

CHILDREN & YOUNG PEOPLE'S SELECT COMMITTEE		
Report Title	SCHOOL FUNDING	
Key decision	No	Item No. 8
Contributors	EXECUTIVE DIRECTOR FOR CHILDREN AND YOUNG PEOPLE EXECUTIVE DIRECTOR FOR RESOURCES & REGENERATION	
Class	Part 1	Date: 28 FEBRUARY 2017

## 1. Summary

- 1.1 Schools budgets have come under increasing pressure over the last few years, through a combination of cash frozen funding settlements (per pupil basis) and increasing financial pressures through inflation, national insurance and pension increases. This report highlights the current financial position, explains the Local Authority's relationship with schools and, sets out the processes in place to help schools manage their budgets.
- 1.2 This report then looks at the future proposed national funding changes and sets out the likely impact in Lewisham.

## 2. Purpose

- 2.1 This report seeks to update members of the current financial position in schools and how the proposed national changes will impact in the future

## 3. Recommendations

That Members note

- i) The arrangements in place to challenge schools on their budgets
- ii) The role of the Governors in the stewardship of school budgets
- iii) The lobbying currently underway on the national funding formula

## 4. Policy Context

- 4.1 "Shaping our future" 2008- 2020 is a summary of Lewisham's Sustainable Community Strategy. There are six priority outcomes which say what our communities should look and feel like in the future. One is "ambitious and achieving" where people are inspired and supported to fulfil their potential by removing the barriers to learning and to encourage and facilitate access to education, training and employment opportunities for all our citizens.

- 4.2 One of the Council's corporate priorities is for young people's achievement and involvement; raising educational attainment and improving facilities for young people through partnership working. This report looks at ensuring that the school can provide these in the longer term.

## **5. Background**

- 5.1 The 1988 Education Reform Act removed the financial control of schools from Local Authorities and gave it to the governing body of the school (and by extension, headteachers). The Local Authority has some continuing responsibilities however particularly in relation to 'community schools' in that it employs schools' staff and owns the land and buildings. However it does not "run" the school on a day to day basis or have the ability to override decisions of the headteacher and the governing body. The Local Authority does have powers of intervention but these have to be considered only in extreme cases.
- 5.2 Councils provide some services to schools but the schools are not obliged to take them up and can choose to look elsewhere – this can include diverse things like school meals, payroll services and financial services.
- 5.3 Under the School Standards and Framework Act 1998, Local Authorities (LA) are required to draw up a scheme for financing schools (The Scheme). This scheme sets out the financial relationship between the LA and the maintained schools which it funds. It contains requirements relating to financial management and associated issues, which are binding on both the LA and on the schools. Any proposed revisions to the scheme are subject to consultation of Schools Forum for approval pursuant to regulation 27 of The Schools and Early Years Finance (England) Regulations 2015. The Scheme for Lewisham is updated annually, in consultation with the Schools Forum. The next meeting of the Forum on the 16 March 2017 will again update the Scheme.
- 5.4 In line with national requirements which have been in place for many years, the Scheme gives schools freedom to exercise choice over their spending plans. Like other local authorities, Lewisham can only impose regulations which are consistent with the need for accountability and control over expenditure of public funds. The Scheme expects all schools to set a balanced budget and manage within the resources made available to them. This is specifically a duty on the governing body of the school.
- 5.5 The Scheme provides that in exceptional circumstances a school may have a licensed loan to cover a deficit/loan. Under this provision the school is able to apply to the LA for permission for a loan which will be paid back in subsequent years. A licensed loan to cover a deficit/loan is usually granted where a school has found itself in a deficit position due

to changes in circumstances e.g. significant fall in pupil numbers. The licensed deficit/loan will be granted on the basis that some cost reductions may not be possible immediately either logistically (contracts with staff or service providers) or because of risks of detrimental impact on the curriculum or because the reduction in staffing levels may be temporary so that it does not make sense to incur unnecessary redundancy costs.

- 5.6 Before a loan is approved, the school must be able to demonstrate that through its recovery plan it will be able to pay back the loan over the agreed timescale.
- 5.7 Under the scheme any loan in respect of a deficit that is in excess of £500k must be approved by the Mayor as it is a very serious matter for a school to accumulate a deficit of this size. The agreement of smaller loans against deficits is delegated to the Executive Director for Children and Young People.
- 5.8 The school's governing body is responsible for setting the schools' budget within its resources and is required to continually monitor the spending. The governing body is required to send a budget to the Local Authority by the 1 May and during the financial year submit two budget monitoring returns: one at the end of September and one at the end of December.

## **6 School Budgets**

- 6.1 There are currently 8 secondary schools and one primary school which have a deficit budget. This compares with 2 in the last financial year. While schools across the country have to manage within their means, there have been some cost increases which schools have had to absorb and some secondary schools in Lewisham have seen significant fluctuations in their rolls. Schools have also struggled with legacy issues around funding of alternative education places and special educational needs. Nonetheless, schools in Lewisham remain well-funded compared with the majority of schools in the country and LA officers have been working with them to encourage benchmarking with similar schools in less well funded boroughs.
- 6.2 Since 2010 the schools financial settlement has seen school resources cash frozen, with schools needing to find savings to meet cost pressures such as inflation. This has been particularly acute over the past two years as there have been significant increases in pension contributors and national insurance rates. The total of this amounts to 2.8% this year and in 2015/16 it was 2.0%.
- 6.3 The pupil numbers in the primary sector have been growing steadily over the last few years and this has helped cushion the effect of cost pressures for that sector. The primary bulge in numbers has not yet worked its way into the secondary sector but will do so in 2017/18. The

current planning data shows the following increases over the next few years

2016/17	2417
2017/18	2557
2018/19	2768
2019/20	2817
2020/21	2968

- 6.4 For those secondary schools currently operating below pupil capacity, this anticipated increase provides a challenge since they need to downsize to meet current resourcing level while at the same time planning over the next few years to expand. In particular they are rightly anxious not to incur unnecessary redundancy and recruitment costs.
- 6.5 In projecting pupil numbers there is always an element of uncertainty. It is estimated that by September 2018 the number of pupils in secondary education in Lewisham will exceed the number of current places available. The unknown factor is the extent to which parents will be able to access schools in neighbouring boroughs where school places are also under increasing pressure. The LA is part of a London Councils project to ensure secondary sufficiency London-wide and it is important through this to avoid over-provision as well as under-provision.
- 6.6 Currently the position is that there are
- Schools in deficit in 2016/17 9
  - Schools projecting deficit in 2017/18 17
  - Schools operating an in-year deficit 50  
(Their outgoings are exceeding their income for the year)
  - Schools who have balanced the budget to zero 26

It may be legitimate for a school's outgoings in-year to exceed income because of one-off expenditure but governors would need to be articulating a clear rationale.

- 6.7 Two schools namely Prenderdast Ladywell and Forest Hill had deficits in excess of £500k and under the scheme of delegation their recovery plan is required to be approved by the Mayor. The Mayor agreed the plans on the 9 November 2016 and the report that was considered is shown in Appendix A.

## 7 Budget process and Escalation process for schools in deficit

7.1 Schools for this current financial year had to submit budget plans to the Local Authority by the 31 May (with the agreement of the Schools Forum, the Executive Director has changed this deadline to 1 May for future years – under national regulations it cannot be before this date). When those returns are submitted, officers undertake a number of checks. These are based on the reasonableness of the information provided by schools. Such checks include

- Does the income line in the budget plan agree with the funding notification to the school?
- Is the carry forward quoted in the budget plan correct?
- Do the budgets set align to previous year's income and expenditure? For example, is there a big jump or reduction in previous costs?

Given the numbers of deficits which have come through from the last financial year, officers have introduced a much stronger focus on schools' in-year position – to avoid the situation where a school is storing up problems by balancing its budget by burning through its balances. There is also a stronger focus on questioning schools' income assumptions beyond their budget share, pupil premium etc. e.g. income from lettings to ensure that they are not making over-optimistic projections in order to balance the budget artificially.

7.2 A more systematic escalation process has been introduced  
When a school has a deficit as shown below

Step 1	Review by the Schools Finance Team.
Step 2	Joint School visit by the Schools Finance Team / School Improvement.
Step 3	If the deficit < £500k, Chair & Headteacher may be called in to meet the Executive Director of CYP.
Step 4	If the deficit > £500k, Chair & Headteacher will be called in to meet the Executive Director of CYP.
Step 5	A budget plan and accompanying action plan will be agreed. If this cannot be agreed, a warning notice will be given.
Step 6	If the warning notice is not complied with, suspension of delegation or the establishment of an IEB will be considered.

The Executive Director of Children and Young People has called in 6 of schools to discuss their budget recovery plans. Two schools, Forest Hill and Prendergast Ladywell have had their budget recovery plans agreed by the Mayor. The remaining schools have had their plans agreed by the Executive Director in accordance with the scheme of delegation.

### **7.3 Action by schools**

- 7.3.1 Schools generally take a set course of action when reviewing their budgets. Initially they will review their non-pay headings to make sure all the services they are procuring offer value for money. The next is to review their admin function followed by their other non-teaching support staff. This is then followed by a review of the teaching staff, this may include teacher loading, management structures and the way the curriculum is timetabled to see if there are alternative approaches or whether there are surplus periods in departments. Benchmarking will be undertaken but this will include average salaries costs, contact time as well as financial benchmarking.
- 7.3.2 Individual schools positions will vary, leading to different management action. Some schools will be full and have little scope to increase pupils numbers while some will be able to increase numbers allowing further possibilities to be brought into the budget plan. Consideration will be given to turnover of staff and whether this offers a less painful way of managing the reductions but being conscious of the need to continue delivering the curriculum.
- 7.3.3 The most important and difficult aspect for the school is drawing up a recovery plan that not only in the long term balances the budget but maintains the standards, culture and values of the school.

### **7.4 Challenge and support to schools**

- 7.4.1 To ensure that schools are managing their finances, a mixture of briefing and training sessions are being held with all schools. This year the provision has been stepped up and targeted at those who need it most, with much greater emphasis on the role and effectiveness of governing bodies who take responsibility for school budgets.
- 7.4.2 Budget roadshows were held on both the 1st and 8<sup>th</sup> March 2016, these roadshows helped schools understand the budget and were designed to assist schools who needed to undertake staffing reorganisations. Two roadshows are again set up for this year.
- 7.4.3 A 'Deficit Workshop' was held on the 21 June 2016 to help schools with budget problems to face up to their difficulties and to challenge them on their thinking.
- 7.4.4 A presentation on school finances was made to well-attended meeting for all Lewisham Chairs of Governors on 12 September 2016 and 9 January 2017 highlighting the financial issues – the risks and challenges for schools and the dire consequences of not interrogating the budget properly. The presentation is attached as Appendix B.
- 7.4.5 On the 1<sup>st</sup> November a further session was held to explain the cost pressures facing school budgets coupled with the likely future

reductions in funding, how to balance the challenge of increasing educational standards as delivering a balanced budget.

- 7.4.6 On the 1<sup>ST</sup> December a further session was held with the same purpose of assisting schools but we invited groups from schools: the whole team from a school who are responsible for the budget (managers and governors) are invited to learn and be challenged together on helping them plan change in these uncertain financial times.
- 7.5 In order to provide a holistic support service to schools a number of the council's professional disciplines work closely together and with school to help a school in deficit map the best way forward.

The package of support offered for schools is as follows

#### Finance

- Challenge budget plans / recovery plan
- Check the budget plans
- Help with benchmarking
- From the next financial year schools will be offered a new traded service built around strategic financial planning

#### HR

- Help with reorganisation, redundancy and redeployment processes
- HR health checks
- The Schools' HR Team work with the majority of Lewisham Schools on a Service Level Agreement basis providing transactional services and an advisory service. The advisory service covers discipline, grievance, capability (performance and ill health), absence management, conditions of service and re-organisations. As part of the service an annual health check covering all of the foregoing issues and some additional ones is offered to schools. During the last academic year the team members have actively encouraged schools to take up this offer and are working with a number of schools on reviewing their staffing structures. The aim is to help schools prepare for more challenging financial times so that changes do not have such a profound impact. The team continues to work closely with Schools' Finance and School Improvement as school data emerges and have a presence at workshops, roadshows and training events.

#### School Improvement

- Assessment of the impact on the curriculum

## 8. Schools' General Financial Position

- 8.1 The government is proposing to introduce a new national funding formula for schools in April 2018. There was a consultation document issued in spring 2016. Its purpose was to
- Introduce a funding formula where the funding each pupil attracts is determined nationally
  - Allocate some funding to local authorities for ongoing duties
  - Ensure stability for schools through the minimum funding guarantee

- 8.2 The consultation looked at the
- The principles that underpin the formula
  - The factors to include in the formula

Under the proposals we were predicting a 10% cash reduction for schools in Lewisham and alongside London Councils the schools forum argued that no schools should lose funding and for local flexibility.

- 8.3 A second stage consultation was issued in December 2016, its purpose to
- Introduce a national "Soft" funding formula from April 2018. This means that each local authority will receive their funding according to the new national formula but will be able to distribute it to their own schools via their own local formula.
  - Introduce a national "hard" funding formula from April 2019, where all the calculations are undertaken nationally.

The Department for Education has issued modelling figures of the impact. There is a redistribution of resources across Local Authorities, whereby some schools gain some lose. Following lobbying by London Councils and individual boroughs, the 'hit' on our schools has been greatly reduced.

- 8.4 Nevertheless schools in Lewisham will be on the cash floor and will lose 3% per pupil. Split evenly over two years. 1.5% in 2018/19 and another 1.5% in 2019/20. In cash terms this is £6m.

70% of schools across London lose funding and Lewisham is amongst the four highest losers in London. The details are shown in the attached appendices.

- 8.5 The Government are also implementing a new early years funding formula
- Nursery schools will see significant reductions in funding, initially some protection
  - Maintained school nursery classes will see some reduction, generally in the region of £9k per class

- Private, voluntary and independent sector providers will see increases.
- Extra funding to support working parents with up to 30 hours of childcare - £2.8m from Sept 2017
- The funding we provide for children from deprived backgrounds for 30 hours will no longer be permissible after April 2019 unless the parent is working

8.6 There are significant cost pressures within the schools funding system A National Audit Office Report in December 2016 highlighted these cost pressures and Estimated at 8%. Nationally the cost to schools is £3billion, the DFE expects that schools will need to make efficiency savings through better procurement (estimated at £1.3 billion) and by using their staff more efficiently (the balance of £1.7 billion).

The 8% is in line with local predictions on Pay Awards, the new Apprentice Levy, and Teachers' Pension Increase and with General Inflation Increasing.

Taken with the National funding formula reduction of 3% this totals an 11% reduction.

8.7 The potential impact on typical schools are shown below

	<b>School Budget</b>	<b>National Funding Formula</b>	<b>Cost Pressures</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Small Primary</b>	<b>1,000</b>	<b>30</b>	<b>80</b>	<b>110</b>
<b>Medium Primary</b>	<b>2,500</b>	<b>50</b>	<b>200</b>	<b>250</b>
<b>Large Primary</b>	<b>3,500</b>	<b>75</b>	<b>280</b>	<b>355</b>
<b>Small Secondary</b>	<b>5,000</b>	<b>150</b>	<b>400</b>	<b>550</b>
<b>Large Secondary</b>	<b>10,000</b>	<b>200</b>	<b>800</b>	<b>1,000</b>

8.8 This is a fairly bleak outlook for schools' finances and it is important that schools get their finances into shape. While the impact of all these changes is highly uncertain, there is no doubt that it will add to the pressures schools are facing.

8.9 The Schools Forum has set up a task group to respond to the national funding formula consultation. The Mayor has already written to the Department of Education highlighting the current financial position of

schools and plans to write in response to the latest proposals and the detrimental impact on Lewisham and London Schools.

## **9. Legal Implications**

- 9.1 Section 48 of the Schools Standards and Framework Act 1998 requires every local authority to maintain a scheme dealing with such matters connected with the financing of its schools. In accordance with the Scheme of Delegation to Schools, schools are required to abide by the local authority's requirements on financial controls and monitoring. Schools are required to comply with the Schools Finance Manual, the Council's Standing Orders and Financial Regulations.
- 9.2 The School and Early Years Finance (England) Regulations 2015 specifies those matters connected with the financing of maintained schools which must be set out in the scheme which includes the carrying forward from one funding period to another of surpluses and deficits arising in relation to schools budget shares.
- 9.3 In accordance with the provisions of the local authority's Scheme of Delegation to Schools, the local authority has no power to write off the deficit balance of any school. The Scheme does however permit deficit budgets in particular circumstances. The funding to allow such a deficit budget is provided from the collective surplus of school balances held by the local authority on behalf of schools.
- 9.4 Under the local authority's Licensed Deficit/loan Scheme the amount of the deficit can be no higher than 10% of the school's Individual Schools Budget. Applications for a licensed deficit/loan above £500,000 are required to be authorised by the Mayor.

### **Equalities Legislation**

- 9.5 The Equality Act 2010 (the Act) introduced a public sector equality 5ty (the equality duty or the duty). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- 9.6 In summary, the Council must, in the exercise of its functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
  - Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - Foster good relations between people who share a protected characteristic and those who do not.

- 9.7 It is not an absolute requirement to eliminate unlawful discrimination, harassment, victimisation or other prohibited conduct, or to promote equality of opportunity or foster good relations between persons who share a protected characteristic and those who do not. It is a duty to have due regard to the need to achieve the goals listed at 11.6 above.
- 9.8 The weight to be attached to the duty will be dependent on the nature of the decision and the circumstances in which it is made. This is a matter for the Mayor, bearing in mind the issues of relevance and proportionality. The Mayor must understand the impact or likely impact of the decision on those with protected characteristics who are potentially affected by the decision. The extent of the duty will necessarily vary from case to case and due regard is such regard as is appropriate in all the circumstances.
- 9.9 The Equality and Human Rights Commission has issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled “Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice”. The Council must have regard to the statutory code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with the equality duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found at:  
<https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-codes-practice>  
  
<https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-technical-guidance>
- 9.10 The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:
- [The essential guide to the public sector equality duty](#)
  - [Meeting the equality duty in policy and decision-making](#)
  - [Engagement and the equality duty: A guide for public authorities](#)
  - [Objectives and the equality duty. A guide for public authorities](#)
  - [Equality Information and the Equality Duty: A Guide for Public Authorities](#)
- 9.11 The essential guide provides an overview of the equality duty requirements including the general equality duty, the specific duties and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more

detailed guidance on key areas and advice on good practice. Further information and resources are available at:  
<https://www.equalityhumanrights.com/en/advice-and-guidance/public-sector-equality-duty-guidance#h1>

**11. Financial Implications**

The school budget forms part of the Dedicated Schools Grant. In the event that the school deficit was not to be recovered, no costs will fall upon the General Fund of the Council.

**12. Crime and Disorder Implications**

There are no direct or indirect Crime and Disorder implications.

**13. Equalities Implications**

These schools, like most in Lewisham, have high proportions of BME pupils and have promoting equality and social mobility as part of their mission to improve children's lives.

**14. Environmental Implications**

14.1 There are no environmental implications arising from this report.

If you have any questions on this paper, please contact Dave Richards – Group Finance Manager, Children and Young People Finance Team, 3rd Floor, Laurence House, SE6 4RU (telephone 0208 314 9442 or email [Dave.Richards@lewisham.gov.uk](mailto:Dave.Richards@lewisham.gov.uk)).