

## **SCRUTINY COMMITTEE REPORT**

Date Written	20 <sup>th</sup> August 2018
Report Author	Anthony Lewis
Service Area	Learning Department
Committee Date	3 <sup>rd</sup> September 2018

*To: Chair, Ladies and Gentlemen*

### **School Budgets/Cyllidebau ysgolion**

#### **1.0 SUMMARY OF THE REPORT**

- 1.1 The purpose of this report is to provide an update with respect to financial resources management of schools and the financial risk and sustainability of school budgets.
- 1.2 Since 2015/16 the local authority has implemented resource monitoring, challenge and intervention policies that have enabled and supported the recovery of very low aggregate schools balances and the recovery of individual schools' budgets from a deficit position.
- 1.3 The report shows that the management of schools' financial resources is good, although an increasing number of individual schools have excess balances above regulatory thresholds at the financial year end and are subject to local authority challenge regarding use of these balances.
- 1.4 However, this improving position is now set within a context of balances that are expected to diminish over the medium term based on current funding levels, whilst further budget reductions from 2019/20 onwards will increase the risk to schools being able to set sustainable budgets over the medium term.
- 1.5 Successfully managing these risks will enable the local authority to demonstrate over the medium term that resource management in schools continues to be good in increasingly difficult circumstances.

#### **2.0 RECOMMENDATION that**

- 2.1 To discuss and note the contents of the report including consideration of any follow up required.

### **3.0 INTRODUCTION AND BACKGROUND**

- 3.1 In response to the low level of school balances at 31<sup>st</sup> March 2014 and 31<sup>st</sup> March 2015, circa £358k and £214k respectively, and the high number of schools ending those financial years in deficit (ten and then nine), the Schools' Financial Monitoring, Scrutiny and Intervention Policy was implemented to risk assess the financial sustainability of schools and to target appropriate local authority challenge and support.
- 3.2 At the same time a policy to direct the use of and if necessary clawback schools' balances above the regulatory thresholds of £50k for Nursery/Primary schools and £100k for Secondary/Special schools was also implemented.
- 3.3 The Local Authority has a benchmark target for aggregate schools' balances held at the financial year end to be 3% of formula funding and also recommends that individual schools hold balances of between 2% - 4%, and within the above regulatory thresholds.
- 3.4 Good resource management in schools is the result of effective leadership and governance and Estyn describes 'Good' resource management in the following terms:
- Staffing and financial resources are managed and deployed effectively to support learning improvement;
  - The impact of resources on teaching and learning is kept under review and future needs are planned for;
  - The school's spending decisions relate well to priorities for improvement and the benefit of the pupils;
  - The pupil deprivation grant is well spent; and
  - The use of shared resources through efficient partnership work or federation provides good value for money because it contributes to improved and generally good outcomes for pupils in aspects which the school alone could not provide.
- 3.5 Since 2015/16 onwards the key measures of success that the local authority has used to judge 'Good' resource management in schools are:
- No schools with an unplanned financial deficit;
  - All schools with a licensed deficit deliver against their recovery plan and balance their budget in line with their Medium Term Financial Plan;
  - All schools with a surplus balance in excess of regulatory thresholds will successfully deliver their excess balances spending plan; and
  - No school will hold excess balances for three consecutive years requiring local authority clawback.

### **4.0 WHERE WE WERE**

- 4.1 The local authority's schools' balances (reserves) held at the 2016/17 year end i.e. 31<sup>st</sup> March 2017 were £956,356 or 2.6% of formula funding. This had increased from £776k in 2015/16, £214k in 2014/15 and £358k in 2013/14.
- 4.2 No school ended the financial year with an unplanned and unlicensed deficit for the second consecutive year. This is a significant improvement since 2013-14 when there were nine schools in this high risk position and in 2014/15 there were six.

- 4.3 The only school to report a planned financial deficit at the year end, Afon Taf High School, had reduced their local authority approved deficit to £90k from £220k in 2015/16 and £342k in 2014/15.
- 4.4 Seven schools (Primary) held balances above the regulatory thresholds, three of which had held these for two consecutive year-ends. In 2015/16 there had been six schools with excess balances (Nursery/Primary).
- 4.5 The improved financial performance and sustainability of schools has been as a result of robust financial monitoring by both schools and the local authority.
- 4.6 In July 2017, as a result of the above improvements, 22 schools were categorised for 2017/18 as GREEN or YELLOW risk compared to 14 for 2016/17 and 4 were categorised as AMBER compared to 13 the previous year. See Table 1 below for further details

*Table 1: Financial Risk Categorisation in 2016/17 and 2017/18*

Financial Risk Category	Judgement	No. of Schools	
		2016/17	2017/18
RED	HIGH RISK	1	2
AMBER	MEDIUM TO HIGH	13	4
YELLOW	LOW TO MEDIUM	10	17
GREEN	LOW	4	5

## **5.0 WHERE WE ARE NOW**

- 5.1 The local authority's schools' balances (reserves) held at the 2017/18 year end i.e. 31<sup>st</sup> March 2018 were £1,846,606, which when adjusted to account for the WG Repairs and Maintenance Grant, reduces the balances held to £1,581,040.
- 5.2 The WG R&M Grant was unexpected nationally and was given to schools in March 2018 as a one-off contribution to schools' budgets. This additional income, though welcome, distorts the level of balances that schools would otherwise have held at the year end.
- 5.3 The adjusted balance of £1,581k is 4.1% of formula funding, and is £431k above the local authority's 3% target for aggregate balances.
- 5.4 Thirteen schools have adjusted balances higher than the regulatory thresholds. Nine of these are in the first year of holding an excess balance, three have held excess balances for two consecutive years and one school, St Mary's Primary School, has now held excess balances for three consecutive years. Further details are provided in Table 2 below.

*Table 2: Schools above School Funding (Wales) Regulations 2010 thresholds (Nursery/Primary £50k, Secondary/Special £100k) @ 31<sup>st</sup> March 2018.*

School	2017/2018 Adjusted Balance £000s	Excess Balance £000s	Year
Cyfarthfa High	124	24	1
Coed Y Dderwen Primary	74	24	1
Gwaunfarren Primary	62	12	1
St Illtyd's RC Primary	69	19	1
St Aloysius RC Primary	70	20	1
Twynyrodyn Primary	67	17	1
Pen y Dre High	103	3	1
Greenfield Special	138	38	1
Afon Taf High	103	3	1
Dowlais Primary	98	48	2
Edwardsville Primary	72	22	2
Ysgol Y Graig Primary	97	47	2
St Mary's RC Primary	64	14	3

- 5.5 All schools with excess balances are required to provide excess balance plans to the local authority detailing the reasons for the balances being held and the planned use of those balances in the current financial year 2018/19.
- 5.6 The Learning Department are currently liaising with these schools regarding their excess balance plans as part of the local authority approval process. Recommendations for approval or otherwise are expected to be made to the Chief Officers of Education and Finance before the end of September 2018.
- 5.7 As part of these discussions with schools, a recommendation will be made regarding St Mary's Primary School holding their third year of excess balances (2015/16 +£28k, 2016/17 +£47k, 2017/18 +£14k) which although significantly reduced, can be clawed back subject to the formal recommendation of the Chief Education and Chief Finance Officers and approval by Cabinet.
- 5.8 If these £14k excess monies are clawed back then, as per the Schools Funding (Wales) Regulations, 2010, they must be spent during the year of clawback for the benefit of schools within the county borough. A recommendation will be made to Cabinet within the report on Schools Balances in October 2018.
- 5.9 Afon Taf successfully delivered a planned budget surplus in line with its local authority approved Planned Licensed Deficit (PLD). The school ended the year with a positive balance for the first time since 2012/13, and closed with £103k in reserve.
- 5.10 The 2017/18 year end is first time since 2007/08 that no school closed the financial year with any deficit budget at all. It is also the third consecutive year that no school has closed with an unplanned and unlicensed deficit, evidencing continued improvement in financial monitoring by schools and the local authority.

- 5.11 Following the closure of the 2017/18 accounts in May 2018, all schools set their 2018/19 budgets by 31<sup>st</sup> May 2018 in line with statutory requirements. Schools' 2018/19 budgets and indicative three year Medium Term Financial Plans (MTFP) 2018-2021 are included in Appendix 1.
- 5.12 The aggregate level of school balances budgeted in 2018/19 is just over £1 million which shows an expected £800k reduction in balances year on year. This estimated year-end balance for schools is 2.7% of formula funding which is £100k lower than the benchmark LA target of 3%.
- 5.13 In 2018/19, one school Bedlinog Primary, have set a deficit budget of -£24,168. Bedlinog applied to the local authority for a licensed deficit and submitted a business plan and MTFP covering the period 2018-2021 to support the recovery of this deficit by 2020/21.
- 5.14 The schools recovery plan, which will be implemented during academic year 2018/19, is linked to the restructuring of its SLT and was approved by the Chief Education and Chief Finance Officers in July 2018.
- 5.15 The level of aggregate schools' balances over the MTFP period indicates that overall, schools balances are expected to continue to decline beyond 2018/19 to £863k in 2019/20 and £487k in 2020/21, by which time nine schools are at risk of being in a deficit budget position.
- 5.16 In July 2018, following confirmation of their indicative MTFPs, each school was categorised for financial risk and sustainability and were advised of their categories at the end of the Summer Term 2018. See Table 3 below for a summary of these details.

*Table 3: Financial Risk Categorisation 2017/18 and 2018/19*

Financial Risk Category	Judgement	No. of Schools	
		2017/18	2018/19
RED	HIGH RISK	2	1
AMBER	MEDIUM TO HIGH	4	7
YELLOW	LOW TO MEDIUM	17*	10
GREEN	LOW	5	9
<b>TOTAL</b>		<b>28*</b>	<b>27</b>

\*includes Gurnos Nursery which from 1/9/18 will be amalgamated with Goetre Primary reducing the total schools within Merthyr Tydfil CBC to 27.

- 5.17 The number of schools at medium or high risk i.e. AMBER/RED has increased from six to eight whilst the number of schools categorised low to medium i.e. GREEN/YELLOW has reduced from 22 to 19. These changes are indicative of the additional financial pressure schools are expecting to face based on current funding levels in 18/19.

## **6.0 WHERE WE WANT TO BE**

- 6.1 The local authority has performed well against the measures outlined in 3.5 since 2015/16 and can evidence good financial management over this period. The only issue that requires addressing from these measures is the excess balance that has been held for the third consecutive year in St Mary's Primary School (2015-2018) and this will be resolved with the school and the Cabinet in the first half of the Autumn Term.
- 6.2 In the longer term the key additional measures that the local authority has identified as being required to in order to achieve 'Excellent' resource management in its schools are:
- No schools require a licensed deficit;
  - Aggregate schools' balances held at the financial year-end will be circa 3%;
  - All schools will hold balances of between 2% – 4% and within the regulatory thresholds; and
  - All schools are categorised as GREEN or YELLOW and those who are categorised as AMBER improve the following year.
- 6.3 However, the indicative MTFPs and the risk categorisations outlined in this report highlight that further progress in this area to demonstrate Excellent resource management outcomes will be increasingly difficult.
- 6.4 This is expected to be under further threat due to the ongoing financial pressure faced by the local authority's future settlements and the likely impact of this on schools' budgets. This is especially the case as schools require a period of adjustment when facing decreasing budgets to implement sustainable financial plans that are appropriate and fit for purpose with regards to curriculum delivery.
- 6.5 Bearing these factors in mind, if the local authority and its schools can continue to achieve the measures demonstrating good resource management, then this should be considered as a success, representing continued good progress with respect to resource management.

## **7.0 WHAT WE NEED TO DO NEXT**

- 7.1 Issue a formal Notice of Financial Concern to the single RED school and Statements of Recommended Practice to each of the seven AMBER schools at the start of the Autumn Term.
- 7.2 Agree and sign off (where appropriate) Excess Balances Plans for all twelve schools with excess balances in their first or second years.
- 7.3 Report to Cabinet on Schools Balances, Financial Risk Categorisations and Excess Balances Plans in October 2018 including making a recommendation regarding the potential clawback of St Mary's Catholic Primary School's third year excess balance of £14k.
- 7.4 The local authority will continue to monitor schools finances during 2018/19 in accordance with the appropriate financial monitoring policies and schools categorised RED and AMBER will be required to attend the LAs training on financial management in schools if not already done so.

7.5 Liaise with the Schools Forum and schools regarding savings requirements for the 2019/20 formula funding and provide schools with relevant and timely information to support robust financial planning for their 2019/20 budgets.

## 8.0 Contribution to WELLBEING OBJECTIVES

8.1 Within Best Start to Life there is a focus on achieving excellence through improved outcomes, pedagogy and governance. Efficient budget management within our schools enable resources to be targeted appropriately to ensure that there is maximum impact for the pupils.

**SUE WALKER**  
**CHIEF OFFICER: LEARNING**

**COUNCILLOR LISA MYTTON**  
**PORTFOLIO: LEARNING**

<b>BACKGROUND PAPERS</b>		
<b>Title of Document(s)</b>	<b>Document(s) Date</b>	<b>Document Location</b>
Cabinet Report Schools Balances 2016- 2018	22 <sup>nd</sup> November 2017	Intranet
<b>Does the report contain any issue that may impact the Council's Constitution?</b>		No