

SCHOOLS FINANCIAL UPDATE

Report of the Director of Education and Early Intervention

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1. Purpose

- 1.1 To provide Forum with an update on schools budgets and financial position, to help to inform the decisions on financial issues made from time to time by Forum.

2. Recommendations

- 2.1 Forum is asked to note the information in this paper, the steps being taken and the issues raised.

3. Summary

- 3.1 Forum has been informed from time to time about the progressively-increasing financial pressure on schools. In the current year this has been exacerbated by the start of a drop-off in primary school rolls, and by falling admissions into school-based nursery classes. This is despite funding for mainstream schools in Hertfordshire substantially exceeding incoming DSG. The out-turn report elsewhere on this agenda flags that expenditure on the mainstream schools budget last year exceeded DSG by over £10m.
- 3.2 HCC in partnership with HfL has been supporting a number of maintained schools in appreciable financial difficulty for the last three years. The concerns started with a group of secondary schools where school rolls were declining and therefore income was falling significantly year on year. Forecast deficits were largely addressed with this initial group of schools through Financial Action Groups, intensively working with Senior Leaders and Governors to support, challenge and restructure schools whilst seeking to avoid impact on standards or agreed school improvement plans. Financial Action Groups were largely successful saving an aggregate £7m of forecast deficit saved from secondary school budgets. In 2018/19 current forecasts indicate that 6 maintained secondary schools are unable to balance financially,

three are expected to be able to do so with interventions prior to converting to Academy status, two have authorised License Deficits, and one continues to cause significant concern. This is discussed later in this report.

- 3.3 Whilst initially financial pressures were most acute in the secondary phase it is now evident that many primary schools are setting in-year deficit budgets. In the initial phase of support in 2015/16, 15 schools were identified as causing financial concern and supported. Following receipt of 2018/19 budgets 104 schools, around a quarter of maintained schools that have been identified as causing concern, these schools would be unable to sustain current levels of spend beyond this financial year. Interventions to address and support this increasing number of schools are being reviewed by the Council. As evidenced below, in one Hertfordshire constituency 85% of primary schools have set an in-year deficit budget although only one is projecting to be in absolute deficit. Evidence to date has indicated that generally savings can be made in primary schools akin to those that have been made in secondary schools to ensure financial sustainability at least in the short/medium term. However, these savings cannot always be made without impact on resources and activities directed directly at improving standards.
- 3.4 Whilst we do not have the same visibility of the position in Academies as in maintained schools, there is no reason to believe the position is different. We are aware of Academies and MATs in acute difficulties in Hertfordshire and have recently seen closures of studio schools.
- 3.4 It is evident that a combination of self-help tools and changes in expectations and priorities is needed if schools are to manage the continued real terms reductions. In particular, a culture of a broader definition of school improvement which places financial sustainability on an equal footing with outcomes, as without the former the latter cannot be sustained. HCC and HfL are working on self-help tools for schools to support this change which include but are not limited to organisational design tools, support and mentoring in zero budgeting and considering requiring schools to submit two year balanced budgets each May rather than one.

4. Background

- 4.1 Hertfordshire has 407 maintained schools which were consolidated into the Authorities accounts at the end of the 2017/18 financial year.
- 4.2 Analysis of the 2017/18 accounts revealed that 12 schools submitted deficit year-end balances (see table 1 below). Of these, only two secondary schools have their deficit licensed. Deficits are licenced following application by schools to that effect which includes submission of a financial recovery plan usually within a three-year span. One secondary school, due to influencing drivers, is unable to submit a robust recovery plan. These drivers include areas where school age population is declining and there is surplus capacity of school places alongside pressures on employment costs. The remaining secondary school and four primary schools have been

unable to recover their financial position and continue to work with the Council in addressing their budgetary issues. In these remaining cases resource intensive interventions necessary to address the drivers of the deficit.

Table 1 Value of Schools Deficits			
No.	Sector		Total School Balances
7	Primary		-422,401.90
4	Secondary		-1,335,939.52
1	Special		-2,692.84
0	Nursery		0.00
0	Esc		0.00
12	Total all Schools		-1,761,034.26

Primary Phase

- 4.3 The four Primary schools who are unable to submit budgets for 2018/19, that return them to financial stability continue to work on recovery plans and plan to take remedial action which will enable the school to recover the deficit and place it in a more sustainable financial position. Two other primary schools have taken remedial action and are able to submit balanced budgets for 2018/19, with the remaining school engaging with a structural review as a consequence of their deficit submission and subsequent failure to be able to balance their budget.
- 4.4 In the secondary phase it is schools with surplus capacity, high levels of in-year admissions and high levels of SEN that are particularly challenged financially. Patterns in the primary phase however have not been as obvious and therefore knowing which schools showing signs of distress are actually likely to present with a deficit is more difficult to predict. As illustrated in Table 2 below, an anonymised list of maintained primary schools in the North East Herts Constituency is shown, demonstrating the number of schools setting in-year budgets, an indication of the speed at which balances might be reduced in 2018/19.

Table 2: North Herts maintained school budgets

School Name	2017/18 Schools Revenue Balance	2018 Net Revenue Forecast	Balance Carried Forward into 2019/20
A	£93,999.00	-£15,706.00	£78,293.00
B	£85,448.46	-£51,151.00	£34,297.00
C	£159,837.13	-£116,287.00	£43,550.00
D	£51,587.68	-£30,588.00	£20,999.00
E	£62,981.43	-£8,682.00	£54,299.43
F	£196,491.44	-£53,963.00	£142,528.44
G	£90,951.39	-£58,913.00	£32,038.00
H	£159,051.15	-£56,550.00	£102,501.15
I	£328,242.76	-£198,116.00	£130,126.76
J	£170,968.64	-£93,519.00	£77,449.64
K	£114,493.94	-£58,564.00	£55,930.00
L	£135,901.33	-£43,679.00	£92,222.00
M	£1,028.01	£301.00	£1,329.01
N	£28,385.10	£1,165.00	£29,550.10
O	£27,649.47	-£3,115.00	£24,534.47
P	£79,807.43	-£24,802.00	£55,005.43
Q	£48,940.41	-£916.00	£48,024.41
R	£15,544.95	-£5,821.00	£9,723.95
S	£341,526.53	-£99,344.00	£242,183.00
T	£340,356.31	-£21,943.00	£310,120.06
U	£199,413.47	-£16,837.00	£177,483.00
V	£166,232.99	-£89,267.00	£76,966.00
W	£28,799.02	£2,660.00	£31,459.02
X	£78,444.22	-£26,753.00	£51,691.22
Y	£15,730.29	£2,467.00	£18,197.00
Z	£44,144.48	-£25,082.00	£19,062.48
AA	£96,747.13	-£66,136.00	£30,611.00
BB	£69,313.18	-£49,118.00	£20,195.00
CC	£52,901.99	£700.00	£53,602.00
DD	£39,532.74	£8,026.00	£47,558.00
EE	£107,566.31	-£64,155.00	£43,411.31
FF	£90,450.16	-£79,891.00	£13,507.00
GG	£40,944.01	-£30,449.00	£10,495.00
HH	£56,884.88	-£4,492.00	£52,393.00
II	£ 52,875.55	-£22,756.00	£30,120.00
JJ	£146,292.47	-£62,338.00	£83,954.47
KK	£10,293.78	-£50,198.00	-£39,904.00
LL	£82,502.16	-£57,124.39	£25,377.77
MM	£20,741.74	-£6,256.00	£14,485.74
NN	£144,862.33	£5,729.00	£150,591.00
OO	£26,579.95	-£14,572.00	£12,007.95
PP	£32,423.03	-£16,320.00	£16,103.03
QQ	£76,427.32	-£44,011.00	£32,416.32
RR	£94,871.79	-£44,467.00	£50,404.79
TOTAL	£ 4,308,167.55		£2,606,892.95

4.5 Given their resource intensity, financial action groups cannot be replicated in all 104 schools causing concern. Consequently, a targeted self- help approach is being piloted in primary schools displaying initial signs of financial difficulty. Tools include but are not limited to organisational development support and mentoring/coaching in zero based budgeting. Following self-diagnosis, schools are supported by HR Services in decisions to make any redundancies and/or restructure as necessary. It is evident however that when there are weaknesses with Leadership or Governance or a lack of appetite to make unpalatable decisions in restructuring self-help tools are rarely effective. In these schools more intensive support is likely to be needed whilst at the same time building a culture of acceptance that financial health is key in a broader understanding of school improvement. In supporting and challenging schools some Heads and Governors have been unwilling to address financial issues given concerns that it will adversely impact outcomes. However, this is not always the case with one school recently restructured after working with HCC and HfL securing a “Good” Ofsted inspection following a previous “Requires Improvement” judgement. It would seem that by not addressing financial concerns early, the impact on standards is potentially greater given the cumulative impact of reductions on budgets in the medium-term.

4.6 To support a cultural change we consider the following changes may be required:

- a more rigorous approach to the budget setting process; too often schools start the process of budget setting in March/April and simply adjust the previous year’s budget. Governors are often bought into the process too late, asked to sign-off a budget in a meeting rather than receiving in advance.
- a move to submission of two year budget returns for maintained schools. Currently maintained schools submit their budgets to the Local Authority by the end of May leaving little if not no time to put restructures in place for the new academic year. Through asking schools to submit a two year balanced budget and plan organisational design well in advance; decisions are likely to be less unpalatable and potentially achieved with lower cost.
- adaptations and review of budgets throughout the year given that some variables are unknown at the point at which the budget is set. To date there has been sufficient carry-forward to enable pay settlements for example to be absorbed. In-year adjustments and regular review will be a necessary part of financial management as balances reduce. In November FSS released a budget update which was welcomed by schools who chose to use this opportunity to look at 18/19 earlier than would have otherwise been the case.

- 4.7 The key remedial action is staff restructuring which results in redundancy costs. Under the Scheme for Financing Schools, HCC are required to support schools with these costs where schools are in financial difficulty. The cost of redundancy in 2017/18 was £905k supporting 30 schools (2016/17 was £1.4m supporting 71 schools). The redundancy and severance budget was Education Services Grant funded and therefore this remains unfunded. It would seem given the number of schools setting in-year deficits that the demand on HR Services and costs of redundancies are likely to be significantly higher in 2018/19 and beyond.
- 4.8 Anecdotal evidence from MATs with whom we have a close working relationship and manage a range of schools is that those with lower levels of Pupil Premium Grant (PPG) are now particularly feeling the financial pressure. When overlaid with lower rolls in primary schools there are real concerns about the financial viability of schools where rolls in reception have fallen 20% or more that were once full and levels of PPG have low and there are few support staff to be restructured. Clearly primary schools with falling rolls and low PPG are in a high risk category.

Nursery Classes and Nursery Schools

- 4.9 We know that nursery numbers in schools have fallen which is adding to financial pressures in primary schools. This is in part due to a reduction in population of nursery age children but in the main believed to be a result of more parents opting for places in PVLs perhaps linked to the enhanced free early years entitlement for working parents. WE are looking with HfL at a potential advice and support programme for schools in this situation, and may wish to ask Forum for some financial support for this.
- 4.10 As evidenced in Table 1 there currently no nursery schools causing immediate financial concern but it is evident that they, along with all schools are feeling the impact of continued real terms pressures.

Special Schools and ESCs

- 4.11 Some special schools and ESCs have set in-year deficit budgets and are utilising reserves in 2018/19. Both special schools and ESCs have benefited from the allocation of additional resources in 2018/19 and therefore we will be engaging with those setting in-year deficits to identify drivers and support as appropriate.

Secondary Schools

- 4.12 Forum will be aware that Hertfordshire was successful in its “disapplication” application to the DfE whereby £3.5m of Dedicated Schools Grant (DSG) was ring-fenced following Forum’s approval to meet the costs of lagged growth in five small secondary schools which are transitioning to Academy Status and are expecting to see a significant increase in pupil numbers as the primary bulge transitions to secondary. All five of these schools are either rated Requires Improvement or Inadequate by Ofsted and are ineligible for funding through the Falling Rolls fund. The model of de-delegation does not

support these schools given their situation and brokering these schools to Academy Status has been considered in their best interests. Brokering Sponsors has proved challenging and subsequently conversion has not happened as swiftly as was originally anticipated, with only one school converting in 2017/18. All schools now have an identified Sponsor with three expected to convert on the 1st September 2018 and the remaining school on 1st January 2019. The DfE approved the extension of the disapplication for 2018/19 for the four remaining schools. Of the remaining schools, one is expected to convert with around £150k of deficit (against an original projection of £1.8 by the end of 2018/19).

- 4.13 As previously reported to Forum, for small secondary schools rated as Good or better, Falling Rolls Funding is critical to ensuring a balanced budget. However, given that Falling Rolls Funding is sourced from DSG carry-forward it will be exhausted along with the carry-forward in the medium-term. Consequently a cap of £500k has now been introduced to the fund and approved by Schools Forum to enable a managed transition rather than a cliff-edge exit from the funding. Withdrawal of the funding however phased will leave an appreciable hole in the budgets of small secondary schools which realistically cannot be filled through alternative sources of income. There is one small maintained secondary school in receipt of the capped level of Falling Rolls funding. Support is ongoing with this school, staffing levels had been restructured as far as they can be yet the school has set a deficit budget of around £400k in 2018/19 which is commensurate with the drop in its income.
- 4.14 A further look at staffing levels at this school has been commissioned but given that a curriculum has to run, significant further reductions cannot be achieved and the school is now running at an unsustainable diseconomy of scale. Without a significant increase in pupil numbers this school will continue operate at a loss. A project has started with a local marketing company to actively market the school to boost pupil numbers but the rapidity in which this can be achieved is unlikely to avoid a significant financial issue in the medium term. Whilst undersubscribed, the school is needed as otherwise there would be a 2-3FE deficit of places in the locality with no option for expanding other schools in the locality. Moreover, when schools in the locality admit over PAN it is challenging to determine the number of places required. This school should have many more pupils than on roll on the basis of available places, its position has however been undermined by other schools admitting over PAN. It is not thought that an Academy solution will deliver the savings required and this is a matter of diseconomy of scale.
- 4.15 A series of workshops are being planned in September for the 104 maintained schools identified as causing concern where presentations will be given by HCC and HfL and schools and key support services including HR Services, Financial Services for Schools, Governance and the School Business Management Service will be in attendance in order that schools can engage with relevant services to address concerns. These sessions will be free for maintained schools and opened up beyond the 104 schools causing financial concern. Academies will be able to attend but will be charged.

5. Conclusions and actions being taken

- 5.1 The report above sets out a range of activities being undertaken, some with the help of Forum, to help to mitigate financial pressures. Actions in earlier years round securing savings in NNDR continue to bear fruit.
- 5.2 Beyond these, as referred to above we will be looking at whether there are further ways of advising and supporting schools with falling nursery numbers.
- 5.3 The Council is also planning to take an active role in seeking to ensure that MPs and other important stakeholders are made aware of the financial challenges facing schools. Most recently a submission was made to a Parliamentary Select Committee in relation to HLN Block funding for the county.