

SCRUTINY COMMITTEE REPORT

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Service Area	Education
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Schools Balances and Mid-Term Financial Plans

1.0 SUMMARY OF THE REPORT

- 1.1 This report provides an update to scrutiny members on school balances from immediately prior to COVID to the current year's budgets and the projected three-year Mid-Term Financial Plans (MTFPs) 2023-2026.
- 1.2 To provide a wider context, the report also contains comparative information from published data on schools' balances across Wales.
- 1.3 The report outlines the financial position of the local authority's schools and the impact of budget reductions applied in 2023/24.

2.0 RECOMMENDATIONS

- 2.1 Scrutiny members note the contents of the report and consider implications for the monitoring of schools' budgets and the prioritisation of schools' funding in the Council's budget setting processes 2024/25 onwards.

3.0 INTRODUCTION AND BACKGROUND

- 3.1 The local authority's schools' balances held in reserve on 31st March 2020 (pre-COVID) were £1.55 million which was 3.2% of delegated funding, and in line with the local authority's target levels for schools' balances.
- 3.2 At that time the level of balances held by Merthyr schools amounted to £175 per pupil and ranked 4th out of all local authorities in Wales. The local authority was also in the top quartile for all other school balance measures across Wales, with very few schools in deficit, and most schools held reasonable balances of less than 5%.

- 3.3 In comparison, the average level of balances held in reserve across Wales was only 1.3% of delegated funding, amounting to £70 per pupil. There were over a fifth of all schools in deficit (21%), with each local authority having between 4% and 47% of their schools in deficit.
- 3.4 Three local authorities had nearly half of their schools in deficit and another four local authorities had at least a quarter of their schools in deficit.
- 3.5 Half of all Welsh local authorities had their total secondary sector school balances in an overall deficit, six had their total special sector balances in an overall deficit and two had their overall primary sector balances in an overall deficit.
- 3.6 Perhaps the starkest statistic highlighting the position of schools' balances across Wales on 31st March 2020, is that five local authorities, nearly a quarter, had their total schools' balances across all sectors in an overall deficit. These deficits ranged from minus £400k to minus £2.0 million.
- 3.7 At the end of the next financial year, between January and March 2021, Welsh Government (WG) paid unexpected one-off grant income into all schools' budgets across Wales. Much of this income didn't require schools to incur additional expenditure and was effectively a direct boost to balances held in reserve i.e., a cash injection.
- 3.8 A figure of circa £1.9 million was paid to the local authority's schools, and, as a result, the total schools' balances held in reserve increased to £4.27 million by 31st March 2021.
- 3.9 Without this late income schools' balances would have been £2.37 million compared to £1.55 million the previous year. This additional increase in school balances of £920k was mainly due to reduced spending of core budgets during the lockdown period.
- 3.10 Between January and March 2022, WG again paid unexpected one-off grant income into schools' budgets across Wales, without requiring additional expenditure to be incurred. This time circa £2.7 million was received by the local authority's schools.
- 3.11 As a result, the total schools' balances held in reserve on 31st March 2022 increased to £6.34 million (11.4% of delegated funding). This amounted to £703 per pupil, ranked 8th out of all local authorities in Wales.
- 3.12 Without this late income schools' balances would have been £3.65 million compared to £2.37 million the previous year. This increase in school balances was mainly due to the remaining unspent monies from the £1.9 million paid prior to 31st March 2021.
- 3.13 This position of increased balances was mirrored right across Wales and on 31st March 2022, average balances held in reserve across Wales was 10.9% of delegated funding or £659 per pupil, compared to 1.3% or £70 per pupil, just two years earlier.

- 3.14 67% of all schools across Wales had balances in reserve over 10% and only 3% of schools were in deficit, compared to two years earlier when 21% of schools were in deficit and only one in ten schools had balances over 10%.
- 3.15 This position over two years of significant additional grant income being transferred to schools without requiring additional expenditure to be incurred, resulted in school balances increasing artificially i.e., not due to excessive base budget funding being unspent and placed in reserves, but due to significant cash injections.
- 3.16 This approach led to artificially high balances being held across schools in Wales when compared to the base budget position that had been seen pre-COVID.
- 3.17 However, WG advised that this would unlikely be repeated for a third year in 2022/23, leaving schools to assess the best use of the balances currently held in reserve with appropriate short-term measures to support their curriculum delivery and teaching and learning.

4.0 WHERE WE WERE

- 4.1 Schools set budgets in 2022/23 with a projected year-end balance on 31st March 2023 totalling £3.5 million, planning to use a significant proportion of the additional balances brought forward.
- 4.2 Schools' balances were also projected to reduce further to £2.26 million by 31st March 2024 and to £1.54 million by 31st March 2025, which is around 3.3% of delegated funding and in line with target levels for schools' balances and back to pre-COVID figures.
- 4.3 On 7th September 2022, Cabinet approved the financial categorisations for schools in 2022/23. The following table summarises the number of schools in each category:

Financial Risk Category	Judgement	2022/23
RED	HIGH RISK	1
AMBER	MEDIUM TO HIGH	7
YELLOW	LOW TO MEDIUM	9
GREEN	LOW	6
TOTAL		23*

***This excludes Blessed Carlo Acutis Catholic School which was opened on 1st September 2022 and set its first budget during the Autumn Term 2022.**

- 4.4 Cyfarthfa High School was the only school in 2022/23 with an approved Planned Licensed Deficit (PLD) and was working towards their proposals to achieve the required savings to balance their budget over the medium term.
- 4.5 As indicated by WG there was no late income received in 2022/23 and the total schools' balances held in reserves on 31st March 2023 reduced to £3.84 million compared to the £6.34 million the previous year.

- 4.6 From data shared in June 2023, by nineteen of the twenty-two local authorities across Wales, this fall in balances on 31st March 2023 is replicated across Wales with an average reduction nationally of 32%.
- 4.7 In comparison, schools' balances in Merthyr fell by 39%, which is the 5th largest reduction in balances out of the nineteen local authorities submitting data.
- 4.8 A more detailed analysis of balances on 31st March 2023 across all local authorities in Wales is expected to be published before the end of October.
- 4.9 As part of the Council's budget setting process for 2023/24, the schools' formula funding, which was grown in line with usual practice to include pay awards, energy inflation, and general inflation increases, had a real terms reduction of £1.5 million per annum applied to the overall funding provided from 1st April 2023.
- 4.10 This equates to a real-term reduction of 2.98% to each schools' funding for the current financial year. This reduction is an average of £38,003 per primary school per annum and an average of £155,589 per secondary/special/3-16 school per annum.
- 4.11 All schools had to set their 2023/24 budgets and indicative three-year MTFPs by 31st May 2023, whilst factoring in this reduced funding.

5.0 WHERE WE ARE NOW

- 5.1 During their budget-setting processes for the current financial year, schools identified a reduction of a total of 45 posts (17 teaching and 28 LSA's), the majority from September 2023, to support the balancing of their budgets and MTFPs.
- 5.2 Most of these posts were fixed-term contracts with less than two years' service, however, seven of the posts have resulted in redundancy payments due to length of service. No compulsory redundancies have been necessary to date.
- 5.3 With this reduction in posts and savings against other budget headings, schools' balances are still budgeted to decrease by £2.7 million by 31st March 2024 to £1.1 million, which is 2.3% of delegated funding and below target levels.
- 5.4 Other ways in which schools have chosen to manage their budgets include reductions in capitation spend, a reduced budget for agency spending, and reducing building maintenance costs.
- 5.5 These budget lines are volatile and it is not yet clear whether schools who have chosen to do this will be able to manage during the financial year 2023/24.
- 5.6 The level of balances is projected to further reduce to an aggregate overall deficit position of minus £601k in 2024/25 and minus £2.07 million in 2025/26.

- 5.7 A similar trajectory in school balances is expected across Wales with an increasing number of schools facing a deficit budget position in the current financial period and beyond. There is a risk that schools' balances across Wales will return to pre-COVID levels or worse.
- 5.8 Appendix 1 details schools' 2022/23 year-end balances, 2023/24 budgets and indicative three-year MTFPs 2023-2026. With consideration to this information schools have been provisionally categorised for financial risk and sustainability, subject to Cabinet approval in October.
- 5.9 There are currently four schools projecting a deficit budget in the current financial year and they have all applied to the local authority for a Planned Licensed Deficit (PLD) with a recovery plan to balance their budgets over the term of their MTFPs.
- 5.10 Further posts will be reduced across these four schools in line with their recovery plans over their MTFP to balance their budget.
- 5.11 There are also eleven other schools indicating a deficit budget position over the MTFP, seven in 2024/25 and four in 2025/26. In total, fifteen of twenty-four schools (63%) are currently projecting a deficit budget over the three-year period 2023-2026.
- 5.12 It is important to note that the indicative MTFPs set by schools' act as an early warning tool for the local authority and schools themselves, to identify schools at risk and to support early action to prevent deficits occurring wherever possible.
- 5.13 These eleven schools will be asked to review their MTFP to identify savings that can be delivered from 2024/25 onwards when setting their second budgets during the Autumn Term. This will help to ensure these schools are able to set a sustainable budget over the term of the MTFP.
- 5.14 To balance their budgets, it is likely that these eleven schools will be required to identify reductions in posts from 2024/25 onwards.
- 5.15 It is therefore expected that, based on current funding levels, significantly more posts than the 45 posts identified to date, will be required to be reduced across schools to set sustainable budgets over the term of their MTFPs.
- 5.16 As more posts with less than two years' service are removed from school structures, an increasing number of posts being reduced, will have redundancy and potentially pension cost implications for the local authority.
- 5.17 The full impact of the £1.5 million budget reduction on school staffing levels, and on redundancy/pension costs, has not yet been realised, and it is too early to evaluate the implications of this reduction on curriculum delivery and on standards of teaching and learning.
- 5.18 It is also too early to evaluate the impact of the budget reduction on schools' capacity to deliver on the goals of the RARS strategy e.g., Supporting Learners' Health & Wellbeing, Improving Achievement and progression, and Developing the Environment for Learning.

- 5.19 If further reductions are applied to schools' budgets in 2024/25, in addition to the £1.5 million, this is likely to result in another significant number of additional posts being reduced in schools, with implications to be determined as above.
- 5.20 Reductions in school budgets have also impacted on central services.
- 5.21 A number of schools have also chosen to reduce or withdraw from the Music Service SLA to support their own budgets which has led to 4 redundancies in that service area.
- 5.22 There has been a small impact on the Education Welfare Service buy-in from some schools, but this has been balanced by increases in other schools.

6.0 WHERE WE WANT TO BE

- 6.1 The local authority's aim is for all schools to have a sustainable balanced MTFP that enables appropriate curriculum delivery over the long-term, and where resources are used well, support the successful delivery of the RARS strategy and demonstrate good resource management.
- 6.2 The local authority has a benchmark target for aggregate schools' balances held at the financial year end, to be 3% of delegated funding. Individual schools are recommended to hold balances within the following ranges:
- Primary - between 2% and 4%
 - Secondary/Special - between 2.5% and 3.5%
- 6.3 Good resource management in schools is the result of effective leadership and governance and Estyn describe '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.
 - 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.
- 6.4 The key measures of success that the local authority uses to judge 'Good' resource management in schools are:
- No schools with an unplanned financial deficit.
 - All schools with a Planned Licensed Deficit (PLD) deliver against their recovery plan and balance their budget in line with their MTFP.

- All schools with a surplus balance, in excess of agreed thresholds, will successfully deliver their excess balances spending plan.

7.0 WHAT WE NEED TO DO NEXT

- 7.1 Financial categorisation of all schools to be formally approved by Cabinet and schools notified.
- 7.2 Agree with all schools applying for a Planned Licence Deficit, a robust recovery plan to deliver a sustainable budget over the MTFP in line with local authority approvals.
- 7.3 Monitor all schools' finances in accordance with the relevant financial category.
- 7.4 Schools categorised RED and AMBER will be subject to additional scrutiny and support and will attend financial monitoring meetings with the local authority as required.
- 7.5 Further work will be undertaken with all schools that are projecting a deficit budget position in either 2024/25 or 2025/26, to agree provisional plans to balance their budget over the MTFP.
- 7.6 Agree an approach for setting the schools' formula funding in 2024/25 as part of the Council's budget setting process.

8.0 CONTRIBUTION TO RAISING ASPIRATIONS RAISING STANDARDS STRATEGY

- 8.1 The contents of this report relate to the following RARS Themes and Goals:
- Pandemic Recovery
 - Developing the Education Workforce
 - Supporting Learners Health & Wellbeing
 - Improving Achievement and Progression
 - Developing the Environment for Learning

9.0 CONTRIBUTION TO WELLBEING OBJECTIVES

- 9.1 The contents of this report relate to the following Wellbeing Objectives:
- An aspirational Merthyr Tydfil focused on learning.
 - A safe and prosperous Merthyr Tydfil.

SUE WALKER
DIRECTOR OF EDUCATION

COUNCILLOR MICHELLE JONES
CABINET MEMBER FOR EDUCATION

BACKGROUND PAPERS

Title of Document(s)	Document(s) Date	Document Location
Reserves held by schools in Wales at 31 st March 2022, Welsh Government Stats Bulletin	27 th October 2022	Learning Department
Reserves held by schools in Wales at 31 st March 2020 (Revised), Welsh Government Stats Bulletin	23 rd July 2021	Learning Department
Does the report contain any issue that may impact the Council's Constitution?		No