

CYNGOR SIR POWYS COUNTY COUNCIL.

**CABINET EXECUTIVE
19th June 2018**

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

SUBJECT: School Budgets 2018-2019

REPORT FOR: 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. Where a school is planning to set a deficit budget in the current 2018-19 financial year, this budget must be approved and licensed by the Authority in accordance with Section 4.9 of the Scheme. Schools planning significant surpluses for the 31st March 2019 are required to explain how they are planning to utilise these surpluses in accordance with Section 4.2 of the Scheme.
- 1.2 As at the 31st March 2018 there were twenty three schools with cumulative deficit balances totalling £3.71m, this compares with thirty four schools with deficits as at the 31st March 2017 with cumulative deficits of £2.2m. The primary schools have delivered improved financial outturns than planned, thus reducing the number with cumulative deficits. Officers from Finance, HR and Schools Service have worked closely with these schools through the year to implement recovery plans. The following Schools closed during FY17-18, Ardwyn Nursery and Infants School, Bronllys C P School, Gungrog C in W School, Oldford Infants School, Talgarth C P School and Ysgol Maesydre with a collective net surplus balance of £55k.
- 1.3 The outturn in 2017-18 has seen a significant decrease in the level of cumulative reserves held, a deficit position of £0.434m. The reserves held at the 1st April 2017 totalled £0.485m, a reduction in the overall balance held by schools between the financial years of £0.919m. The forecast position approved by Cabinet in July 2017, for 2017-18 was for a deficit balance of £1.5m at the end of 2017-18. The outturn position is £1m better than forecast, substantially due to a late Repairs and Maintenance grant from Welsh Government of £645,000.

- 1.4 The cumulative deficit of school budgets places a significant risk on the Authority's overall reserve. Section 4.1 of the Scheme for Financing Schools states that "To ensure the overall financial robustness of schools it is expected that the collective balances should always be in surplus, 2017-18 is the first year that this requirement has not been achieved".
- 1.5 Officers of the authority continue to challenge schools to ensure that Governing Bodies work within the financial constraints of the funding allocated to them in compliance with the Scheme for Financing Schools and class size and other curriculum requirements, where applicable.
- 1.6 Twenty one schools are proposing to set budgets with a cumulative deficit balance in 2018-19, compared with thirty four schools who set a cumulative deficit budget balance in 2017-18. Sixteen of the twenty one schools do not meet the criteria to be licensed, in accordance with Section 4.9 of the Scheme and are proposed not to be licensed. Eight schools set unlicensed budgets in 2017-18.
- 1.7 Of the total number of schools, six have submitted their budgets, but formal approval at full Governors meetings were held after the deadline of 1st May and therefore are in breach of the Scheme. The Finance Team sent out a number of communications prior to the deadline reminding schools of the deadline. Further correspondence will be circulated asking schools to align their full Governor's meeting with the deadlines within the Scheme for the 2019-20 budget year.

2. Deficit Budgets

- 2.1 Section 4.9 of the Scheme for the Financing of Schools outlines the parameters within which a deficit budget may be licensed;
 - The maximum length of time over which a school may repay a deficit is three years, except where a longer period, not exceeding five years, has been agreed in exceptional circumstances and with the support of the Head of Schools and the Section 151 Officer. In practice the timescale will depend on the extent of the deficit, and the school's planning and ability to take early, robust action.
 - In the primary sector the maximum licensed deficit which may be approved will be up to 10% of the school's budget share but with a ceiling of £50,000. In the secondary and special sectors the maximum licensed deficit which may be approved will be up to 7.5% of the school's budget share but with a ceiling of £100,000 for special schools and £150,000 for secondary schools.
 - A school with a planned deficit of less than £500 and a planned underspend in the following financial year will not have to apply to have the deficit licensed.
- 2.2 In July 2017 eight schools were highlighted as having unlicensed budget plans. Throughout 2017-18 officers within the authority continued to work with schools to reduce deficit positions;

- For FY17-18 Brecon High School, Ysgol Maesydderwen and Ysgol Cedewain (Special School) remained unlicensed
- 2.3 Builth High School and Llandrindod High School are closing in August 2018 and will be replaced by Ysgol Calon Cymru which is opening in September 2018. The two Schools are projected to be in a cumulative deficit position of £1.115m when they close, which has deteriorated against the original forecast of £800k, the difference between the approved budgets and outturn is specifically around Llandrindod. Internal Audit have been commissioned to undertake a review of the actions taken which contribute to the worsening position. Finance will continue to work closely with the Builth and Llandrindod Schools during the summer term to ensure further spend is limited in an attempt to recover the deficit position. A reserve of £1.115m will be established as part of the year-end adjustments to cover the cost of this, of which £800k has previously been approved.
- 2.4 In April 2018 a joint letter from Finance and Schools Services was sent to Crickhowell High School, prior to the School's Estyn Inspection, flagging concerns with its budget position. The letter stated that 'the authority will be in a position to license your budget when it is considered by Cabinet in June, with the school being allowed five years to bring the cumulative position in to a surplus position'. The actual cumulative outturn position for the 2017-18 year is significantly worse than expected and Finance officers are working closely with the school to ensure the recovery plan, proposed by the Governing Body is achievable and delivered over the required period.
- 2.5 Although the number of submitted deficit positions in 2018-19 has decreased, the increased level of deficit puts considerable pressure on reserves. Finance, HR and Schools Service officers are working closely with all schools to review the curriculum plans and drive down costs wherever possible in an attempt to slow and reverse this issue. Previously, two meetings per year were held with each school to discuss their individual budget positions but for 2018-19 and for subsequent years, three meetings per year will be held for schools with deficits budgets with the completion of an agreed timed action plan for the schools to adhere to.

3. Loan Scheme

- 3.1 In 2013-14 the Authority approved the implementation of a loan scheme, funded by the collective balances held by schools. It does not operate by way of a licensed deficit in respect of a particular school on condition that a corresponding sum is repaid from the budget share over the agreed period of the loan.
- 3.2 The following four schools with projected deficit balances requested and received loans in 2013-14;

School	Amount (£)	Term	Balance 31 st March 2018
Brecon High School	432,000	10 Years	259,200
Caersws CP School	25,000	10 Years	15,000
Talgarth CP School	25,000	5 Years	0 Due to closure in 2017
Ysgol Dyffryn Trannon	45,000	10 Years	27,000

- 3.3 The loan scheme was withdrawn during 2015-16 and no further loans have been approved. Schools who have already had loans authorised will continue to have the loans in place subject to meeting the loan terms and repayments as per the agreement made at the time.
- 3.4 Each of the schools have made their first four payments on the loan, Caersws C P School and Ysgol Dyffryn Trannon have submitted budgets with cumulative surplus balances, for 2018-19. It is noted that Talgarth C P School closed in 2017 with the pupils moving to the new Ysgol Y Mynydd Du, therefore the loan was written off in accordance with the Scheme for Financing Schools.
- 3.5 Brecon High School remains in deficit with an unlicensed budget, as the school are in breach of the terms of the loan. It has been proposed to amalgamate the outstanding loan into the overall budget position to have a complete picture of the financial health of the school. The loan is, however, shown here separately for the purposes of this report and is not included in the cumulative deficit shown in Appendix A.

4. Surplus Balances

- 4.1 Governing Bodies holding planned or actual cumulative surplus balances in excess of that detailed in the Scheme for Financing Schools are liable for claw back of some of the balances held.

The Scheme states that consideration should be given to potential clawback on closing balances at year end before considering if clawback should be applied to the schools in year planned surpluses.

- 4.2 Clawback on 2017-18 Outturn - The final outturn figures for 2017-18 shows twenty (20) schools that have surpluses in excess of the limits set within the Scheme for Financing of Schools. The maximum level of potential clawback is shown in Appendix A
- 4.3 The Schools subject to potential clawback on the surplus held at 31st March 2018 will be asked to provide an explanation as to the reasons for the surplus being in significant excess of the position submitted to Cabinet in July 2017.

The schools that fall under potential clawback are:

Primary Schools

Builth Wells CP School
Buttington/Trewern CP School
Crossgates CP School
Guilsfield CP School
Hafren CP Junior School
Knighton C in W School
Ladywell Green N & I School
Llanfair Caereinion CP School
Llanidloes CP School
Montgomery C in W school
Mount St CP Infants School
Mount St CP Junior School
Priory C in W (A) School
Treowen CP School
Ysgol Bro Tawe
Ysgol Dafydd Llwyd
Ysgol Golwg y Cwm
Ysgol Pennant CP
Ysgol y Cribbarth

Secondary Schools

Gwernyfed High School

- 4.4 Clawback on Budget 2018-19 - Planned budgets that are in excess of the surplus allowed (as included in the Scheme for Financing Schools for 2017-18), will be subject to clawback. Fifteen (15) schools have planned surpluses in excess of these limits, thirteen (13) Primary, one Special School and one Secondary School, many of these are those who are subject to potential clawback on their 2017-18 outturn.
- 4.5 In line with the Scheme for Financing of Schools, these schools will be requested to submit a spending plan of how they intend on using this surplus over the current and future two years, by the 20th July 2018. A further report will be brought back to Cabinet during the first half of the autumn term 2018 to advise of the outcome of the review of these plans and to provide members with an update on all school budget plans.
- 4.6 Under the School Funding (Wales) Regulations 2010, the Authority has the power to direct spending claw back monies where planned surplus budgets held by schools exceed £50,000 for primary and £100,000 for special and secondary schools. In the first instance this may support the financial deficits caused by school closures

5. Budgets 2018/19

- 5.1 Seventy four schools have planned cumulative surplus budgets with nineteen schools proposing a cumulative deficit budget at the end of 2018-19. In addition Builth and Llandrindod High Schools will both close with significant deficits at the 31st August 2018. All schools budgets have been included in the report.

The table below shows the predicted budget position for each phase excluding loans to schools detailed in Section 3.2

Type of School	Number of Schools Projected to be in Deficit	Number of Schools Projected to be in Surplus	Projected Deficit	Projected surpluses	Total
			£000	£000	£000
Primary	11	68	(215)	2,072	1,857
Special	2	1	(274)	114	(160)
Secondary/ Middle	8	5	(4,242)	442	(3,800)
Total	21	74	(4,731)	2,628	(2,103)

- 5.2 Appendix A shows the outturn position for all schools as at 31 March 2018 together with the planned projected budget position and planned cumulative balance for each school for the years ending 31 March 2019, 31 March 2020 and 31 March 2021.
- 5.3 The reserves collectively held by schools at 31 March 2018 show a cumulative deficit position of £0.4m. The budget proposals submitted for the 2018-19 financial year project a further draw on reserves of £1.7m which will increase the deficit at 31 March 2019 to £2.1m. This will be reduced to £1m when the balances in respect to the two closing high schools are written off by the authority. The schools ring-fenced reserve is standalone and projected surplus balances held by some schools support the cumulative deficit of others. The overall cumulative reserve moved into an overall deficit position in 2017-18 which is against the authority's Scheme for Financing Schools and a significant risk falls on the Council. Appendix A shows that based on current budget plans the cumulative deficit after adjusting for the two closing schools is projected to increase to £7.6m. It is therefore critical, that the authority and schools take robust, corrective action to balance these budgets and recover the projected deficits.
- 5.4 Of the twenty one schools submitting deficit budgets for 2018-19, only three of these school budgets are projected to return to surplus over the following two years and are in compliance with the Scheme for Financing Schools, the other two were in deficit positions but are approved as they are less than £500. On that basis it is proposed that the following school budgets be licensed:

Primary Schools

Llanfihangel Rhydithon CP School
Llangedwyn C in W Voluntary Controlled School

Special Schools

Brynlywarch Hall Residential

- 5.5 Sixteen schools do not meet the requirements to have their budgets licensed as their projected cumulative deficit balance at 31 March 2019 is not brought back into balance within three years, or the deficit in 2018-19 is above the threshold to license. The sixteen schools are:

Primary Schools

Brynhafen CP School
Llanerfyl C in W Foundation School
Llanfechain C in W School
Llansantffraid C in W Controlled School
Penygloddfa CP School
St Mary's Roman Catholic Aided School
Ysgol Bro Cynllaith

High and Middle Schools

Brecon High School
Builth Wells High School (closing in August 2018)
Ysgol Maesydderwen
Llanidloes High School
Ysgol Bro Hyddgen
Crickhowell High School
Welshpool High School
Llandrindod High School (closing in August 2018)

Special Schools

Ysgol Cedewain Special School

- 5.6 Over the years a number of reports have been considered by Cabinet with regard to the financial position of Brecon High School. During February 2018 the Governing Body were required to submit a recovery plan which as a minimum, brought the school's budget into a balanced in-year position in 2018-19. The school submitted a draft budget in March 2018 the summary of which is shown within Appendix A. Officers from Finance, HR and Schools have held a number of further discussions with the school in the last 5 months and have developed a joint business case which will reduce the in-year spending by up to £600,000 with an expected implementation date of 1st January 2019. The work has been led by the authority and has been approved by the Governing Body with some reluctance. The business case does improve the financial position of the school but does not, on the current

projections and funding level, bring the school into an in year surplus and the schools cumulative deficit would still increase even with all proposed changes in the business case being implemented.

- 5.7 Built Wells High School and Llandrindod High School are subject to closure at the end of the summer term 2018, in accordance with Section 4.8 of the Scheme upon closure any existing deficits are written off by the Authority. It is essential that the Finance Team continue to work with these schools to reduce and limit the level of deficit incurred. The overall position of the two schools, in the approved budget plans they have submitted, is a deficit of £1.115m. Ysgol Calon Cymru (the new school) has a forecast surplus in 2018-19 and forecasts a deficit in 2019-20 and future years, but the figures have not yet been finalised by the new School or temporary governing body and are therefore subject to change.
- 5.8 Welshpool High School have submitted a three year budget which shows the forecast deficit position increasing over the period to £1.176m. Schools Service, HR and Finance are undertaking urgent work with the school to develop and agree a curriculum model that once implemented will reduce this projected cumulative deficit level.
- 5.9 During July 2017, Notices of Concern were issued to some schools, with meetings of both Finance, HR and Schools Service taking place. These meetings have been minuted and action plans, agreed and, circulated to these schools for work to start immediately to drive down the costs through areas including a curriculum review and increase their income. Follow up meetings during the Summer Term and Autumn Term 2018 have been scheduled, for further recovery work to be planned and actioned. This work is supported by Challenge Advisors and HR Business Partners, early intervention on all deficit budgets is essential and working in collaboration with Schools will achieve better financial outcomes.
- 5.10 It is proposed that Finance and Schools Service continue to work with the Governing Bodies, with Warning Notices and Notice of Concerns issued in accordance with 2.15 of the Scheme, stating that the budget plan is not in compliance with the scheme, and requiring them to take urgent action to remedy the financial position and produce a recovery plan. Each of these schools are subject to being called in to scrutiny and they will be advised accordingly. Members need to note that this is the first step in terms of the potential suspension of delegation from a school (Section 2.16 of the Scheme).
- 5.11 The overall projected financial position for schools is shown below, this highlights that the position could deteriorate rapidly. Although, the number of unlicensed budgets has declined this year, unless appropriate action is taken the numbers will increase.

School	Actual Position 2017-18	2018-19	2019-20	2020- 21
	£'m	£'m	£'m	£'m
Total Deficit	(3.5)	(4.8)	(5.2)	(8.5)
Total Surplus	3.1	2.7	1.6	0.9
Total Balance	(0.4)	(2.1)	(3.6)	(7.6)

- 5.12 Schools are forecasting overall cumulative deficit balances increasing through to 2020-21. Continual action and monitoring will be required by the Local Authority and Governing Bodies to ensure deficit balances forecast in future years are reduced. The table below shows the number of schools projected to be in deficit over the four year period.

Deficit	Actual Position 2017-18	2018-19	2019-20	2020-21
Secondary/Middle	8	8	10	11
Primary	13	11	20	41
Special	2	2	2	2
Total	23	21	32	54

- 5.13 School financial surgeries will continue to take place twice a year for Primary Schools, in the autumn and spring terms. These sessions will monitor delivery of current budgets and consider and plan for future years. Challenge and support is essential to ensure that Governing Bodies take appropriate timely action to effectively manage their budgets.
- 5.14 The financial position of the secondary schools is of more concern, 8, of the 12 High and middle schools have submitted unlicensed budget proposals and the level of deficit is projected to significantly increase over the 3 year period. It is essential that High and Special Schools continue to work with the authority to improve this position.
- 5.15 A fundamental review of the Fair Funding Formula and a review of the Scheme for Financing Schools is being carried out. One of the outcomes of the review is the development of a minimum curriculum model for all types of school. This will provide a funding mechanism against which funding can be distributed.

6. Options considered / available

- 6.1 Signed and approved budgets were required to be submitted by 1st May, 2018. Where schools have submitted deficit budgets, officers have worked with Governing Bodies to address the deficit balance. Continual work by Governing Bodies and officers of the Authority will be required to ensure these deficits are reduced as quickly as possible.

- 6.2 The review of the Fair Funding Formula will highlight any potential gap between funding and delivering the curriculum. The purpose of the review is to design a formula which will support a minimum curriculum to be delivered whilst ensuring sufficient funding is provided for premises, additional learning needs and school specific factors 'Outside the norm' schools, e.g. split site etc. The review is due to be presented to Cabinet in July and will be asking for authority to consult on the detailed proposals. Delivery of the formula is intended for April 2019, but it may be recommended that a phased approach is taken for some aspects of the review.
- 6.3 If, following advice from officers, the Governing Body do not make appropriate changes to effectively manage their budget within the requirements of the Scheme for Financing Schools, the deficit budget will not be licensed. The Headteacher and Governors can be requested to meet with portfolio holders, Heads of Service and Executive Directors to discuss their budget management.
- 6.4 The Authority also has the option to withdraw delegation from the Governing Body and manage the budget from within the Authority. This can only be done following the issuing of a formal warning notice and non-compliance within a set timeframe and in line with the scheme for the financing of schools.

7. Impact Assessment

- 7.1 Is an impact assessment required? No
- 7.2 If yes is it attached? No

8. Local Member(s)

- 8.1 All maintained schools across the council are included in this report therefore all local members have an interest.

9. Other Front Line Services

Does the recommendation impact on other services run by the Council or on behalf of the Council? Yes

If so please provide their comments

Due to the schools deficit position and the forecast is such that this position will worsen, this will be putting financial pressure on the overall Council's budget, therefore other front line services may be impacted by this.

10. Communications

Have Communications seen a copy of this report? Yes

Communications Comment: The report is of public interest and requires news release and use of appropriate social media to publicise the decision.

11. Support Services (Legal, Finance, Corporate Property, HR, ICT, Business Services)

11.1 Legal: The recommendations can be supported from a legal point of view.

11.2 Finance: Deficit and surplus balances must continue to be carefully monitored to ensure schools are in compliance with the Scheme for Financing Schools and that schools take the appropriate action to ensure they meet the requirements.

It is essential that officers from Finance, HR and Schools service continue to work with the Headteachers and Governing Bodies to address school balances.

11.3 Corporate Property: Not required

11.4 HR: Not required

11.5 ICT: Not required if appropriate

12. Scrutiny

Has this report been scrutinised? Yes, 25th May 2018

13. Statutory Officers

13.1 The Head of Financial Services (Deputy Section 151 Officer) comments;

The report predicts a continuing worsening position for schools' finances. The table in paragraph 5.1 above shows a projected overall deficit of £2.103m at 31st March 2019 that is ultimately a potential draw on the Council's general fund balance.

Of particular concern is the level of deficit within the secondary sector. Governing Bodies must be supported and challenged to ensure budgets are effectively managed. Progress against agreed recovery plans must be keenly monitored and where appropriate further intervention measures implemented. Cabinet's attention is drawn to the significant financial risk the schools sector now presents to the authority.

13.2 The Solicitor to the Council (Monitoring Officer) has commented as follows: “I note the legal comments and have nothing to add to the report”.

14. Members’ Interests

The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest they should declare it at the start of the meeting and complete the relevant notification form.

Recommendation:	Reason for recommendation
1. That all planned budgets with a cumulative surplus at 31 March 2019 are approved	To comply with the Authority’s scheme for the financing of schools
2. That the clawback mechanism for 2017-18 to the schools named in Section 4 of the report should apply, pending reasons for the surplus being in excess of the position being submitted to cabinet	To comply with the Authority’s scheme for the financing of schools
3. That all schools that are potentially subject to clawback for 2018-19 as set out in Section 4 have their budgets re-assessed after spending plans have been submitted.	To comply with the Authority’s scheme for the financing of schools
4. That the proposed budgets for the following schools, who have planned cumulative deficit balances in 2018-19, are licensed: Primary: Llanfihangel Rhydithon CP Llangedwyn C in W Special: Brynlllywarch Hall	To comply with the Authority’s scheme for the financing of schools
5. That the budgets for the following schools remain or are placed in an unlicensed position. Primary Schools:	To comply with the Authority’s Scheme for the Financing of Schools

**Brynhafren CP School
Llanerfyl C in W Foundation School
Llanfechain C in W
Llansantffraid C in W Controlled
School
Pengloddfa CP School
St Mary's Roman Catholic Aided
School
Ysgol Bro Cynllaith**

Secondary Schools

**Brecon High School
Builth Wells High School
Crickhowell High School
Ysgol Maesydderwen
Llanidloes High School
Ysgol Bro Hyddgen
Welshpool High School
Llandrindod Wells High School**

Special Schools

Ysgol Cedewain

The Authority will continue to work closely with these schools to reduce the deficits over the next three years, with regular meetings support to ensure improved budget recovery plans. Schools and their governing bodies will be reminded of the need to comply with Notices of Concern, and the consequences of the withdrawal of delegation, which will be implemented for non-compliance within an agreed timeframe

Schools in deficit will have regular support, in addition to the financial surgeries that continue in the summer, autumn and spring terms. Action plans are being put in place following meetings with the Schools, and a RAG rate will be given to Schools in order for the Authority to ensure those Schools with an amber and Red RAG rating are scrutinised as failure to comply with the

constitutional mechanism we have in place jeopardises the education provision for today's and tomorrow's children and young people.	
6. Financial surgeries continue in the autumn and spring terms and schools are reminded of the possibility of claw back.	To comply with the Authority's scheme for the financing of schools
7. Existing Loans are monitored.	To comply with the Authority's scheme for the financing of schools

Relevant Policy (ies):	
Within Policy:	Y
Within Budget:	N

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:	19 th June 2018

Contact Officer: Richard Waggett Tel: 01597 826387 Email: richard.waggett@powys.gov.uk
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Background Papers used to prepare Report: