

## **Education Scrutiny Working Group Scrutiny Observations to Cabinet on: School budgets**

The Education Scrutiny Working Group met on the 25<sup>th</sup> May 2018 and considered the Cabinet Report on School Budgets 2018-19.

### **The Group make the following observations to Cabinet on 19<sup>th</sup> June 2018.**

The Group have monitored school budgets for some years with increasing concern regarding the overall position. In December 2017 a Scrutiny Report was taken to Cabinet with the following findings:

*It is apparent that the present financial position is unsustainable. This has now become a very urgent matter and although this Group were informed by the Portfolio Holders for Education and Finance that there would be a clear direction on the future shape of secondary schools by the end of the Summer 2017 which would inform the financial projections going forward, this so far, has not been forthcoming. This situation cannot continue given the continuing depletion of Council reserves and urgent action is required. Until such time as the Group receives a clear policy direction there is limited scope to take this any further. (Appendix A)*

A response to this was received at Cabinet on 30<sup>th</sup> January 2018 with the following minute:

1.	<b>RESPONSE TO THE JOINT AUDIT - EDUCATION SCRUTINY WORKING GROUP REPORT</b>
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*Cabinet considered the response to the Joint Audit/Education Scrutiny Working Group report into the financial viability of schools.*

*The Portfolio Holder for Education welcomed the Scrutiny report. She advised that a clear understanding of the schools funding formula and the cost of delivering the curriculum was urgently needed and that work to develop the funding formula was underway. She told Cabinet that 15 schools had*

*unlicensed deficits. Officers were supporting these schools to remove all 15 deficits as a matter of urgency. Cabinet had recognised the pressures on schools and were recommending an additional £1m in the budget plus £250k for dual stream schools. The Portfolio Holder thanked those governing bodies who had developed their curriculums to keep within budget. Two secondary schools that had yet to submit recovery plans and further intervention measures were being progressed.*

*The Director of Education advised Cabinet that every school would be expected to meet the 1 May deadline for submitting a budget plan or action would be taken.*

*The Chair of Audit Committee said that he would take the report back to the working group and report back to Cabinet if necessary.*

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

**(Appendix B)**

The Group are therefore disappointed that despite all the work supporting schools to recover from or avoid a deficit position the cumulative balance of school budgets has for the first time recorded a deficit position of £0.434m. Scrutiny also note that this deficit position was projected to be in the region of £1.5m but a windfall grant of £0.6m has helped towards the improvement on the forecast position. This is fortunate but in part masks the true extent of school spending and cannot be relied upon in future years. Scrutiny consider that the urgent action called for in their report in December 2017 has not been taken and that the situation continues to deteriorate.

The Cabinet report acknowledges that the cumulative deficit balance is in breach of the Authorities own Scheme for Financing Schools 2017-18 which states: *'To ensure the overall financial robustness of schools it is expected that the collective balances should always be in surplus'*. This was itself a relaxation of the position in the Scheme for Financing Schools 2016/17 which required: *'Up to a maximum of 40% of the collective school balances may be used to back the arrangements for licensed deficits'*.

However, the Scrutiny Group welcome the acknowledgement within the report from the Section 151 Officer that 'Cabinet's attention is drawn to the significant financial risk the schools sector now presents to the authority'.

Scrutiny also welcome the offer made by the Portfolio Holder to produce an update report on school budgets to enable this to be monitored in year and suggest that the regular monitoring of progress against recovery plans is shared with scrutiny for monitoring purposes.

At the meeting scrutiny Members heard from the Portfolio Holders for Schools and Finance that a Review of the Fair Funding Formula was nearing completion and would be brought to scrutiny and Cabinet in the near future. The Portfolio Holders appeared to be holding great store that the review would demonstrate the amount of money required to run a school providing the statutory breadth of education and that this

would then demonstrate whether or not schools were being properly funded. This is a large piece of work and will help inform future school budget discussions. However until this Review reports it is not possible to ascertain what impact it will have on the school budget position and therefore action needs to be taken now to ensure that school deficit budgets are recovered to a balanced position.

The Portfolio Holder for Education expressed confidence that the level of support now provided within the authority (Education, HR and Finance specialists) together with a more proactive stance on compliance will result in a recovery from the present overall position. Scrutiny welcome this confidence which it hopes is well founded. However, a degree of scepticism remains as scrutiny have been told year on year that support is being provided and action has been taken and yet the overall cumulative position continues to decline.

The Portfolio Holder for Finance acknowledged that the position regarding school budgets was worrying.

Scrutiny commend those schools which have taken timely and hard decisions to ensure they live within their means, particularly when this is matched with good educational outcomes for the young people of Powys. It is important for all learners that the budget available for education is shared fairly and no pupils should be disadvantaged because some schools are failing to manage their budgets. However, scrutiny are concerned that prudent schools may be in the position of having an element of their budget clawed back in order to 'in the first instance support the financial deficits caused by school closures' (sect 4.6 of Cabinet Report). Scrutiny would comment that it is poor financial management in schools to be closed, not school closures that cause deficits and prudent schools should not be penalised for the mismanagement of school budgets elsewhere. Scrutiny are however concerned that some schools are carrying high balances and not spending their funding on improving the educational experience for existing pupils currently in school.

Scrutiny also note the statement from the Section 151 Officer that 'it is an essential requirement that all schools are within a three year balanced budget'. This is accurate but it is unclear how this will be achieved.

**Recommended:**

- 1. That the Portfolio Holder for Finance and the Portfolio Holder for Education ensure compliance with the Powys Scheme for Financing Schools and that the cumulative school balances is returned to a surplus position as some schools and the authority are in breach of the authorities own rules.**
- 2. That support and challenge continues to be provided to those schools both in a current deficit position and projecting a deficit position ahead of the findings of the Fair Funding Formula Review as scrutiny are yet to have sight of the outcome of this review and therefore have no comprehension of how and when this will impact on the cumulative school balance position.**
- 3. That support and challenge is provided to those schools in a clawback position to encourage and ensure that funding provided for pupils currently in school is spent on these pupils and unnecessary cuts are not implemented in these schools in order to 'save money for a rainy day'.**
- 4. That regular school balances reports are made available to scrutiny for in year monitoring purposes.**

5. That Cabinet and the Section 151 Officer take any necessary action to mitigate the 'significant financial risk the schools sector now present to the authority'.

Membership of the Education Scrutiny Group on 25<sup>th</sup> May 2018  
County Councillors **D Jones (Lead Member)**, B Davies, L Roberts, P Roberts and R Williams, Parent Governor Representatives N Bufton and S Davies and J Brautigam (Independent Member Audit Committee)

## **Joint Audit - Education Scrutiny Working Group**

### **Interim Report on: Financial Viability of Schools**

#### **Observations made to: Cabinet/Management Team**

##### Background:

Joint Chairs instructed Audit and Education Scrutiny to undertake a joint piece of work assessing the Financial Viability of Schools.

The Wales Audit Office Review of Education Finance Powys published in June 2017 together with projected deficits in the Schools Service had caused the Section 151 Officer to alert the Council to the potential threat raised by schools budgets.

In July 2017 the Cabinet received a report which projected that by 2019/20 schools delegated budgets would be showing a deficit of £5.4M (not including figures for Welshpool High School which shows a deficit of £0.5M by 2017/18). Whilst it is accepted that these projections do not take into account mitigating measures that schools will put in place in the meantime this level of deficit is a risk to the Council and this, together with the WAO report, prompted the current review. We are also aware that the council are proactively looking at this issue but to date have no hard evidence on its views or planned actions.

##### Scope:

The project is to be undertaken in stages with Stage 1 focussing on Secondary Schools which are showing a more serious position. Discrete areas of work are to include at a high level: standards, school rolls, curriculum provision, Welsh language provision, staffing structures, teacher/pupil ratios, financial expertise within schools and support from Corporate Services. In addition we have examined the allocated proportion to delegated/non-delegated budgets and potential areas of economy.

The Scrutiny Group have met with the following people to date.

Councillor Myfanwy Alexander – Portfolio Holder for Education  
Councillor Aled Davies – Portfolio Holder for Finance  
David Powell – Section 151 Officer

Jane Thomas – Head of Financial Services  
 Ian Budd – Director of Schools  
 Gareth Jones – Head of Schools  
 Huw Lloyd Jones – Wales Audit Office  
 Graham Taylor – Chair of Schools Forum  
 John Williams – Vice-Chair of Schools Forum and Head of Gwernyfed High School  
 Jackie Parker – Head of Crickhowell High Schools  
 Andrew Fryer – Chair of Governors Crickhowell High School  
 Michael Gedrim – ALN Service.

## Introduction

Financial details taken from the published accounts and budgets show that overall funding Education in Powys has remained relatively static, at c.£100m. (per pupil the 3<sup>rd</sup> highest in Wales), for the last five years. However, the delegated budget available to schools has over that period fallen by some £3.7m. The impact on schools has been exacerbated by the transfer of some costs which were paid for centrally to the individual schools' budgets.

<b>Year</b>	<b>Schools Service</b>	<b>Delegated</b>	<b>Total</b>
All £ million			
2017-18	31.0	68.9	99.9
2016-17	30.4	69.9	100.3
2015-16	30.1	70.3	100.4
2014-15	31.2	71.5	102.7
2013-14	27.5	72.6	100.1

The WAO reported that for 2016/17 the gross budgeted expenditure per pupil is the 6<sup>th</sup> highest in Wales but the percentage of that delegated to schools is the second lowest in Wales at 78%. As a result the delegated expenditure per pupil is the 5<sup>th</sup> lowest in Wales: the average for Primary is £4,000 and Secondary £4,800.

The Council's centrally retained and administered budget per pupil is the second highest in Wales at £1,305 of which the largest component is home to school transport which at £513 is by some margin the highest in Wales.

The Council has known for some time of the threat presented from delegated budget deficits at an increasing number of schools. The WAO report in June was preceded by another WAO report in 2012 and a PWC report in 2015. This is illustrated by the following:

### School Balances

Actual outturn 2016/17	+£0.48m
Draft Budget 2017/18	-£1.497m

Projection to 2019/20 -£5.454m  
(Prior to any mitigation being put in place)

### Initial Findings (Delegated)

The increasing deficit position would suggest that the funding is inadequate to maintain the current footprint of schools with the existing staffing structures together with the present curriculum offer. It is appreciated that it is unlikely that additional funding will be available to support schools. An extra £1m per year for 3 years (a total of £6m by the end of year 3) was put into the Schools Service for 2017/18 to help support secondary schools but it appears this was distributed via the Funding Formula to support small schools and only 20% was actually available to support the secondary sector.

How then has this position arisen? Possible causes identified include:

- Falling pupil numbers (including losing sixth form pupils out of county)

The table below taken from WG data shows that the recent decline in the population under 25 is likely to accelerate through the next decade.

Powys

	<b>2015</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>
People aged 0-2	3,790	3,590	3,290	3,060
People aged 3-7	6,630	6,510	6,130	5,640
People aged 8-10	4,130	4,110	4,010	3,750
People aged 11-13	4,270	4,170	4,150	3,990
People aged 14-19	7,880	8,020	7,930	7,840

However, pupil data from the WAO report would suggest that following the decline between 2009 and 2012, pupil number have remained relatively static. The impact on the delegated schools budgets has been a reduction of over £1,7m between 2013/14 & 2016/7. Although this trend is unlikely to be uniform across the county due to pupil movement across borders in both directions. That movement is difficult to predict and is driven by a number of factors.

- Unwillingness to intervene directly in schools' financial management.

The Council has issued letters of concern to those schools that it deemed appropriate but it has been reluctant to use its powers to intervene directly in the management of individual schools finances. In the opinion of virtually all who were questioned on this, lack of action has been perceived as a weakness. The offending schools have, as a result, sensed that little action would be taken. The Council's reluctance on this has, in part, been due to concerns that it has neither the capacity, nor in the case of curriculum management, the necessary skills, to successfully manage and resolve the problems. The Group felt that this is a significant weakness in the Council's approach.

- Schools failing to take difficult decisions and plan for falling rolls

The reaction of schools to the financial constraints has been mixed. Some schools have taken early and difficult decisions to restructure their leadership, staffing and curriculum offer to meet projected falling rolls and are in a better

position to manage decreasing budgets. Some schools have failed to take this action and their budget positions are a risk to themselves and the overall financial health of the authority. It is clearly unfair to allow well managed and financially proactive schools to be worse off due to the inaction of others.

We have discussed above the lack of curricular skills centrally within the Council. It has been suggested that a similar shortcoming of curricular/timetabling skills is evident within individual schools. We consider that such skills have to be provided either through training or the use of computer programmes within the schools themselves.

- School structures

It has been suggested that management structures have not been reviewed to take account of falling rolls. There is also apparently no template or guidance given to Governing Bodies on the management structures for schools. There is concern that the way in which TLAs are used in some schools. TLAs must be sufficiently flexible to support changing circumstances in curriculum and budget. The use of temporary TLAs could be a potential benefit. Schools must also use their teaching staff contact time efficiently and this should be monitored by Governing Bodies. The use of part time contract staff can have a beneficial effect on school budgets. The above needs to be monitored by ERW, Challenge Advisers, Governing Bodies and Senior Managers.

- Indecision and inaction

We consider that the Council's lack of a consistent policy direction and implementation has led to inaction and delays in defining School Modernisation. The capital programme surrounding it has led to uncertainty around the future of some schools, inhibited change and exacerbated falling roles.

A particular example of this is the provision of Welsh Medium education in the North of the county. A decision has been pending for some years on the provision of a new Welsh medium only school which would have a massive impact on the remaining schools in the area including a real prospect of closure. Such delays lead to uncertainty which prevents accurate longer term budget planning.

- Funding Formula Review

A comprehensive review of the funding formula is essential but we believe the current review will not address the fundamental issues. We would anticipate a more root and branch review of the formula to be progressed urgently.

### Financial Structures

There has been a lack of clarity between the roles and responsibilities of schools and the finance service allowing schools to overspend. This has resulted in schools not only spending their delegated budget and reserves but also overspending of the non-delegated Council's money.

The issue of dual stream schools against the financial budgets are concerning. A policy on dual stream schools and Welsh Medium Education should be progressed within financial constraints

### Initial Findings (Non-Delegated)



There are a number of areas which the Joint Scrutiny Group have concern that expenditure on each is proportionately the highest or approaching the highest in Wales. These are:

- Home to School Transport – including Post 16 transport

Costing over £9m - equivalent last year to £513 per pupil this cost is by some margin the highest in Wales. By comparison Ceredigion and Monmouthshire, the next highest, are c.£475 and £330 per pupil respectively.

It has been suggested to us that movement of pupils between schools to attend lessons could/should be a delegated responsibility to individual secondary schools. This, or perhaps a wider examination of local solutions could potentially save money. Consideration should be given to the continuation of free transport for Post 16. EMA is available to post 16 students.

- The Freedom Leisure Contract

This contract currently worth £1.8m is part of 'Other Schools Budget' costs allocated centrally. A review of this has already been started with, we understand, a revised allocation for Wet Side – swimming already agreed with agreement on the larger Dry Side to follow.

- ALN and Behaviour support.

As stated above the centrally retained expenditure for Additional Learning Needs of £4.3m represents £243 per pupil and is the third highest in Wales. As at the time of the WAO report (June 2017) the Council was reviewing the way it delivers some of its ALN services.

### Conclusions

It is apparent that the present financial position is unsustainable. This has now become a very urgent matter and although this Group were informed by the Portfolio Holders for Education and Finance that there would be a clear direction on the future shape of secondary schools by the end of the Summer 2017 which would inform the financial projections going forward, this so far, has not been forthcoming. This situation cannot continue given the continuing depletion of Council reserves and urgent action is required.

Until such time as the Group receives a clear policy direction there is limited scope to take this any further.

### Membership of the Joint Audit - Education Scrutiny Group

Audit representatives: County Councillor J Morris (Lead Member), Independent (Lay) Member J Brautigam, County Councillor H Hulme

Education Scrutiny Group representatives: County Councillors P Roberts, D Jones and S McNicholas