

EDUCATION AND YOUTH OVERVIEW & SCRUTINY COMMITTEE

Date of Meeting	Thursday, 18 th January 2018
Report Subject	2018/19 Council Fund Budget – Stage Two Proposals for the School Funding Formula Level
Cabinet Member	Cabinet Member for Education and Leader of the Council and Cabinet Member for Finance
Report Author	Chief Officer (Education & Youth)
Type of Report	Strategic

EXECUTIVE SUMMARY

Council at its December meeting approved the Stage 2 budget for the Council Fund Budget 2018/19 subject to several specific proposals being referred to Overview and Scrutiny for detailed scrutiny prior to further consideration by Cabinet and ultimately Council. One of the specific budget proposals is that schools will only receive a 'cash flat' settlement for 2018-19 creating an efficiency of £1.143m, and that adjustments to school budgets are made based on pupil demography saving a further £0.288m.

The report outlines the potential risks and mitigations of such proposals on the delivery of quality educational services in Flintshire. The report also provides contextual information on the current level of school balances, reductions in grant funding from Welsh Government (WG), and an overview of the inflationary cost pressures facing schools.

RECOMMENDATIONS

1	That the Committee considers the feasibility of a 'cash flat' settlement to schools and how the risks of such a proposal can be mitigated.
2	That the Committee reviews and comments on the current level of schools balances.

REPORT DETAILS

1.00	EXPLAINING THE STAGE 2 FORMULA FUNDING LEVELS AND RANGE OF PRESSURES FACING SCHOOLS FOR 2018/19										
1.01	<p>Flintshire County Council has a strong track record in trying to protect front line education services and whilst the central educational budget has been reduced by 30% over the last three years, delegated budgets to schools have not been subject to the same efficiency measures.</p> <p>Despite the challenges of austerity over a prolonged period, the Council has managed to provide a small degree of financial protection to schools' delegated funding and has previously met the Welsh Government's Ministerial protection percentage uplifts for schools. Whilst this was welcomed by schools it was widely acknowledged that this uplift did not cover the full cost pressures schools have experienced in recent times and this is outlined in further detail below as important contextual information.</p> <p>With the Council now faced with a cut of 0.2% to its Revenue Support Grant for 2018/19 in its final settlement and the ongoing pressures identified in the Medium Term Financial Strategy, elected members are having to consider all remaining options to try and meet the legal requirement to set a balanced budget. This includes reviewing the current schools funding to offer only a 'cash flat' settlement for schools in 2018/19 and also apply a reduction to the quantum invested in the schools formula based on school population to reflect demographic changes.</p>										
1.02	<p>The original financial forecast of £11.7m reported in July 2017 included an estimate of schools inflationary cost pressures of £1.143m.</p> <p>The cost pressure was made up of:</p> <table border="1" data-bbox="528 1285 1080 1547"> <thead> <tr> <th>Pressure</th> <th>18/19 (£m)</th> </tr> </thead> <tbody> <tr> <td>Pay Inflation</td> <td>0.847</td> </tr> <tr> <td>Energy Inflation</td> <td>0.265</td> </tr> <tr> <td>NDR</td> <td>0.031</td> </tr> <tr> <td>Total</td> <td>1.143</td> </tr> </tbody> </table>	Pressure	18/19 (£m)	Pay Inflation	0.847	Energy Inflation	0.265	NDR	0.031	Total	1.143
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1.03	<p>The table below sets out the funding levels for schools and the cost pressures they have had to absorb in recent years. There have been significant workforce pressures around National Insurance and teachers' pension costs which have impacted on schools.</p> <p>In addition to this there have been a number of things that have been implemented as part of the efficiency process which have directly affected schools. Remission funding was withdrawn and schools now have to fund this themselves, although this can be offset for pupils eligible for the Pupil Development Grant (PDG). The reduction in ALN services centrally has had a direct impact on schools and it is very evident when discussing concerns with schools that they are struggling to meet the increasing demands of ALN pupils from a cost perspective. This pressure is likely to increase when the new ALN reforms are implemented in the near future.</p>										

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1.04	<p>Schools have been proactive in adjusting to reducing funding levels and have critically reviewed their budgets to absorb pressures whilst focusing on maintaining the delivery of a quality curriculum and improving learner outcomes. Performance at Foundation Phase, Key Stage 2 and Key Stage 3 is currently at or better than expected levels. However, performance on key national indicators at Key Stage 4, though slightly improved in 2017, is still below expected levels and continues to require further intervention.</p> <p>With the vast majority of any school budget dedicated to staffing costs it is not surprising, therefore, that there has been a significant increase in redundancies within schools in recent years as schools have made reduction in both teaching and support staff. Many secondary schools have also reduced their senior leadership teams. The table below shows the cost of school redundancies to the Authority as these are funded centrally.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>2014</th> <th>2015</th> <th>2016</th> <th>2017*</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">259,194</td> <td style="text-align: right;">842,660</td> <td style="text-align: right;">1,075,425</td> <td style="text-align: right;">493,363</td> </tr> </tbody> </table> <p style="text-align: center;">*Costs to date</p>	2014	2015	2016	2017*	259,194	842,660	1,075,425	493,363																				
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259,194	842,660	1,075,425	493,363																										
1.05	<p>Whilst reducing staffing saves money, a reduction in the school workforce undoubtedly creates risks. This can manifest itself in many ways e.g. a reduction in the range, quality and breadth of the curriculum on offer, a reduction in the levels of academic support and pastoral intervention for vulnerable pupils, the inability to purchase new/replace teaching and learning resources and potentially an increase in class sizes.</p> <p>Poorer pastoral care and the ability to offer alternative curriculum models can potentially increase issues related to pupils' emotional health and well-being which can impact on attendance and rates of exclusion. There is also the potential issue of increasing sickness absence due to work related stress and greater challenges in recruitment and retention of staff at all levels, including most critically, school leadership posts.</p> <p>Reduction in schools funding will also make it more difficult for schools to maintain the upkeep of aspects of their building for which they are responsible.</p>																												
1.06	<p>Schools have been reliant on their budget balances to maintain financial stability during this extended period of austerity. Whilst primary and special school balances have held up relatively well in recent times, the position in secondary schools is not at all positive with a significant number now in a deficit position.</p>																												

The table below summarises the year end position of school balances at March 2017.

Flintshire School Balances Analysis								
	13/14		14/15		15/16		16/17	
	No of		No of		No of		No of	
	£'000	Deficits	£'000	Deficits	£'000	Deficits	£'000	Deficits
Primary	1,751	10	2,215	7	2,682	7	2,179	4
Secondary	115	3	-115	4	-455	5	-877	7
Specialist	305	0	259	0	197	0	230	0
Total Balances	2,172		2,358		2,424		1,532	

Latest predictions for 2017/18 provided by the Schools Accounting Team forecast that net school balances will fall further from the March 2017 level of £1.5m to just £6k, reflecting the challenging financial position schools are facing. This is a significant risk to the Council as the buoyant primary school balances which have traditionally offset the secondary schools deficits are now nearly depleted.

As can be seen from the table, 7 of the 12 secondary schools in Flintshire were in a deficit budget situation at the end of March 2017. This number is expected to increase. Schools in this position have to seek a formal licensed deficit agreement with the Council in which a recovery plan to bring the budget into a position of credit is approved and regularly monitored by senior officers in conjunction with the Head Teacher and Chair of Governors. This is increasing financial risk to the Council as well as creating an increased workload for finance officers and senior managers.

1.07

This challenging financial situation, which is requiring the Council to consider setting only a 'cash flat' budget for schools has been created by nationally set policies which are unfunded e.g. pay awards for teachers and support staff and an increase in employers' National Insurance contributions. Whilst we are not commenting here on the efficacy of such policies, the risks that they pose to both the Council and schools to balance their respective budgets and maintain quality educational provision cannot be understated. The details related to these pay awards are outlined below:

Teachers Pay Award 2017/18

The School Teachers' Review Body (STRB) received its remit from the Secretary of State for Education at the beginning of December seeking recommendations on the 2018 pay award for teachers. The government has asked the STRB to consider how the pay award could utilise a "more flexible" approach to public sector pay restraint to address areas of skill shortage and support productivity, whilst remaining "within the bounds of affordability". The STRB has been asked to report back by early May 2018.

Below is some modelling of the impact of varying levels of school teachers pay awards for the:

Teachers (From Sept 18)	£903k	(2.5%)
	£542k	(1.5%)
	£361k	(1.0%)

These costs relate to 7 months only (September 2018 to March 2019) as pay awards are put into effect from the start of an academic year, not financial year, and so the full year impact for 2019-20 will be higher.

NJC Pay Award 2017/18

The National Employers body for local government issued their NJC pay award recommendations for 2018/19 to Chief Executives on the 5th December. This recommended a 2% award to staff at scale point 20 and above with differential increases for scale points below this ranging from 9.15% to 3.7%.

An analysis of the impact of the pay award across Flintshire schools based on the staff in post as at December has been undertaken. The estimated total increase in cost would be £1.349m on a pay bill of £24m which represents a 5.6% increase. This reflects the differential percentages on scale points 19 and below – most support staff in schools will fall into this category which will particularly impact special schools.

The NJC pay award alone represents 1.6% cost pressure on total delegated budgets.

A ‘cash flat’ settlement to schools will not provide any additional funding for schools to meet these increasing staffing costs and they will have to be met within existing school resources. It is impossible to provide a detailed statement on the potential impact of these changes for every individual school as each school budget is different, with a greater or lesser degree of financial stability. However, it is fair to say that having to absorb the costs of these nationally agreed pay awards without additional funding from central government will have a negative impact on Flintshire schools as money is diverted from other areas to cover these increased staffing costs. For some schools meeting this budget requirement will be highly challenging.

1.08

A further risk to school budgets is the reduction of specific grants in the Education and Youth Portfolio which schools rely on to deliver services themselves or from which they receive support services directly from the Council.

Education Improvement Grant (EIG)

This was created two years ago and is an amalgamation of 11 previous grants. It funds Foundation Phase and a range of other schools services. Flintshire current receives £6.47m.

Welsh Government announced national grant allocations on 24 October and this identified that EIG had been reduced by 11.36%. For Flintshire this means a potential reduction in funding of £735k. As of yet there has been no guidance issued from WG as to how the grant terms will be changed to reflect this reduced funding.

Much of the funding allocated to schools through EIG is used for funding staff, particularly in the Foundation Phase in primary schools to meet the WG recommended adult pupil ratios. WG recommends a ratio of 1:8 for 3-5 yr olds and 1:15 for 5-7 year olds in order to appropriately deliver the

Foundation Phase curriculum. In consultation with head teachers a number of years ago, Flintshire reduced the funding for 3-5yr olds to create a ratio of 1:10 in response to previous funding pressures. £4.254m of EIG is currently allocated to Foundation Phase. Based on the NJC pay offer, most Foundation Phase support staff would receive a 7.592% pay award and the impact of this together with the reduction in funding would create a cost pressures of around 19% on the grant funding for Foundation Phase staff.

Pupil Development Grant (PDG)

This is the funding received by schools from WG to support pupils entitled to Free School Meals to help them achieve their academic potential as research shows that children from more economically disadvantaged families are more at risk of educational underachievement.

Whilst the level of PDG funding has been unchanged nationally and Flintshire received £1.2m in 2017/18, the impact of pay awards will be a significant risk as schools use this funding for a range of initiatives which involve the employment of staff – teaching and non-teaching – to provide intervention programmes for this identified group of vulnerable learners.

Post 16 Funding

Welsh Government fund Post 16 education through a grant directly to the Local Authority. Flintshire sixth form education was allocated £4.756m in 2017/18.

At the time of writing this report no information has been received about funding levels of post 16 but in the context of cuts to other grants, a reduction in funding levels is likely, further adding pressure to schools delivering post 16 education.

Minority Ethnic and Language Achievement Grant (MEAG)

Welsh Government, through the Education Improvement Grant, have provided Local Authorities with a funding stream to deliver support services for pupils from Gypsy/Traveller communities and for those whom English is an Additional Language. The value of this grant to Flintshire is currently £174,000 and funds the LA support teams who work with pupils directly in schools. At the current time there is a lack of clarity about whether this funding has been put into the Revenue Support Grant settlement and no longer remains an additional grant. If it has been placed into the RSG then this creates another significant cost pressure for the Council and will have a direct impact on its ability to provide this much needed support to schools.

School Uniform Grant

Another grant that has previously been made available as separate funding to Councils which no longer appears on the grant list is the School Uniform Grant. This was to support the costs of purchasing new school uniforms for Year 7 pupils starting secondary schools who are entitled to Free School Meals. The value of this grant last year was £26,000. The Council will have to make a decision whether to find the money to replace this grant or pass the cost pressures onto secondary schools. Schools, however, do receive additional funding for pupils entitled to Free School Meals through the Pupil Development Grant which could be used to offset this pressure.

1.09

In order to understand the potential impact of the inflationary pressures on

schools, the analysis below shows the impact on three different sized primary schools and a medium sized secondary school.

	Pupil Numbers	Total Funding	Inflationary Pressures + Grant Reduction	% Cost Pressure
Small Primary	61	303,121	10,802	3.6%
Medium Primary	177	674,661	28,540	4.2%
Large Primary	428	1,457,206	40,949	2.8%
Medium Secondary	975	5,675,782	169,510	3.0%

A 'cash flat' settlement means that schools will receive the same level of funding as they did last year with no uplift to help contribute to the funding of these cost pressures.

Head Teachers are already reporting high levels of stress through their local Head Teacher Federations and Professional Associations as the impact of funding reductions takes its toll.

1.10

There are few mitigations that can protect schools from the impact of a 'cash flat' settlement following on from a number of lean years in educational funding where budgets have reduced in real terms. There either has to be a reversal of the national policy on austerity or schools will need to go even further in making local efficiencies.

Neither is there any scope for the Education and Youth Portfolio to reduce its central costs to free up additional funding for schools. The Council already delegates funding to school at 89%, the sixth best delegation rate in Wales, retaining only 11% for core education services. Over the last three years the Portfolio has exceeded the Council target of finding efficiencies of 30% across its central services and has no further capacity for reductions without compromising delivery on its mandatory functions.

Schools have tried to find ways to effectively manage their shrinking financial resources. Head Teachers and Governing Bodies have actively reviewed their staffing and spending profiles in recent years and have removed unnecessary surplus wherever possible. It has encouraged them to ensure their procurement procedures are as efficient as possible to get the best value and this will continue. Head Teachers and Governors are always willing to accept advice and engage in training to further improve their skills in this area of financial and human resource management and this will continue to be provided by the Local Authority.

Some smaller schools are beginning to see the value of federation to ensure sustainability and have actively developed this new model of delivery where opportunities have presented themselves. This will provide some efficiency in relation to staffing costs where leadership arrangements are shared but not achieve a major saving as it does not result in a reduction in the number of school buildings. The ongoing reorganisation of the school estate across the Authority will continue to provide opportunities for financial efficiency and greater long term sustainability of school provision but it is a process that is work intensive, often controversial and takes a considerable amount of time

before change is affected and efficiencies realised.

Developing technologies provide access to online resources that can effectively and efficiently support teaching and learning as well as school management but does require initial cost investment and ongoing maintenance.

Schools already have a range of strategies for covering teacher absence either for illness or planned professional development opportunities in a cost effective manner. These will include the use of non-qualified teachers eg learning assistants or cover supervisors. However, the Head Teacher will always be mindful of the balance between specialist and non-specialist staff and there will be times when only a qualified teacher can be deployed to ensure the ongoing quality of teaching and learning, particularly in examination classes.

Schools may have to consider reducing the number of subject options at secondary school if the number of pupils wanting to undertake these courses or develop partnership arrangements with other schools to offer a broad curriculum offer between them.

The Council has worked hard at a Wales and UK level to outline the impact of ongoing austerity on public services, including education, to try and secure a better funding deal. This has included direct communication with Ministers to demonstrate the Council is already very lean in its operating model and to outline the challenges council services will be faced with unless funding levels improve. This included a direct appeal to the Cabinet Secretary for Education, which is included as an appendix to this report. (Appendix 1)

1.11

There is a growing body of evidence that Flintshire is a low funded Council per capita in the way funding is allocated through the Standard Spending Assessment (SSA) from Welsh Government. This has an impact on the amount of money available for front-line services.

As the tables below demonstrates, schools in Flintshire are funded at lower levels compared to many other Welsh authorities and the 'per pupil' funding is below the Welsh average. However, with performance at Foundation Phase, Key Stage 2 and Key Stage 3 matching or exceeding expected levels, it could be argued that education services in Flintshire represent very good value for money.

Table 1 – Comparison to similar sized authorities by population size

County	Per Pupil Funding £		
	Primary	Secondary	Specialist
Flintshire	4,194	4,866	16,947
Neath Port Talbot	4,190	4,680	19,480
Bridgend	3,860	4,759	23,357
Newport	3,950	4,717	23,136
Wales Average	4,233	5,025	20,806

Table 2 – Comparison to North Wales authorities

	Per Pupil Funding £			
	County	Primary	Secondary	Specialist
	Flintshire	4,194	4,866	16,947
	Isle of Anglesey	4,560	5,160	16,822
	Gwynedd	4,512	5,288	17,572
	Conwy	4,421	5,253	19,388
	Denbighshire	4,330	5,400	20,968
	Wrexham	4,215	5,235	14,387
	Wales Average	4,233	5,025	20,806
1.12	<p>There has been regular communication with Head Teachers about the challenges facing the Council in setting a balanced budget and they have indicated their willingness to work proactively through their professional associations and to appeal to the Education Minister directly to demonstrate the real challenges that they are facing in maintaining quality educational provision with reducing budgets.</p>			
1.13	<p>Conclusion</p> <p>The Council is faced with the major challenges of making some very difficult choices about how to allocate its limited funding and how to find further efficiencies in order to achieve a legally balanced budget.</p> <p>Setting a 'cash flat' budget for schools makes a significant contribution to closing the budget gap but is not without major risks to the sustainability of quality education services in Flintshire. Such a decision will impact all schools but will be particularly challenging to those whose current budgetary situation is less resilient than others.</p> <p>Mitigations are limited and rely on the provision of additional money from either the Welsh or UK government to address major costs which are currently unfunded such as pay awards, and the skill and resilience of school leaders to manage their budgets as effectively and efficiently as they can at a local level whilst maintaining a focus on providing quality learning experiences for their pupils.</p>			

2.00	RESOURCE IMPLICATIONS
2.01	<p>The Council has traditionally protected delegated schools budgets from the efficiency savings required of all other service areas and met recommended Ministerial protections, but is now faced with the unprecedented situation where a 'cash flat' settlement to schools is one of the only ways in which is can close the budget gap forecast for 2018-19. The potential resource implications for schools of such a decision is clearly articulated in this report.</p>
2.02	<p>As schools continue to restructure their workforce as funding becomes more restrained and further redundancies are made, the Council will need to continue to fund these exit costs.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	Whilst there has not yet been formal consultation with all Head Teachers, a key strategy in supporting school leaders in these difficult times has been to try and keep them well informed about the financial situation as it develops in a variety of ways.
3.02	The School Budget Forum, a statutory body on which there is Head Teacher representation, meets on a termly basis and the potential for a 'cash flat' settlement was raised at the first meeting of the academic year on 29 th October 2017.
3.03	The Chief Executive, Chief Officer for Education & Youth and Cabinet Member for Education have attending meetings of the Primary and Secondary Head Teacher Federations during the autumn term to discuss the budgetary situation in person and the efforts being made at a national level to secure a better funding deal for Flintshire.
3.04	As the Primary Head Teacher Federation is a representative group and does not include all Heads, as the Secondary Federation does, the Chief Officer for Education & Youth and Finance Manager have sent update letters and emails to schools to ensure all Head Teachers are directly informed. (Appendix 2).
3.05	There is also a plan to hold a full consultation meeting with all Head Teachers and Chair of Governors in the Spring Term once the financial situation is clearer.
3.06	The response from Head Teachers to date has been extremely professional and whilst they are expressing grave concern about the impact of a 'cash flat' settlement and other grant reductions on their ability to maintain high quality provision for their pupils, as well as clearly articulating the negative impact the situation is having on them personally as school leaders, they have acknowledged that the Council is in an invidious position and facing extremely challenging times.

4.00	RISK MANAGEMENT
4.01	The risks of a 'cash flat' settlement to schools and any potential mitigations are clearly articulated in the body of the report.
4.02	Head Teachers and their Governing Bodies will be responsible for managing the risks at a local school level as a result of any decision made to offer a 'cash flat' settlement. They will be supported by Council officers where specific expertise is required e.g. in financial and human resource management. All schools have an Equality Policy within which they work to mitigate the risks to those with protected characteristics.

5.00	APPENDICES
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5.01	Appendix 1 – Letter to Cabinet Secretary for Education WG Appendix 2 – Example of letter to Head Teachers
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6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None. Contact Officer: Claire Homard, Interim Chief Officer Education & Youth Telephone: 01352 704190 E-mail: claire.homard@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	<p>Ministerial Protection – recommendations from the Cabinet Secretary for Education in Welsh Government to the level of uplift to school budgets to cover inflationary pressures created by nationally agreed pay awards</p> <p>Revenue Support Grant – the main source of funding to councils from Welsh Government for the delivery of local services</p> <p>School Demography – changes to pupil numbers in schools and how this is reflected in school budgets</p> <p>Foundation Phase – Educational phase for pupils aged 3-7 Key Stage 2 – Educational phase for pupils aged 7-11 Key Stage 3 – Educational phase for pupils aged 11-14 Key Stage 4 – Educational phase for pupils aged 14-16</p> <p>Expected Performance Levels – the position Flintshire is expected to be in terms of educational performance at the end of each key stage, based on its percentage of pupils entitled to Free School Meals, benchmarked across all 22 Welsh Local Authorities. Flintshire is expected to perform 6th or better overall.</p>