

CYNGOR SIR POWYS COUNTY COUNCIL.

CABINET
27th February 2017

REPORT AUTHOR: County Councillor Arwel Jones, Portfolio Holders for Schools and County Councillor Wynne Jones
Portfolio Holder for Finance

SUBJECT: Brecon High School – Financial Management

REPORT FOR: For Information – Decision

1. Summary

- 1.1 The Governing Body of Brecon High School have for a number of years had a significant challenge in setting a balanced budget.
- 1.2 Pupil numbers across Powys have been reducing in the secondary sector and continue to fall. The funding delegated to schools is driven in the main by the pupil numbers on roll at each school. With reduced levels of funding the Governors are expected to review and reduce annual expenditure to a level that does not exceed the funding available.
- 1.3 With the majority of the of the schools expenditure relating to staffing it is this area of the budget from which the majority of the savings have been required. The reductions have to be balanced with the delivery of the statutory requirements which the school has to fulfil.
- 1.4 Brecon High school was in a significant deficit position at the 31st March 2013 and a loan of £432k over a 10 year was approved for the school to enable them to manage and clear the deficit over a longer period.
- 1.5 The Governing Body are once again faced with a projected deficit position in addition to the remaining balance of the loan.
- 1.6 This report provides an update on the current and projected financial position of the school.

2. Background

- 2.1 The Scheme for the Financing of Schools requires that *“planned expenditure must not exceed the resources available to the school, taking into account any balances due to or from the school for the previous year, without specific approval by the County Council under para 4.9 (unlicensed deficits). Failure to set a budget within the*

resources available may lead to the issue of a notice of concern with accompanying restrictions on powers of expenditure or to the withdrawal of delegated powers from the school.” (Section 2.2 submission of budget plans)

- 2.2 Sections 4.5 to 4.9 of the scheme provide the requirements in terms of deficits budget, these sections are included in Appendix A.
- 2.3 At the end of 2011/12 Brecon High school had accrued a deficit budget in the region of £700k and on the 5th February 2013 Cabinet recognised particular circumstances at the school and contributed a sum of £120k funded from corporate reserves towards the cumulative deficit.
- 2.4 On the 30th July 2013 Cabinet resolved to approve a loan to Brecon High of £432k to be repaid over a ten year period. The agreement requires £43,200 to be paid annually from 2014/15.
- 2.5 Brecon High School underwent an Estyn Inspection in 2012 and were placed in the category of requiring “significant improvement”. During a follow up inspection in February 2014, the school was downgraded to requiring special measures. A new Headteacher commenced at the school in November 2014.
- 2.6 On the 24th March 2015 Cabinet approved the deferment of the loan repayment for 2015/16. This was in order to reduce the budgetary pressure whilst the school was striving to raise standards and be removed from requiring special measures. A number of conditions were imposed by Cabinet when approving the deferment as follows:-
 - The governing body sets a balanced budget for 2015/16 and 2016/17 and then subsequent years;
 - There will be no overspend against the planned budget;
 - Any underspend at the end of each of the financial years 2015/16 and 2016/17 will contribute towards repayment of the loan;
 - Any virement in the budget of over £5,000 is approved by the Council’s School Finance manager in consultation with the Professional Lead (Finance) and Head of Schools and the Portfolio Holder for Education.
 - To recalculate the loan repayments over the remaining term of the loan.
 - No consideration will be given to any further loan repayment deferments.
- 2.7 However, due to the improved financial position at the school as at the 31st March 2015 the Governing Body decided not to take the deferment and made the annual repayment.

2.8 The financial position of the school over the last 5 years and pupil data is provided in the table below.

Year	2011/12	2012/13	2013/14	2014/15	2015/16
Balance B/F	(655,206)	(704,012)	(431,896)	95,129	209,846
In Year Position	(48,806)	272,115	527,025	114,718	(102,740)
Balance C/F	(704,012)	(431,896)	95,129	209,846	107,107
Loan Outstanding			(432,000)	(388,800)	(345,600)
Approved Budget C/F	(862,739)	(655,982)	70,545	59,893	36,045
Outturn Position	(704,012)	(431,896)	95,129	209,846	107,107
Improvement	158,727	224,086	24,583	149,953	71,062
Pupil numbers funded Pre 16	639	637	644	628	577
Pupil numbers funded Post 16	119	127	114	114	87

2.9 Since the provision of the loan the school has maintained a surplus budget position and has met the annual repayment terms of the loan. The Outturn position for each of the last 5 years has been an improved position against the budget set, as shown in the table above, however the position began to deteriorate in 2015/16 which probably reflected the fall in pupil numbers from 2014.

2.10 The 2016/17 budget plan submitted by the Governing Body, shown in the table below, sees the surplus position at the end of March 2016 falling into an immediate deficit in 2016/17. With further reductions in pupil numbers projected for the following 2 years, the forecast was an increasing deficit to £967k by 2018/19; this is in addition to the outstanding loan of £216k.

Year	2015/16 Budget	2015/16 Actual	2016/17 Cabinet	2017/18 Projected	2018/19 Projected
Delegated Funding	2,932,223	2,917,395	2,658,366	2,495,700	2,453,323
Net Expenditure	3,106,024	3,020,135	2,952,227	2,896,731	2,832,746
Balance B/f	209,846	209,846	107,107	(186,754)	(587,785)
In Year Position	(173,801)	(102,740)	(293,861)	(401,031)	(379,423)
C/F Balance	36,045	107,107	(186,754)	(587,785)	(967,208)
Loan Outstanding	(345,600)	(345,600)	(302,400)	(259,200)	(216,000)
Pupil numbers funded Pre 16	577	577	512	453	440
Pupil numbers funded Post 16	87	87	85	79	64

2.11 In producing the budget plan for 2016/17 officers from both Finance and the schools service assisted the school in reviewing their curriculum plan and expenditure across all budget headings. As a result the Headteacher submitted 2 budget plans. The first which the school felt was a realistic plan included some staff reductions and resulted in the plan submitted by the Governing Body. The second plan produced a balanced budget for 2016/17, the result of reducing expenditure to that level considered the reduction of 10 members of staff, the school concluded that this was not an acceptable option as it

would have considerable impact across the school and would be detrimental to the progress made in improving standards. In addition the school's ability to maintain progress against the Estyn recommendations and gain removal from the category of special measures was influential. The impact included the following:-

- increase class sizes to over 30 in core subjects and over 40 in non-core subjects,
- significant reductions of curriculum options at Key stage 4,
- reduction in support for ALN pupils,
- increased workload for teaching staff limiting their availability for leadership roles and pupil support,
- Health and Safety concerns resulting from class sizes and whether the accommodation itself could accommodate these class sizes,
- potential teacher union action,
- pupil behaviour

Both the consultant who has reviewed the budget and officer in the school service confirm a reduction of ten staff would have significant consequences to the school's ability to move out of Special Measures

- 2.12 Cabinet considered a report on the 5th July 2016 on School's Budgets and recommended that Brecon High School's budget was not licensed. It also indicated a notice of concern be issued to the Governing Body and that the Governing Body submit a recovery plan to the authority by the 16th September 2016. It was agreed that Cabinet would consider what action to take at its meeting on 26th July.
- 2.13 At the meeting of the 26th July, Cabinet recommended a further independent review to identify efficiencies which would not impact adversely on standards and progress being made towards being removed out of the category of special measures.
- 2.14 Further to the original recommendation at the meeting of the 26th July, an extension in relation to the deadline for the recovery plan, was agreed for Brecon High School. This was agreed because the feedback from the independent review which took place on the 8th September, recommended additional time to review the curriculum. A further visit took place on the 13th October and the school was granted an extension to the submission of the recovery plan to the 14th November 2016.

The second independent review made the following recommendations:

- Reduction in contact time for Teaching and Learning Responsibility (TLR) Holders
- Rounding Preparation, Planning and Assessment time (PPA) to nearest integer instead of rounding up
- Brecon High School should complete a revised curriculum and staffing plan for 2017/18 in light of discussions / modelled scenarios provided

to the Headteacher and Business Manager. The existing curriculum plan and a suggested costed curriculum model for the next academic year appear in Appendix 1.

- It would have a negative impact on the school should the Senior Leadership Team (SLT) be reduced from 3 to 2
- Brecon High School has already considered a reduction in associate and teaching staff to ensure savings from January 2017. The impact of this should not be negated.

2.15 Brecon High School submitted a recovery plan, however the recovery plan submitted indicated a worsened position with an increased deficit position of £1.348m by the end of the 2018/19 financial year. The school attended a meeting with the Authority on the 16th December 2016 to discuss the recovery plan submitted.

2.16 Actions agreed at the meeting on the 16th December were;

- Finance to offer additional support to the school to restate the budget and forward projections.
- School agreed to move on to the Authority`s financial ledger wef from April 2017.
- A refresh of the budget recovery plan be submitted based on the restated budget position. The plan will outline the action that the school is putting in place, but will also demonstrate the additional actions that would be necessary to produce a balanced budget plan as well as the impact these actions would have on curriculum delivery.

2.17 The budget plan has been restated with additional support from Finance. The School Finance Manager attended a meeting with the Headteacher at the school on the 15th February to go through the revised budget following the support offered by the team. It is clear the staff savings that were put forward by the school have not been fully implemented and only minimal changes have been put in place following the opportunities presented by the independent review. Further non-staffing savings were discussed that would contribute to reducing the deficit position. The Headteacher will confirm whether the school will approve the school`s restated budget following a review with the Business Manager.

2.18 The table below shows the current budget position that was discussed with the Head teacher. It shows a substantial and unsustainable potential deficit £1.357m by 2018/19. It should be stressed this is in addition to the outstanding loan of £216k.

Year	2016/17 Cabinet £	2016/17 Projected £	2017/18 Projected £	2018/19 Projected £
Delegated Funding	2,658,366	2,660,655	2,471,577	2,424,539
Net Expenditure	2,952,227	3,013,736	3,001,151	3,006,195
Balance B/F	107,107	107,107	(245,974)	(775,548)
In Year Position	(293,861)	(353,081)	(529,574)	(581,656)
Balance C/F	(186,754)	(245,974)	(775,548)	(1,357,204)
Potential Savings per recovery plan			11,356	11,601
Loan	(302,400)	(302,400)	(259,200)	(216,000)

2.19 It is clear the financial position of the school is not improving and further delays in implementing a recovery plan will only worsen the position.

3. Further Action available

- 3.1 The School Standards and Organisation (Wales) Act 2013 (“the Act”) consolidates, clarifies and reforms the law in relation to intervention in schools causing concern.
- 3.2 The Welsh Government have issued statutory guidance under section 20 of the Act. The guidance is Guidance Document 202/2016 issued in March 2016 (Schools causing concern- Statutory guidance for schools and local authorities.)
- 3.3 A school will be “eligible for intervention” where one or more of the six grounds identified below exist
- **Ground 1**- the standards of performance of pupils at a school are unacceptably low
 - **Ground 2** - there is a breakdown in the way a school is managed or governed
 - **Ground 3** -the behaviour of pupils at the school or any action taken by those pupils or their parents is severely prejudicing, or is likely to severely prejudice, the education of pupils at the school.
 - **Ground 4** -the safety of pupils or staff is threatened (whether by a breakdown of discipline or otherwise)
 - **Ground 5** –the governing body or headteacher has failed, or is likely to fail with a duty under the education acts
 - **Ground 6** -the governing body or headteacher has acted, or is proposing to act unreasonably in the exercise of any of its or his or her functions under the Education Acts
- 3.4 Where a school is “eligible for intervention” there are a number of powers the Local Authority may use. Where a local authority decides that sufficient evidence exists to warrant the formal use of its powers of

intervention, the Welsh Ministers should be notified of the type of intervention that the authority has put in place.

3.5 **Local Authority Intervention Powers**

Intervention powers fall into four categories:

1. Requirement to secure advice or collaborate

Purpose of intervention; to require a school to secure advice or collaborate in order to secure improvements

2. **Best used;** where the school or key figures within it refuse to collaborate with an appropriate partner Appointment of additional governors

Purpose of the intervention; to strengthen the Local Authority's voice on the governing body and /or provide additional expertise to the governors in key areas to support school improvement

Best used; where the governing body needs additional expertise , or the headteacher and senior management team need further challenge.

3. The suspension of delegated authority for the governing body to manage a school's budget

Purpose of the intervention; to secure control over staffing and spending decisions in order to secure improvements

Best used; where the governing body is providing insufficient challenge to the headteacher or senior management team of the schools, or where the management of the budget is providing a distraction from the improvement priorities for governors

4. The Appointment of an Interim Executive Board(IEB)

This requires an application to Welsh Ministers for consent to constitute the governing body as an IEB. It is a specially constituted governing body which replaces a school's existing governing body

Purpose of the intervention; to secure a step – change in the leadership and management of the school through the use of a specially- appointed governing body for a temporary period

Best used; where the governing body is providing insufficient challenge to the headteacher or senior management team of the school, is providing an obstacle to progress, or where there has been a breakdown in working relationships that is having an impact on standards

4. **Proposal**

4.1 It is proposed that the school should submit a recovery plan which as a minimum, brings the school's budget into a balanced in-year position in 2017-18, with 10 working days i.e. the 14th March 2017.

4.2 It is further proposed that should the above not be received, or should the budget recovery plan be unacceptable in the opinion of the section 151 Officer, that the Director of Education will issue a warning notice to the governing body in accordance with the School Standards and Organisation (Wales) Act 2013 and Welsh Government Statutory Guidance Document (202/2016) Schools Causing Concern

5. One Powys Plan

5.1 This proposal supports the key areas prioritised for improvement within the One Powys Plan.

- Transforming learning and skills - All children and young people are supported to achieve their full potential.
- Financially balanced and fit for purpose public Services - Enabling 'joined up' services for Powys citizens through public and third sector partnerships.

6. Options Considered/Available

N/A

7. Preferred Choice and Reasons

N/A

8. Sustainability and Environmental Issues/Equalities/Crime and Disorder,/Welsh Language/Other Policies etc

N/A

9. Children and Young People's Impact Statement - Safeguarding and Wellbeing

N/A

10. Local Member(s)

11. Other Front Line Services

The Head of Schools Service notes

12. Support Services (Legal, Finance, HR, ICT, BPU)

The Schools Finance Manager comments that the current budget plan submitted by the Governing Body does not meet the requirements of the Scheme for the Financing of Schools and would not be licensed.

HR - The Schools HR Team will continue to work with Headteachers, Governors, Trades Unions and Staff to provide advice so that any changes affecting staff that need to be made can be implemented in line with the relevant Powys County Council and School policies.

Legal – The Recommendation can be supported from a legal point of view

BPU – No comment

ICT – Noted report

13. Local Service Board/Partnerships/Stakeholders etc

N/A

14. Communications

The report is of public interest and requires use of news release and social media to publicise the decision.

15. Statutory Officers

The Strategic Director Resources (S151 Officer) notes the comments made by Finance and adds that if the financial position is not addressed it will have an impact on the Council's overall level of reserves.

The Solicitor to the Council (Monitoring Officer) – has commented as follows "I note the legal comment and have nothing to add to the report"

16. Members' Interests

The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest they should declare it at the start of the meeting and complete the relevant notification form.

Recommendation:	Reason for Recommendation:
<p>That the report is noted</p> <p>1. Within 10 working days i.e. the 14th March 2017, the governing body of Brecon High School is required to submit a budget recovery plan which as a minimum brings the school budget into a balanced in-year position in 2017-18.</p> <p>2. Should the above not be received, or should the budget recovery plan be unacceptable in the opinion of the section 151 Officer, the Director of Education will issue a warning notice to the governing body in accordance with the <i>School Standards and Organisation (Wales) Act 2013 and Welsh Government Statutory Guidance Document (202/2016) Schools Causing Concern.</i></p>	<p>That an appropriate budget plan is submitted by the school;</p> <p>And to ensure that the school has a financial basis on which to ensure that the school continues to progress the recommendations for improvement.</p>

Relevant Policy (ies):	Scheme for the Financing of Schools		
Within Policy:	Y	Within Budget:	Y

Relevant Local Member(s):	<p>Cllr David Meredith Cllr Tony Thomas Cllr Evan Morgan Cllr Matthew Dorrance Cllr Paul Ashton Cllr Gillian Thomas Cllr Liam Fitzpatrick Cllr Melanie Davies</p>
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Person(s) To Implement Decision:	Director of Education...
Date By When Decision To Be Implemented:	15 th March 2017

Contact Officer Name:	Tel:	Fax:	Email:
Jane Thomas	01597826341		Jane.thomas@powys.gov.uk

Background Papers used to prepare Report:

Scheme for the Financing of Schools

Extract from the Scheme for the Financing of Schools

4.5 Obligation to carry forward deficit balances

A deficit balance at the end of a financial year will be treated as a deduction from the following year's budget share.

4.6 Planning for deficit balances

A governing body has no legal right to set a deficit budget without the consent of the Authority and should not presume that such consent will be granted. The Authority will consider approving a licensed deficit to a school in certain approved circumstances (see para. 4.9).

4.7 Charging of interest on deficit balances

The Authority will charge interest on deficit balances. The charge will be based on the school's closing cumulative balance at the end of the financial year. To ensure that the school will effectively repay, in real terms, the deficit sum its value will be increased each year in line with any inflation increase applied to school budget shares.

4.8 Writing off deficits (see also section 3.6)

The Authority has no power to write off the deficit balance of any school except for a closed school, subject to authorisation of the Portfolio Holder for Education.

4.9 Licensed deficits

The detailed arrangements applying to this scheme are set out below:

- (a) the maximum length of time over which a school may repay a deficit is three years, except where a longer period, not exceeding five years, has been agreed in exceptional circumstances and with the support of the Head of Schools and the Section 151 Officer. In practice the timescale will depend on the extent of the deficit and the school's ability to take early action.
- (b) deficit arrangements may be agreed in the following circumstances:
 - falling pupil numbers;
 - to spread the cost of cyclical maintenance works over two or more years;
 - other circumstances agreed by the Authority to be reasonable

In the primary sector the maximum licensed deficit which may be approved will be up to 10% of the school's budget share (including any amounts for pupil number adjustments), but with a ceiling of £50,000.

In the secondary and special sectors the maximum licensed deficit which may be approved will be up to 7½% of the school's budget share (including any amounts for pupil number adjustments), but with a ceiling of £100,000 for special schools and £150,000 for secondary schools.

A school with a planned deficit of less than £500 and a planned underspend in the following financial year will not have to apply to have the deficit approved.

Up to a maximum of 40% of the collective school balances may be used to back the arrangements for licensed deficits. Schools holding balances in their own bank accounts may be invited to participate.

The arrangements for licensed deficits will be operated by the Strategic Director: Resources, working within the accounting requirements of the County Council as set out by the Section 151 Officer.

Schools wishing to apply to the Authority to set a deficit budget will be subject to detailed terms and conditions agreed between the governing body, headteacher and the Authority's officers. Restrictions on expenditure and a higher level of budget monitoring will be required by the school and the Authority for the period of the deficit and until such a time as the Authority is satisfied that the school has met repayment targets and is in a position of financial stability. The Authority will appoint a named officer / adviser to support the school in analysing its finance, curriculum and staffing needs.

Requests for licensed deficits will not normally be approved unless the school can produce a recovery plan which, in the view of the Authority, is realistic, prudent and does not exceed three years (exceptionally 5 years). The Authority's named officer / adviser will have a key role in determining whether the recovery plan can be recommended to the Authority as fulfilling these criteria.

Schools have a duty to identify potential deficits and to plan recovery action early. The Authority expects the recovery plan to be submitted by 1st May. The format of the recovery plan, and arrangements for its submission, will be specified by the Authority. The recovery plan will have to be updated at least annually until the school returns to a cumulative surplus budget and is in a position of financial stability. Failure to comply with the agreed recovery plan will mean the re-activation of the process set out in para 2.16.

The Authority will impose additional restrictions on a school during the term of the licence, as part of the licence, including but not limited to:

- the right of approval of staffing appointments and any other changes to staffing that increase costs;
- the right of approval of contracts over a specified value;
- restriction of expenditure to agreed plans and removal of powers of virement;
- a requirement to purchase the full Local Authority financial support package;
- agreed repayment targets, etc.

- the written agreement to the terms by the Chair of Governors, following a resolution passed by the full governing body.

The named officer / adviser will be the first point of contact for the school in relation to these restrictions. He or she will make appropriate recommendations to the Strategic Director: Resources and Head of Schools Service. The need for and extent of such restrictions will be assessed on a school by school basis