

Children and Young People Select Committee (With the Public Accounts Select Committee)		
Report title	In-depth review into of recruitment and retention of school staff and the financial challenges schools face.	
Key decision	No	Item No
Contributors	Executive Director for Children and Young People Executive Director for Resources and Regeneration	
Class	Part 1	28 June 2017

1. Purpose of paper

As part of its work programme the Committee has agreed to undertake an in-depth review into of recruitment and retention of school staff, and has asked that the review considers the financial challenges that schools are dealing with.

2. Recommendations

Select Committee is asked to:

Consider the contents of the report and the evidence from officers

3. Policy Context

3.1 “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.

3.2 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.

4. Background

4.1 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 school 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 second guess decisions of the Headteacher and Governors. Interventions by the Local Authority are very problematic and have to be considered

only in extreme cases. To illustrate this while the Local Authority will give advice on the appointment of a head teacher, the decision lies with the Governing body.

- 4.2 Councils provide some services to schools but the services they pay for, they are not obliged to take up and they can choose to purchase from elsewhere – this includes school meals, payroll services, HR services and financial services.
- 4.3 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.
- 4.4 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.
- 4.5 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.
- 4.6 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.
- 4.7 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.
- 4.8 The school's governing body is responsible for setting the schools budget within its resources and required to continually monitor the spending. The governing body is required to send a budget to the Local Authority by 1st May and during the financial year to submit two budget monitoring returns. One at the end of September and one at the end of December.

5. New Funding Formula

5.1 The Department for Education issued on the 14 December 2016 its response to the national school funding reform consultation that took place in spring 2016. Sitting alongside the response is a further consultation which ran to the 22 March 2017. This gave greater details of the impact of the national funding formula for the Schools Block and the High Needs Block for both local authorities and schools.

5.2 The impact is less severe than the worst case scenario in the first consultation due to:

1. The introduction of at least £200m of additional funding nationally in 2018/19 and 2019/20 to limit the impact on 'losers'.
2. The inclusion of a 3 per cent funding floor.
3. Additional funding for high needs, ensuring that no LA loses high needs funding as a result of the new formula

5.3 However Lewisham is one of the biggest losers and considered alongside the increased cost pressures set out in 6 below, the impact is very significant.

The full implementation date is set for April 2018 where individual schools funding will be delivered by national funding rates.

5.4 Overall the position in Lewisham is:

		Total £m	Change £m
2016/17 baseline (£m)	Schools block	208.764	
	High needs block	48.652	
	Central school services block	1.424	
	Total	258.841	

	£'000
Large Secondary	200
Small Secondary	150
Large Primary	75
Medium Primary	50
Small Primary	30

Illustrative NFF funding in first year of transition	Schools block	205.870	-2.89	-1.39%
	High needs block	48.652		
	Central school services block	1.459	0.03	
	Total	255.981	2.86	

Illustrative NFF if fully implemented in 2016-17	Schools block	203.006	-5.76	-2.76%
	High needs block	48.652		
	Central school services block	1.513	0.09	
	Total	253.171	5.67	

5.5 The typical size Lewisham schools will see the following scale of reductions over the two year period:

The percentage reduction is a fairly standard at 2.8%. The reduction will be split evenly over the next two years starting from April 2018. School by school reductions can be seen in Appendix A.

5.6 The table below shows the summary position of schools either gaining or losing under the proposed national funding formula.

Region	No of schools losing funding	No of schools that gain/no change	Total % losses
London	1,536	643	70%
East Midlands	698	1,215	36%
East of England	865	1,495	37%
North East	415	629	40%
North West	1,679	1,203	58%
South East	1,175	1,873	39%
South West	582	1,609	27%
West Midlands	1,156	1,017	53%
Yorkshire and the Humber	941	1,137	45%
ENGLAND	9,047	10,821	48%

5.7 The position by Local Authority across London is as follows:

Borough	% change total allocations between current rate and NFF rates
Barking and Dagenham	-0.1%
Barnet	-1.0%
Bexley	1.0%
Brent	-1.9%
Bromley	-0.3%
Camden	-2.8%
Croydon	5.6%
Ealing	2.3%
Enfield	2.5%
Greenwich	-2.3%
Hackney	-2.8%
Hammersmith and Fulham	-2.7%
Haringey	-2.7%
Harrow	-0.7%
Havering	0.6%
Hillingdon	2.6%
Hounslow	0.3%
Islington	-1.5%
Kensington and Chelsea	-2.6%
Kingston upon Thames	1.0%
Lambeth	-2.8%
Lewisham	-2.8%
Merton	4.3%
Newham	-2.6%
Redbridge	4.1%
Richmond upon Thames	1.2%
Southwark	-2.7%
Sutton	1.9%
Tower Hamlets	-2.7%
Waltham Forest	-2.0%
Wandsworth	-1.5%
Westminster	0.7%

5.8 Implementation

The DFE have confirmed that they will move to a 'soft' national funding formula in 2018-19. This means that although they will use the national funding formula (once it has been finalised following this consultation) to calculate local authorities' funding allocations, local authorities will still determine individual schools' funding allocations through their own local formula.

5.9 In essence as Lewisham loses so much funding, all our schools will be on the minimum funding guarantee in 2018/19. As Lewisham will not have sufficient funding to do otherwise it would seem sensible to introduce the national funding formula straight away. Clarification and discussions will be held with the DFE and before any decision is made, a report will be brought to Forum.

5.10 From 2019-20, the national funding formula will be used to calculate the vast majority of each individual school's budget. How the funding in terms of cash will flow between the DFE and schools is unknown.

5.11 There is uncertainty in the existing proposals on how long the protection would last.

An Institute of Fiscal Studies report said:

"Government has not said how it will move all schools to main formula after 2019–20. We model three scenarios for transiting all schools to the new formula, all incorporating a maximum annual cash-terms loss of 1.5%. If overall school spending per pupil is frozen in cash terms after 2019–20, all schools get to the main formula by 2029–30. If there is a real-terms freeze to overall spending, all schools get there by 2024–25; and if there is 2% real-terms growth, all schools get there by 2023–24".

The full report is called

The short- and long-run impact of the national funding formula for schools in England

And can be found on

<https://www.ifs.org.uk/uploads/publications/bns/BN195.pdf>

5.12 The general election has changed the position with both the major parties indicating they want to provide extra resources within the schools funding system. Both the major political parties are stating they do not want to see any school lose under the implementation of the national funding formula. How this works in practice is more complex especially with the interrelationship with the minimum funding guarantee being set at a minus amount. General both parties are highlighting their wish to invest in Education but there is not sufficient detail to determine the exact impact on schools

5.13 Early Years Funding

The DFE has issued a new funding formula for Early Years providers. The overall outcome will be that Nursery schools will see very significant reductions in funding, Maintained school nursery classes will see some reduction, generally in the region of £9k per class and the private, voluntary and independent sector will see increases.

The proposed national funding formula for funding local authorities will receive, is made up of:

- 89.5% Pupil numbers
- 8% KS1 FSM numbers
- 1.5% EAL numbers
- 1% DLA numbers
- There is an area cost adjustment based on general labour market costs and rates bills.

Unlike schools funding, early years funding will continue to be distributed by Local Authorities through a local formula. The most significant change to the local funding formula will be that there must be only one universal base hourly rate for all types of providers. Currently this is not the case in Lewisham. The rates we have used are:

- £7.70 Nursery schools
- £4.85/£5.13 Primary schools (dependent upon OFSTED rating)
- £3.84/£4.67 PVI's (dependent upon OFSTED rating)

The Schools Forum set up an EYFS Task Group to look at the proposals in more details.

The key recommendations, agreed by the Forum

- The Universal Base Rate was deferred until April 2018. This enables the school rates to be held up at the expense of PVI rates.
- Currently additional Nursery hours are allocated to children deemed to have social needs. This will be reduced to a third of its current provision. Currently 279 children receive this and the budget is £900k. In the longer term it will not be permissible for Local Authorities to fund additional hours for these type of children.
- The proposals include details of the extra 30 hours implementation of childcare from September 2017. This increase will only be available to working parents

The response to the Early Years consultation now says it is not permissible to allocate additional hours for social need after April 2019.

5.14 The government has guaranteed funding to protect nursery schools for the life of this parliament. Within the settlement the amount of funding for Nursery schools'.

5.15 Schools Forums

There is no clear position on Schools Forums, despite proposals to distribute funding directly to schools and by-pass Schools Forums completely. DfE say that they will consult further on the precise arrangements for 2019-20 when the hard national funding formula will be implemented. This consultation is likely to include proposals for legislative changes and the future role of Schools Forums. London Councils have already argued strongly for the retention of Schools Forums as they provide local flexibility to be able to respond swiftly to changing circumstances.

5.16 Central services funding block

The DfE is proposing to create a new funding block known as the “Central Services funding block” to distribute funding to local authorities to discharge their education statutory duties in relation to all local children. It mainly covers the retained duties element of the former Education Services Grant and the admissions team. It will be formed from the schools block funding that is currently held centrally by local authorities as well as the retained duties element of the Education Services Grant (ESG). It will be distributed to local authorities on a simple formulaic basis. Lewisham gains funding slightly on this but the total block is only £1.5m.

5.17 High needs Block

The DfE also published a high needs national funding formula consultation on the 14th December, which ran until the 22nd March 2017. Under DfE these proposals there will be no cash losses to local authorities as a result of the high needs formula. Clarity will be sought with the DfE as to whether this ‘protection’ means no growth will be funded in the future.

The high needs block has faced considerable financial pressures over the last few years, it has been cash frozen on a per pupil basis in line with the schools blocks but unlike the schools block has not seen rises to match all the increases in pupil numbers. There has been some funding for this but it has been minimal. Most of the high needs block is spent on children that are placed in either maintained schools or the independent sector. Last year’s reductions of £4.1m (10%) were agreed by the schools forum and this year the growth pressure is £1.7m. With most of the spend in schools then there has been a knock on effect to their under budgets.

6. Inflationary pressures including changes to employer contributions

6.1 Cost pressures on schools - Schools Budget position 2015/16 and 2016/17

Over the past two years schools have faced considerable cost pressures, these have resulted mainly from the increases in Pension contributions and national insurance rates. Settlements from central government have been frozen in cash terms per pupil. Although all the extra pupils have been funded. This does mean there are extra resources in the system but does not recognise that if there are more pupils within the system more teachers are needed. Hence schools costs rise through thi as well

The increases in cost pressures in 2015/16 and 2016/17 are shown in the table below.

Cost pressures within schools

Budget Heading	% of budget	School Funding £m	Increase	2015/16		2016/17	
				Total	Budget Impact	Total	Budget Impact
Teaching Staff	50%	111	Pay	1.0%	0.5%	1.0%	0.5%
			Pension	1.3%	0.7%	1.0%	0.5%
			Nat. Insurance	0.0%	0.0%	1.5%	0.8%
Other Staff	25%	56	Pay	2.2%	0.6%	1.0%	0.3%
			Pension	0.5%	0.1%	0.5%	0.1%
			Nat. Insurance	0.0%	0.0%	1.5%	0.4%
Energy	1%	2	Prices	-5.0%	-0.1%	0.0%	0.0%
Other supplies	24%	53	Prices	1.0%	0.2%	1.0%	0.2%
Total ISB		222			2.0%		2.8%

This table excludes local issues such as the reduction in the matrix funding

- 6.2 The National Audit Office issues a report on the 14 December 2016 on the future inflation that schools are likely to face over the next few years

The full report can be found

<https://www.nao.org.uk/wp-content/uploads/2016/12/Financial-sustainability-of-schools.pdf>

The report estimates inflationary pressures within the system will amount to 8.7% over the period from 2016/17 to 2019/20.

This is more or less in line with our predications but may be slightly on the low side depending on potential increase in pension contributions for teachers that is likely in April 2019.

- 6.3 The Department for Education estimates that mainstream schools will have to find savings of £3.0 billion (8.0%) by 2019-20 to counteract cumulative cost pressures, such as pay rises and higher employer contributions to national insurance and the teachers' pension scheme. It expects that schools will need to make efficiency savings through better procurement (estimated savings of £1.3 billion) and by using their staff more efficiently (the balance of £1.7 billion).
- 6.4 With the national funding formula proposed reductions of 3% for Lewisham schools and the cost pressures above, schools will have to find reductions of 11% over the next three years. For our largest secondary schools who have income of around £10m this will mean savings of £1m.
- 6.5 Over the last 18 months significant work has been undertaken to make schools aware of the financial constraints and to improve the financial management in schools.

The following support to schools have been delivered last year

- 17 Finance based training sessions
- 66 Finance visits to schools
- 50 HR health checks completed
- 10 reorganisations / redundancy consultations underway

There has been some major developments in order to assist schools in their financial management this has included issue new Self checking budget monitoring and budget planning toolkits.

6.6 Last year at this time we were predicting that 17 schools were going into deficit this year but there are now thought to be 13 due to governors' action supported by the Local Authority. It was predicted that 50 schools would have in-deficits but in the end this was reduced to 32. Again this is due to remedial action by governing bodies.

Budget returns and budget monitoring returns are now being made on time with the new escalation process.

The carry forwards held by schools have been steadily reducing over the past two years and fell from £16m to £12m in 2015/16. At the end of last financial year March 2017, the balances held level at £12m. At least this will help some schools weather some of the financial risks they will be exposed to in the future but more importantly an indication that they are getting on top of their finances.

The deadline for schools to submit budget returns to the Local Authority was 1 May, a full month earlier than last year. There are three schools who have not submitted a budget plans this year. Of these, two are working closely with the Local Authority Officers following major changes. The third has been written to, with part of the delay having been caused by sickness absence in the school. At this stage last year there were 20 schools who had not submitted budget plans.

There was a 100% return rate of the Schools Financial Value Standard.

6.7 This improvement is not causing us to be compliant however and during the coming year we plan to

- Continue to adhere to our strict timetable
- Encourage schools to plan their budgets in the autumn term
- Hold more training course on all aspects of finances
- Modify our risk based approach to budget challenge and support where ever resources allow, acknowledging that all schools face financial challenges

7. **Balancing budgets – experience and quality versus costs”**

The department for Education do issue some data on teachers’ salaries. The table shows below some average teaching costs across the country. The data has to be used with caution as the published data is at a summary level and the table below is calculating an average based on average so may not be technically accurate but will give a reasonably view.

Average	37,426
Median	36,622
Max	44,028
Min	34,971
Lewisham	42,684

Lewisham was ranked the 7th highest Local Authority for teachers’ salaries

If costs are compared on the basis of teaching costs per pupil rather than pure teachers’ salaries, Lewisham would be ranked the 14 highest in the country.

Appendix A shows anonymised data for the average salaries in Lewisham and Appendix B across all Local Authorities.

The Sutton Trust back in 2011 produced a Toolkit. The Sutton Trust-EEF Teaching and Learning Toolkit is a summary of educational research which provides guidance for teachers and schools on how to use their resources to improve the attainment of disadvantaged pupils, this was in relation to pupil premium children but the findings are still relevant

The following provides an easy access guide

<https://educationendowmentfoundation.org.uk/resources/teaching-learning-toolkit>

The main finding of the report was the importance of feedback. Feedback is information given to the learner and/or the teacher about the learner’s performance relative to learning goals. It should aim towards (and be capable of producing) improvement in students’ learning.