in this area, the LA is continuing to take pro-active steps to advise and guide the smallest schools, to help them remain financially viable and avoid closure. Furthermore, where closure becomes unavoidable, the Redeployment Officer will continue to devote considerable time and effort to redeploy staff and minimise redundancy costs.

#### **'Old style' academies:**

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<sup>2</sup> This does not include the cost for TAs; these figures are currently being calculated.

Under the previous government, the significant capital investment that was available for academies enabled a number of major structural changes to be made to the organisation of schools (these too will help ensure that more effective use is made of the DSG). It was widely accepted that a number of staffing changes were appropriate prior to the opening of the new academies, e.g. to rationalise the management teams where more than one school was closed. The DCSF agreed to fund part of those costs but significant costs had to be financed by the LA.

Looking ahead, the 'new style' academies are not expected to generate any redundancy costs, as excellent and good schools will simply convert to academies.

### **Teaching Assistants:**

When the charging policy was first introduced, it was agreed that the LA would meet all costs relating to TA redundancies that were linked directly to statements of special educational needs. At the time, it was accepted that for schools with high levels of SEN, the natural progression of pupils through the school would result in higher levels of redundancies for which they had no additional funding.

However, there is now an opportunity to help reduce future costs in this area by placing some of the financial responsibility for all future TA redundancy costs upon schools. Even prior to the publication of the Managing Change policy in 2007, the LA had advised each school to create a pool of TAs to deal with its core number of statemented pupils, and to use fixed term or temporary contracts to respond to minor fluctuations in the number of statements over time. That advice has been re-issued since 2007. All schools should therefore be able to manage this situation effectively but, presently, there is no financial penalty for schools that fail to do so. Furthermore, the provision of transitional protection following the recent change to the way funding for SEN statements at Bands 1 to 5 is distributed should enable schools to deal with any reductions in funding, without recourse to a significant number of TA redundancies.

### **Secondary schools with large deficits:**

Reports to the Schools Forum in recent years have shown that a small number of secondary schools have run in to significant deficit. This is despite the fact that school funding remains reasonably predictable - funding relies heavily upon pupil numbers which can be predicted with a fair degree of accuracy, and protection has been offered through the minimum funding guarantee for many years now. Since 2006/07, all secondary schools are required to develop and maintain a medium term finance plans under the Financial Management Standard in Schools, so it should be possible for schools to avoid significant deficits and therefore large redundancy costs.

The causes of the largest secondary school overspends are not always clear. However, as indicated above, it is evident that a very high percentage of the redundancy costs are incurred by just a few schools. Of the current costs incurred so far for this financial year 53% (£1.137m of £2.122m) relate to secondary schools. Of that, £0.316m relates to a closing school and the balance of £0.821m relates to just seven schools. Three of those schools account for £0.729m (89%), at an average cost of £0.243m per school. Relatively few secondary schools have made redundancies in recent years, but two of these three have done so in recent years. Their number on roll in the last two years has declined a little<sup>3</sup>, but this can often be predicted and the situation arises in other schools too. Indeed, most other schools appear to be dealing with this situation without the need for redundancies.

Another key issue is the cost of individual redundancy cases. These can be in excess of £140k, with the DSG typically financing 75% of that cost and the school just 25% under the current policy. Also, there are a number of other secondary schools that have significant

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<sup>3</sup> Two have seen a decline of c.5% in n.o.r. over the last two years, with the other being 10%.

overspends at the present time and the prospect is that further costs at this level are likely in the next year or two, unless steps are taken.

### Proposals

Taking all of the current issues into account, it is proposed that action is taken to re-balance the financial contribution that individual schools and the DSG central budget makes towards redundancy costs.

When reviewing the charging policy, it is important to recognise that a balance needs to be struck between incentivising all schools to minimise redundancy costs, and not charging individual schools so much of the cost that the education of children in those schools suffers. In light of that, it is proposed that two key changes are made to the charging policy from April 2011:

1. To help reduce future TA redundancy costs, it is proposed that the charging mechanism will also apply to TA redundancies.
2. To help rebalance the financial contribution that schools make towards redundancies, it is proposed that:
  - For nursery, primary and special schools, the charging policy is amended to:
    - a. The first £5,000 of the total cost<sup>4</sup> of any redundancy or interests of efficiency; or
    - b. 50% of the total cost of any redundancy or interests of efficiency;whichever is the greater, subject to a maximum of 3% of the school's budget share for that financial year, with the LA funding the balance.
  - For secondary schools, the charging policy for secondary schools is amended to:
    - a. The first £20,000 of the total cost of any redundancy or interests of efficiency; or
    - b. 50% of the total cost of any redundancy or interests of efficiency;whichever is the greater, subject to a maximum of 6% of the school's budget share for that financial year, with the LA funding the balance.

It is important to note that:

- The differential in payment of the first £5,000 or £20,000 can easily be justified on the grounds of the relative size of the budgets in each sector.
- The increase in contribution to 50% will provide more incentive for schools to plan effectively and adopt various strategies to help minimise future redundancy costs.
- The percentage of the budget share has to increase to allow the 50% contribution to take effect. The differential in the 3% and 6% figures can be justified on the grounds that primary schools rarely propose high cost redundancies (most often, they are for TAs and sometimes teachers), whereas secondary schools often propose changes to senior management which result in much higher costs.
- Modelling information suggests that:
  - In primary schools, the key financial impact of the proposals will be due to the charging for TAs; the move to 50% contribution will have little impact on the majority of schools; in total, schools would pay almost 50% of the current cost, with that not being the case where the 3% limit is reached.
  - In secondary schools, the move to £20,000 would have a limited impact but the change to a 50% contribution and the corresponding uplift to 6% of budget share, would result in a much greater contribution from those schools that have a significant number of high cost redundancies.
- The policy will need to be kept under review because although 6% of budget share appears high, it could easily restrict a school's actual financial contribution if several high cost redundancies are proposed in one year.

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<sup>4</sup> In all sectors, this includes the lump sum redundancy payment and any associated pension costs.

## Conclusions

The strategy developed five years ago has helped to reduce redundancy costs e.g. through the Managing Change policy and guidance, the charging policy, staffing reduction panels and redeployment scheme, etc. However, given the gloomy economic outlook and the prospect that there could be reductions in school funding after this year, it is important that best use is made of the DSG.

The major causes of redundancy costs in schools have been reviewed. Costs relating to academies are not expected to recur and other steps are being taken to reduce the costs associated with the closure of small schools. However, further measures can be adopted that may help reduce redundancy costs arising from both TAs and secondary schools falling in to deficit. The proposals in this report are therefore designed to reduce future costs and thereby ensure, firstly, that better use is made of the DSG and, secondly, that a greater level of resource becomes available for all county schools.

All schools can continue to use natural wastage (e.g. a forthcoming resignation or retirement); restrictions on recruitment where it is apparent that a future reduction will be required; voluntary solutions, such as job shares and hours reductions; interests of efficiency, and; secondment arrangements to help minimise the need for redundancies. It is hoped that the proposals in this report will further encourage schools to do so.

## **RECOMMENDATIONS**

The Schools' Forum is asked to:

- a. Note the content of the report.
- b. Support the LA's proposals to alter the charging arrangements from April 2011, as set out above.

## **BACKGROUND PAPERS**

The following reports were relied upon in the writing of this report.

<b>PAPER TYPE</b>	<b>TITLE</b>	<b>DATE</b>	<b>ACCESSIBILITY</b>
Report	School Funding Arrangements 2010/11	27 January 2010	Committee Services, County Offices, Newland, Lincoln

## **APPENDICES - None**