

NORTH YORKSHIRE COUNTY COUNCIL

YOUNG PEOPLE'S OVERVIEW AND SCRUTINY COMMITTEE

28TH JUNE 2019

SCHOOLS FINANCES UPDATE

1.0 PURPOSE OF REPORT

- 1.1 This paper provides an update on the latest financial position in relation to local authority maintained schools as at 31st March 2019 and the management action that has been taken in response to the trends and issues identified.

2.0 BACKGROUND/ CONTEXT

- 2.1 In early 2018/19, the local authority identified a number of financial concerns in relation to school finances including:

- A year-on-year reduction in the overall aggregate level of school balances;
- An increasing number of schools reporting an in-year financial deficit;
- Increasing number of schools projecting both in-year financial deficits in future years and accumulated deficits in future years;
- Average deficits rising;
- Depleted Dedicated Schools Grant (DSG) reserves.

- 2.2 Within this context, and although aggregate school balances totalled £18M as at 31st March 2018, the local authority was mindful of a number of issues impacting on schools including: pay and price inflation exceeding DfE general funding increases, high needs funding pressures and the impact of sponsored academy deficits on DSG reserves, and the local authority bottom line.

- 2.3 A number of actions have been undertaken throughout the academic year including:

- Letters from the Assistant Director – Strategic Resources have been sent to all schools in, or projecting to be in, financial deficit, requesting school governing bodies note and take action to achieve a financially sustainable position, where this had not already taken place;
- Financial controls have been imposed on schools sponsored to convert to academy status;
- Individual schools have been constructively supported and challenged to identify efficiencies, work collaboratively and where necessary, tackle emerging or historic deficits;
- Written and oral evidence has been submitted to the Education Select Committee's Inquiry into School and College Funding;
- Further lobbying of DfE and local MPs has been undertaken directly by the local authority as well as supporting the work of f40;
- Some surplus funds have been recovered from schools sponsored to convert to academy status;
- Local authority officers have engaged with the Schools Forum as well as a broader reach to headteachers through locality leadership network meetings.

- 2.4 The experience and learning of the last twelve months highlight early action is imperative to avoid building-up a financial deficit which otherwise leads to a harder, longer recovery plan. However, there are no easy answers or routes to additional funding and school leaders will usually have difficult decisions around class size, teaching contact ratio, pastoral and support levels, organisation of back office arrangements as well as considering the breadth of curriculum provision. Support and challenge (working directly with schools) has had an impact and more work is required to continue to support those schools who face the most challenging financial positions.
- 2.5 It is also important to stress that there is no ‘one-size-fits all’ approach to managing school finances and the issues discussed with different schools are many and varied including: curriculum offer, pupil teacher ratio, capital investment and maintenance, contact ratio, senior staff structure, class size, teaching and support staff structures, recovery timescale, flexibility of use of staff, commercial opportunities and income, feeder links, pastoral structures, federation/ collaboration, 3 to 5 year projections, non-pay contracts and benchmarking against other schools.

3.0 FINANCIAL PERFORMANCE IN 2018/19

- 3.1 For 2018/19, twenty-one schools were provided with a licensed deficit – effectively agreement from the local authority to support a recovery plan that aims to achieve a fully balanced financial position within the next three financial years. In nineteen cases, the position improved in-year. The local authority continues to work with schools where a licensed deficit arrangement has not been agreed.
- 3.2 Overall aggregated surplus balances have reduced from £18m at the start of the financial year to £14m as at 31st March 2019 – a reduction of c.£4m. However, after adjusting for those schools that have converted to academy status, the reduction in aggregate balances amounts to £2,149k (13.3%). Although this reduction is not as large as predicted by schools in their start budgets, it still represents a decrease indicating that, collectively, schools continue to signal issues of financial distress.
- 3.3 Table 1 provides information on how schools, by learning phase/ type, have financially performed in 2018/19:

Table 1: Local Authority Maintained Schools Financial Performance 2018/19 (adjusted for in-year academy conversions)

| Phase | Number | Opening Balance (£k) | Closing Balance (£k) | Number of schools with a reducing balance | Number of schools with a negative closing balance |
|--------------|---------------|-----------------------------|-----------------------------|--|--|
| Nursery | 3 | 192 | 293 | 1 (33%) | 0 |
| Primary | 227 | 10,940 | 11,119 | 111 (49%) | 35 (15%) |
| Secondary | 23 | 2,075 | 927 | 12 (52%) | 8 (35%) |
| Special | 9 | 1,410 | 201 | 7 (78%) | 4 (44%) |
| PRS | 4 | 1,555 | 1,483 | 3 (75%) | 0 |
| TOTAL | 266 | 16,189 | 14,023 | 134 (50%) | 47 (18%) |

- 3.4 Analysis of the financial outturn position for schools, shows that:
- Primary school balances have remained robust. Although 40 schools started 2018/19 with an accumulated deficit, only 35 schools finished 2018/19 in an accumulated deficit position. However, the average deficit balance increased from £22k to £34k and the largest deficit position increased from £94k to £161k.
 - Overall, aggregate secondary school balances reduced by just over half (55%) from £2,075k to £927k.
 - Aggregate secondary school deficits amounted to £2,418k at the start of the year and increased by £659k to £3,077k by 31st March 2019. However, work with a number of schools has reduced the medium-term projection of deficits. Although the average deficit position increased from £269k to £385k, the maximum deficit position remained broadly similar, increasing from £724k at the start of the financial year to £727k by 31st March 2019. Two secondary schools moved from a deficit to a surplus position and one secondary school moved from a surplus to a deficit position.
 - Aggregate special school balances deteriorated significantly with 7 out of 9 special schools reporting a decrease in their overall balance.
 - Aggregate special school deficit balances increased from £968k to £1,742k with four out of 9 special schools in an accumulated deficit position as at 31st March 2019.
 - LA maintained Pupil Referral Service (PRS) school balances have decreased by 4.8%; however, PRS balances from 4 schools (1.5%) still account for over 10% of overall aggregated school balances.

- 3.5 Analysis of the outturn position suggests a number of issues:
- Aggregation of prudent budget estimates from individual schools leads to a more pessimistic position than is actually the case;
 - Governors and other school leaders have taken action to address budget deficit projections;
 - Work with individual schools to support management action to address significant financial issues can be effective but will not be turned round immediately;
 - Grant funding was announced to help fund the cost of the teacher's pay award from September 2018 – North Yorkshire schools typically budgeted for a 2% increase and the pay award grant aims to fund cost pressures above 1%. This will have helped schools financially;
 - Early indications are that the pay award grant will be mainstreamed from April 2020, giving rise to a concern that the benefit of the grant will be lost for those schools protected by the minimum funding guarantee;
 - Base funding for special schools – through the national high needs funding formula - has remained at £10k per place for a number of years and, through attrition, inflation will erode the purchasing power of special schools;
 - The planned transformation of pupil referral services will likely see healthy PRS balances reduce during 2019/20 and 2020/21 as new operating models are implemented within the revised funding arrangements.

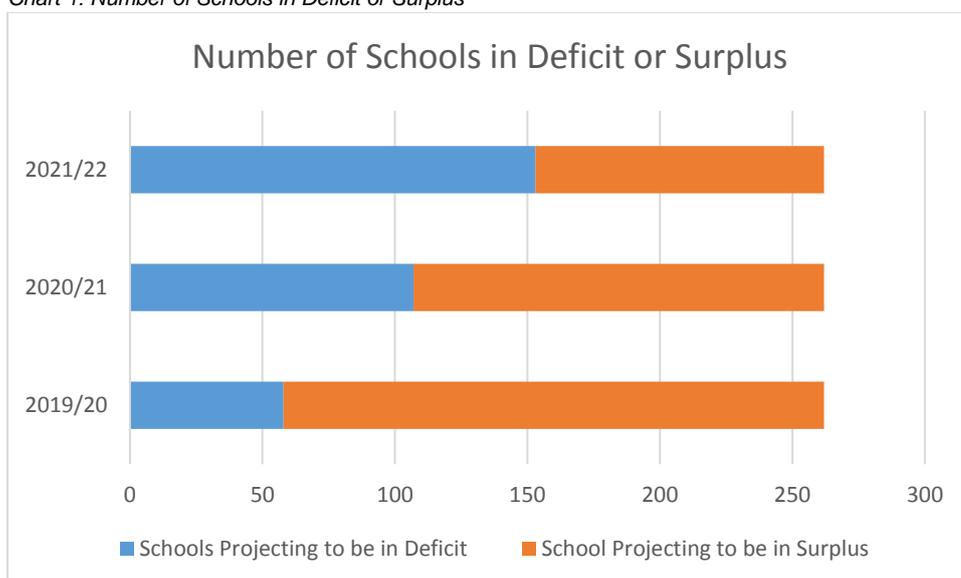
4.0 START BUDGETS

- 4.1 With four schools converting to academy status on 1st June 2019, the total number of LA maintained schools submitting start budgets to the LA totals 262. At the time of writing this report, 11 schools had not achieved the deadline of submitting a start budget by 31st May 2019.

4.2 School projections show a deterioration in aggregate school balances – reducing to a £4.7m surplus by 31st March 2020, then reducing to an aggregate deficit position of £6.8m by 31st March 2021, and then reducing to an aggregated deficit position of £20.8m by 31st March 2022. This is a concerning trend and, if left unchecked, would significantly impact individual schools and the local authority’s financial position. Experience suggests that this position is overly cautious; however, the local authority is not complacent and will undertake further action to mitigate the impact of the current school funding position. Indeed, school funding challenges are recognised as a key corporate risk.

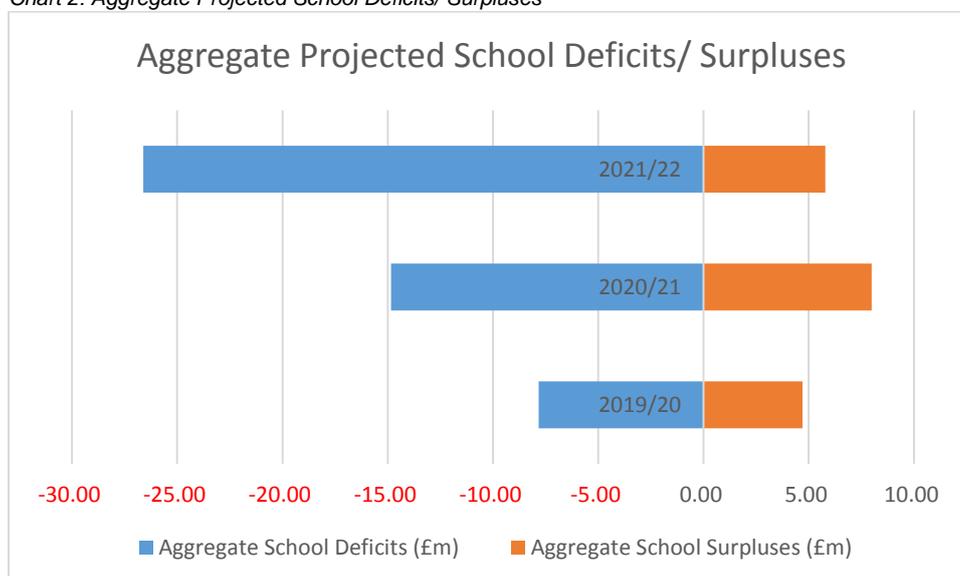
4.3 The following graph show the number of schools projecting to be in an accumulated deficit position:

Chart 1: Number of Schools in Deficit or Surplus



4.4 Similarly, the following graph shows the value of aggregate school balances projected by schools in each of the next three years:

Chart 2: Aggregate Projected School Deficits/ Surpluses



4.5 Further analysis by phase/ type of education setting indicates:

Primary Schools

- 167¹ out of 230 primary schools are projecting an in-year deficit in 2019/20 resulting in 43 primary schools projecting to be in an overall deficit position by 31st March 2020
- The overall number of primary schools forecasting to be in an accumulated deficit increases to 89 by 31st March 2021 and 134 by 31st March 2022
- Aggregate primary school balances are forecast to remain in surplus in 2019/20 and 2020/21
- The average primary school deficit is projected to be £40k in 2019/20 rising to £72k by 2021/22

Secondary Schools

- 16² out of 23 secondary schools are projecting an in-year deficit in 2019/20 resulting in 10 secondary schools projecting to be in an overall deficit position by 31st March 2020
- The overall number of secondary schools forecasting to be in an accumulated deficit increases to 13 by 31st March 2021 and 14 by 31st March 2022
- The average secondary school deficit is projected to be £439k in 2019/20 rising to £648k by 2021/22

Special Schools

- 8³ out of 9 special schools are projecting an in-year deficit in 2019/20 resulting in 4 special schools projecting to be in an overall deficit position by 31st March 2020
- The overall number of special schools forecasting to be in an accumulated deficit position increases to 5 by 2020/21
- The average special school deficit is projected to be £398k in 2019/20 rising to £898k by 2021/22

Pupil Referral Units

- All four LA maintained Pupil Referral Units are projecting an in-year deficit in 2019/20 although only one is projecting to be in an accumulated deficit position by 31st March 2020
- The overall number of PRUs projecting to be in an accumulated deficit position increases to 4 by 31st March 2021
- Following agreed funding reforms in February 2019, the local authority is working with pupil referral units to transform the operating model for services for children excluded, or at risk of exclusion from mainstream school. This will likely inform the projected deficits in future years.

5.0 SCHOOL FUNDING SURVEY

- 5.1 In May/June 2019, the local authority undertook a funding survey of all maintained schools and academies in North Yorkshire. 41 schools responded which is a relatively low response rate. However, some of the headlines from the survey include:

¹ Eight primary schools have yet to submit a Start Budget to the Local Authority

² Two secondary schools have yet to submit a Start Budget to the Local Authority

³ One special school has yet to submit a Start Budget to the Local Authority

- In the next eighteen months:
 - o 83% of schools expect to make reductions in classroom support staff
 - o 73% of schools expect to make reductions in learning resources
 - o 63% of schools expect to make reductions in teaching staff
 - o 86% of schools expect to have to increase class sizes
 - o 49% of schools expect to make reductions in the number of classes offered
 - o 93% of schools stated that they have a reduced capacity to meet the needs of young people with SEN
 - o 82% of schools reported that they have had challenges in staff recruitment

5.2 Schools reported a variety of measures that they are considering to achieve savings, including:

- Reduction in staffing;
- Collaboration savings (e.g. to share training costs, to share ICT costs);
- Applying for charitable grants (e.g. purchasing musical instruments)
- Whether to retain nursery provision given pressures on 2-year old funding;
- Reduction in support staff or SENCo support for pupils;
- Not making improvements to school buildings;
- Reductions in options groups (e.g. Only one group per subject within Humanities);
- Fundraising options (e.g. a monthly lottery);
- Increasing the planned admission number (i.e. increase in pupils) and marketing the school to promote intake;
- Actively and competitively market for early years places and running a childcare facility as a business;
- Looking at merging budgets within a Federation;
- Bringing in income through consultancy (commonly Headteachers and leadership staff)
- Negotiating contracts, challenging quotes for services;
- Establishing after school clubs and breakfast clubs to raise income.

5.3 The survey results will be further analysed and shared with Schools Forum at the next meeting in September 2019.

6.0 CONCLUSION AND NEXT STEPS

6.1 School finances remain challenging for a number of schools in North Yorkshire. Funding has not kept pace with cost pressures which adds to local issues such as fluctuations in pupil numbers. Aggregate school balances have continued to reduce in 2018/19 although they remain in a surplus position. Local authority maintained schools are projecting that the financial position will continue to deteriorate; schools expect to continue to deplete balances until, collectively, they represent an overall deficit position. Schools are projecting that this will happen by March 2021 although through a combination of experience, governor actions and through a raft of local authority measures and support, it is unlikely to come as swiftly as that. However, the local authority is not complacent and will continue to work proactively with a range of individual schools to avoid deficits wherever possible and to develop robust recovery plans for those schools projecting a deficit, or in the worst case, tackling accumulated historical deficits.

6.2 A number of actions have been identified to continue to support schools facing financial difficulty:

- the local authority is undertaking research into small school financial effectiveness to identify and share best practice;
- further development of the local authority's approach to Integrated Curriculum Financial Planning (ICFP) which will support schools to identify efficiencies in financially challenged circumstances;
- development of risk assessment tools and financial ratings to help prioritise LA resource;
- deployment of LA financial resources to priority schools;
- development of Governor briefings;
- exploration of special school collaboration including development of benchmarking information;
- continue to work with individual schools within a framework that seeks to primarily support and challenge schools;
- strengthening the escalation path for financial intervention;
- continue to lobby DfE for fairer funding for North Yorkshire schools;
- review the Schools Financial Value Standard (SFVS) in financially challenged schools.

7.0 SUMMARY

7.1 Overview and Scrutiny Committee are asked to note the contents of the report.

STUART CARLTON
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