

CYNGOR SIR POWYS COUNTY COUNCIL.

Cabinet
30th January 2018

REPORT AUTHOR: County Councillor M Alexander
Portfolio Holder for Education
County Councillor A Davies
Portfolio Holder for Finance

SUBJECT: School Delegated Budgets and response to report on financial viability of Schools.

REPORT FOR: Information - Decision

1. Summary

- 1.1 Governing Bodies of maintained schools are required, under the authority's scheme for financing schools, to set and submit an annual budget for their school together with initial budget plans for a minimum of the following two financial years.
- 1.2 This report provides an update on the projected budget position for schools for the 2017/18 financial year following the approval report considered by Cabinet on the 11th July 2017. The overall position of schools delegated budgets submitted to Cabinet on the 11th July 2017 is shown in section 2 below.
- 1.3 The report will also details actions that have been put into place jointly by Schools and Financial Services following the consideration of the joint scrutiny and audit report considered in the Autumn term, with a particular focus on the Secondary Sector.

2.0 Background

- 2.1 In July 2017 Cabinet received details of the governing body's submitted budget plans for 2017/18 together with the following 2 years indicative budgets. The projections for future years set out the expected level of balances if no further action were to be undertaken. This is not acceptable because Governing Bodies are required to comply with statutory requirements. The Local Authority is expected to apply the rules in a transparent and equitable manner. The position projected, excluding loans to schools was as follows:

Sector	2017-18 £ 000	2018-19 £ 000	2019-20 £ 000
Primary	1,105	600	(248)
Secondary	(2,385)	(3,393)	(5,246)
Special	(217)	(102)	40
Total Cumulative Reserves	(1,497)	(2,895)	(5,454)

- 2.2 Officers of the authority continue to work with individual schools to ensure that Governing Bodies work within the financial constraints of the funding allocated to them and in compliance with the Scheme for the Financing of Schools and class size requirements, where applicable. This work requires Governing Bodies to take decisions in relation to staffing and provision in a timely manner that many would prefer to defer to a later date. Deferring key decisions without assurance of future increases in funding ultimately means more significant restructuring action being needed in individual schools in future years and an unnecessary worsening budget position.
- 2.3 In July 2017, 18 schools were highlighted as having unlicensed budgets. Following compliance and restructuring action this reduced to 11. Ongoing monitoring of balances by schools finance officers and autumn “surgery” sessions have facilitated a further 4 schools that have moved into an unlicensed position. Thus we now have 15 schools in unlicensed deficit.
- 2.4 Officers continue to provide support to these schools for the development of revised budget plans. Casework is ongoing to remove all 15 deficits as a matter of urgency.

3. **Secondary Schools**

- 3.1 Officers from both the Schools and Financial Services have focussed on joint challenge and support on Schools in the Secondary Sector. Many of the Head teachers and Governing Bodies in the sector have responded positively to the support being offered, with second and third meetings being held when requested. The complexity of managing a dual stream school provision has been examined and recognised by the authority through the inclusion of a specific additional funding allocation of £250k being allocated to specifically support this complexity from the start of the 2018/19 financial years.
- 3.2 Two High Schools did not comply with the Notice of Concern issued and have not yet submitted a recovery plan to the Authority. Further intervention measures are being progressed with these schools in line with and to meet the requirements of the scheme for financing schools.
- 3.3 Officers of the Authority are working with all, and specifically, the two High Schools to further explore options for efficiencies within the budget, through reviewing contact ratios and TLR structures. The schools continue to work closely with the Authority to reduce in year deficits. This work is being further developed through the fair funding formula review and it is expected that a minimum curriculum model will be developed alongside the review. It is clear from this work that many of the schools in the sector have not undertaken a formal review of the management and TLR structure, together with the overall teacher contact ratio for many years and have not be fully adjusted to account for the reduction in pupil numbers and staffing levels.
- 3.4 A third High School has submitted a recovery plan to the Authority which shows that to set a balanced budget a reduction of 8.19 teaching staff would be required,

with class sizes rising to 41.4 in KS3 and 36.9 in KS4, which the school feel they cannot accommodate. The Governing Body feel that this level of reduction would have a catastrophic effect on the school's ability to deliver the curriculum. In terms of advice, officers of the council are meeting with representatives from the school to discuss the options put forward in the recovery plan and confirm which option should be progressed, together with any other options identified by officers prior to or during the meeting.

- 3.5 One of the two closing High Schools from Mid Powys has submitted a recovery plan which shows some improvement in the position but does not eradicate the deficit. Officers are working with the school to put measures in place to reduce the deficit as far as possible before the closure of the school.
- 3.6 Schools across all three sectors are being encouraged to forward plan and review their future year's budget position to eradicate deficit balances. Based on the current information provided a further 10 primary schools would also move into an unlicensed budget position for the 2018/19 financial year without any action. Work will commence in early February to support these schools to resolve this position before submitting their budget plans by **1st May 2018**. Finance, Curriculum and HR officers will continue to work closely with these schools towards meeting the requirements of the scheme for financing schools.

4 Overall Position

Sector	2017/18 Cabinet Position	2017/18 Updated Position	2018/19 Planned Position	2019/20 Planned Position
	£000	£000	£000	£000
Primary	£1,105	£1,315	£766	(£183)
Secondary	(£2,385)	(£2,609)	(£4,267)	(£4,982)
Special	(£217)	(£267)	(£65)	165
Total	(£1,497)	(£1,561)	(£3,566)	(£5,000)

- 4.1 The updated 2017/18 balances forecast shown in the table above exclude loans to schools. The estimated position is an increase in the cumulative deficit position previously submitted by schools to Cabinet. The forecast outturn for schools is currently a cumulative deficit of £1,561k and increase of £64k since the last forecast to Cabinet. Schools are forecasting cumulative deficit balances increasing through to 2019-20.
- 4.2 Builth Wells High School and Llandrindod High School are closing in September 2018. The table above includes estimated deficit balances for these schools to the end of August 2018. The total projected deficit for all sectors has reduced from £5,454k to £5,000k by the end of 2019-20.
- 4.3 School financial surgeries will continue to take place twice a year, in the autumn and spring terms with current budgets and forecast budgets considered. The finance department also hold additional meetings with schools as required. Financial Surgeries include HR and Challenge Advisors where necessary.

5. Surplus Balances

- 5.1 Governing Bodies holding planned cumulative surplus balances in excess of that detailed in the scheme for financing schools are liable for claw back.
- 5.2 The budgets submitted to Cabinet on the 11th July 2017 showed 8 schools that have surpluses in excess of the limits set within the scheme for the financing of schools. These schools were informed they fall under the claw back rules and have been requested to provide an explanation as to the use of these reserves over the forthcoming years. All schools have submitted the requested plans.
- 5.3 Under the School Funding (Wales) Regulations 2010, the Authority has the power to direct spending or claw back monies where planned surplus budgets held by schools exceed £50k for primary and £100k for special and secondary schools.

6. **Further proposed actions**

- 6.1 A fundamental review of the fair funding formula commenced in the late summer 2017 and a report will be presented to Cabinet in February detailing the scope and proposed timeframe for this review. The review will be led jointly by the Financial and Schools Services and will be supported by an external expert who has experience in developing the national funding formula for the DFE in England.
- 6.2 In line with the findings of the joint audit and education scrutiny report the review will focus on three main areas:
- i. The development of a minimum curriculum model for schools of varying sizes and needs across each of the three sectors.
 - ii. A review of the level of delegation within the authority with the consideration of significantly increasing the delegation of funding and responsibilities to schools with effect from 1st April 2019.
 - iii. Designing and implementing a simple, clear and transparent funding formula that will deliver the funding to meet the outcomes of i and ii above.
- 6.3 The review will be supported by nominated Head teachers and school representatives from across the three sectors with a report detailing the proposals being prepared for consideration by cabinet in the first half of the autumn term.
- 6.4 Schools Service and Finance have requested further individual High school meetings with those schools of concern throughout February and early March 2018. This will review both the financial position and education offer within the schools and review the actions necessary to be undertaken in order to reduce the deficits forecast by those schools.
- 6.5 A seminar took place with Cabinet in October to outline the issues facing education in Powys. A new draft Schools Policy has been developed – Plans for Powys Schools – Vision 2025 – and this was approved by Cabinet in November. It is currently out for public consultation until the January 31st. A final version of the Policy along with consultation comments will be considered by Cabinet in March, and, if approved, the Policy will be implemented from 1st April 2018. The Policy provides a framework that will guide school reorganisation and

infrastructure development in future, with a strong emphasis on co-production of developments with local schools and communities.

- 6.6 A Work Programme will also be considered by Cabinet in March which will outline the key projects for developing the schools infrastructure for the next 3 years.
- 6.7 A Post-16 Review has been underway, with headteachers and officers considering alternative funding and partnership models. This Review will conclude in the spring, for implementation from September 2019.
- 6.8 Transformation of ALN is now commencing within the development of a project team and steering group. It is hoped the timescales will mirror those of the Fair Funding Formula review.

7. Powys 2025

- 7.1 Ensuring that Governing Bodies effectively and efficiently manage their budgets within the resources made available to them by the Council is a key contributor to ensure our schools are financially viable and fit for purpose, and the overarching council's objective that the People in Powys benefit from a financially balanced and fit for purpose council.

8. Options Considered/Available

- 8.1 Recovery plans were required to be submitted by 29th September 2017. Where schools submitted deficit budgets, officers have worked with Governing Bodies to address the deficit balance. Continual work by Governing Bodies and officers of the council will be required to ensure balanced budgets. It is essential that the remaining schools develop their recovery plans in order to meet the deadlines required for consultation with staff on potential redundancies.
- 8.2 If the Governing Body does not take appropriate action to effectively manage their budget within the requirements of the Scheme for the Financing of Schools, the deficit budget will not be licensed and the agreed procedures within the Scheme for the Financing of Schools will be implemented which include escalation to withdrawal of delegation from the Governing Body. This can only be done following the issuing of a formal warning notice and non-compliance within a set timeframe.

If the issue sits within wider concerns over governance interventions can include direction of a change of Chair of Governors, nomination of additional governors or implementation of an Interim Executive Board to replace the Governing Body.

9. Sustainability and Environmental Issues/Equalities/Crime and Disorder, Welsh Language/Other Policies etc.

- 9.1 This report relates to the sustainability and financial management of schools, in order to ensure schools can comply with the Scheme for Financing Schools.

- 10. Children and Young People's Impact Statement - Safeguarding and Wellbeing**
- 10.1 Not applicable in this regard.
- 11. Local Member(s)**
- 11.1 All schools across the council are included in this report therefore all local members have an interest.
- 12. Other Front Line Services**
- 12.1 No implications to other front line services.
- 13. Support Services (Legal, Finance, HR, ICT, BPU)**
- 13.1 Finance: Deficit and surplus balances must continue to be carefully monitored to ensure schools are in compliance with the Scheme for the Financing of Schools and that schools take appropriate action to ensure they meet the requirements
- 13.1 Legal: The recommendation can be supported from a legal point of view
- 14. Local Service Board/Partnerships/Stakeholders etc.**
- 14.1 Not applicable to this report.
- 15. Statutory Officers**
- 15.1 The Acting S151 confirms that the current and projected financial position of our Schools continues to be a challenge, the additional funding included in the budget plan assists schools in meeting the pressures they face, but it is essential that all Governing Bodies take action to provide a curriculum that can be delivered within the funding provided to them. The school reserves are ring fenced but ultimately represent a potential council risk. It is essential that compliance work is undertaken to ensure that school budgets are managed in accordance with regulations by Governing Bodies.
- 15.2 The Solicitor to the Council (Monitoring Officer) has commented as follows: "I note the legal comment and have nothing to add to the report".
- 16. Communications**
- 16.1 It is important that individual schools are aware of concerns in relation to the statutory compliance of their governance decisions and any mitigation action that may be required.
- 17. Governing Bodies**
- 17.1 The review of the formula will assist in identifying the minimum curriculum offer that the Authority can expect schools to deliver and this will provide an essential benchmark against which schools can be reviewed and challenged in terms of their financial position.

Recommendation:	Reason for recommendation
That content of this report are noted and further updates are regularly presented to demonstrate ongoing commitment to bringing schools budgets back into balance	To comply with the Authority's scheme for the financing of schools

Relevant Policy (ies):	Scheme for the Financing of Schools		
Within Policy:	Y	Within Budget:	Y

Relevant Local Member(s):	All
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Person(s) To Implement Decision:	School Finance Manager & Schools Service Senior Staff
Date By When Decision To Be Implemented:	

Contact Officer Name:	Tel:	Fax:	Email:
Nancy Wozencraft	01597 826459		nancyw@powys.gov.uk

Background Papers used to prepare Report:

Scheme for the financing of Schools and Good Practice Guide