

Schools Finance Overview

Schools are funded through the Dedicated Schools Grant and operate to delegated budgets, which are the responsibility of individual school governing bodies. Where a school wishes to set a deficit budget (where its expenditure exceeds its income in year) it can only do so in accordance with the Education Skills and Funding Agency guidance and the Scheme of Financing for Schools and with the permission of the Authority's S151 Officer.

School budgets have come under increased pressure in recent years, because of the cumulative effect of cash-flat DSG funding and changes (restrictions) placed on the Authority through formula funding regulations, which has made funding for mainstream schools more sensitive to changes in pupil numbers, and has reduced the scope of local authorities to use its funding formulas to target funding to schools that are struggling financially.

The financial impact of COVID-19 will not have been anticipated by schools in 2020/21. While some additional funding has been directed to schools to cover some costs of the pandemic, this does not go far enough and schools are having to absorb the costs of additional staffing, cleaning and keeping school buildings COVID secure. This will no doubt have a negative impact on school balances and the Authority are working with school leaders to understand the full extent of this.

Cabinet will be aware that, under legislation, schools retain a high degree of autonomy when setting budgets unless they are in a deficit position. Therefore, whilst Elected Members and officers are able to advise schools on the adequacy of balances, the Authority does not have the power to intervene.

Since April 2013 schools have had the powers to accept pupil numbers above their Pupil Admission Number, prior to this the Authority (through the Schools Admissions Team) used to cap the admission numbers to an individual school which helped to manage demand across schools. In addition, from April 2015 schools that had a poor Ofsted judgement were required to become sponsored academies, although ultimately a sponsor needs to be confident in a school's future financial outlook before it will engage as a sponsor.

Often schools with poor educational outcomes can struggle financially due to lower numbers on roll, which, if accentuated by a poor Ofsted judgement, accelerates the reduction in pupil numbers being admitted as parents choose to send their children to other schools. Setting a licenced deficit is a particular concern and risk for the Authority, because schools that have a poor Ofsted judgement are required to become sponsored academies. Where a school obtains an Academy sponsor, any deficit balance that they are carrying becomes a cost to the local authority and is not transferred to the sponsor. The Department for Education's view is that local authorities should take responsibility for allowing schools to have a deficit balance.

These issues create increased risk of schools having financial difficulties and there is therefore a need for intensive monitoring of school budgets to identify schools that may be heading into financial difficulty, or which are in danger of failing an Ofsted inspection.

Previous reports to Cabinet have outlined the significant financial difficulties being experienced by a number of schools in North Tyneside as a result of real terms reductions in schools funding, reductions in admission numbers and to a lesser

Appendix 3

extent, school formula funding changes, which has necessitated approval for the setting of licensed deficits within some schools in previous years.

Schools can set a budget with an in-year deficit, providing that they have enough surplus retained balances (reserves) carried forward to do so without this resulting in the school having a deficit balance at the end of the financial year. Where a school cannot do this and therefore wishes to set a licensed deficit, it must have permission from the S151 officer to do so.

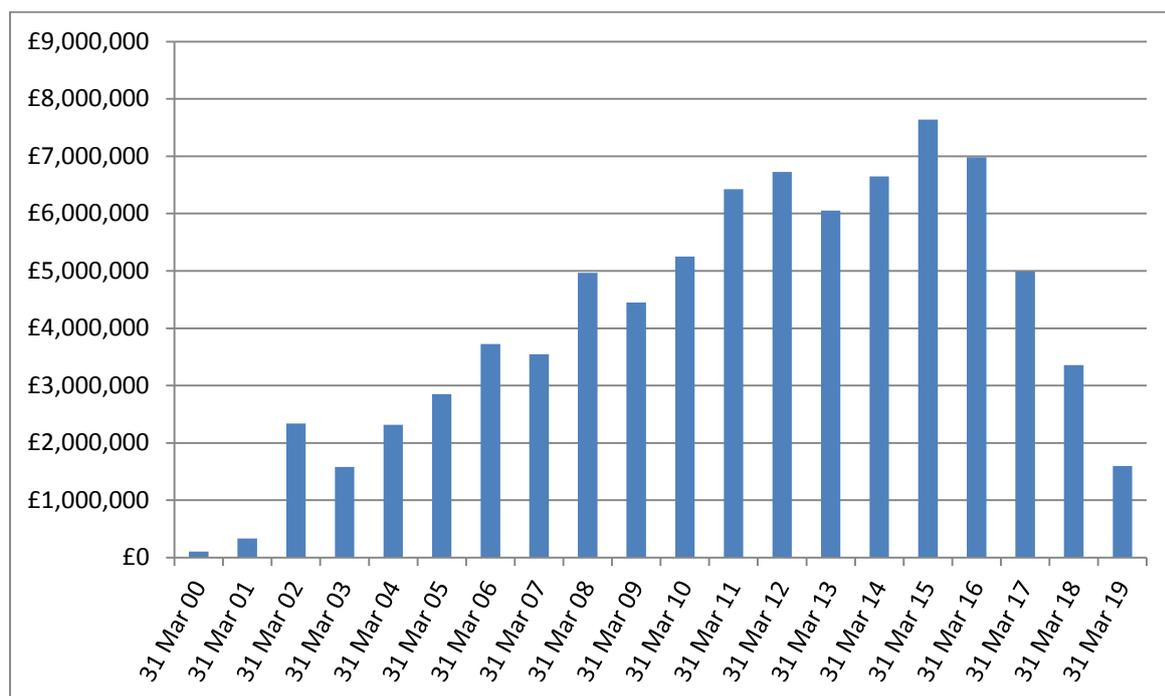
The respective duties and responsibilities of schools and local authorities are determined by local schemes of delegation, prepared in line with statutory guidance. These schemes confirm the arrangements for delegation to governing bodies, but also give authorities powers to monitor school budgets and determine whether a school is allowed to set a licensed deficit. The scheme also sets out the procedure for dealing with schools causing concern, including the power to require schools to provide budget plans and, in extreme cases, to suspend financial delegation. Schemes also prohibit authorities from writing-off the deficits of schools with deficit balances, in order that authorities cannot favour one school over another by allowing one to overspend and write- off the deficit.

School Balances – Summary of reduction since 2015/16

Cabinet will be aware that schools' balances are monitored annually and movements in balances are reported in the Authority's Statement of Accounts, budget monitoring reports and are reported to Schools Forum. Net school balances at the end of the 2014/15 financial year were £7.615m, since then school balances have reduced by £7.450m and at the end of 2019/20 school balances were £0.165m. The reduction has been due to the level of deficit balances held by a minority of schools. Table 1 below shows the annual reduction in balances by school phase since 2015/16: -

Phase	2015/16 Reduction in Balances £m	2016/17 Reduction in Balances £m	2017/18 Reduction in Balances £m	2018/19 Reduction in Balances £m	2019/20 Reduction in Balances £m
Nursery / Primary	0.240	(0.299)	(0.668)	(0.518)	0.573
Middle / Secondary	(0.701)	(1.428)	(1.714)	(1.217)	(1.834)
Special / PRU	0.011	0.032	0.268	(0.022)	(0.173)
Total	(0.450)	(1.695)	(2.114)	(1.757)	(1.434)

The following chart shows the change in school balances over the last 20 years: -



Whilst schools' balances have fallen since 2014/15, it is important for Cabinet to note that the majority of schools in North Tyneside continue to set balanced in-year budgets and operate within the financial frameworks which govern schools finance. Most schools continue to hold a level of reserves which allow them the flexibility to manage financial risks, or one-off in year financial requirements.

Table 2 below shows the breakdown between surplus and deficit school balances by phase held at the end of the 2019/20 financial year: -

Table 2: 2019/20 breakdown between surplus and deficit school balances by phase

Phase	2019/20 Surplus Balances £m	2019/20 Deficit Balances £m	2019/20 Net Balance £m
Nursery / Primary	4.775	(0.404)	4.371
Middle / Secondary	4.004	(9.117)	(5.113)
Special / PRU	0.907	0.000	0.907
Total	9.686	(9.521)	0.165

There are 74 maintained schools in North Tyneside including 6 special schools, 64 of those schools ended the 2019/20 financial year in surplus totalling £9.686m. There were 9 schools with a deficit balance at 2019/20 year end totalling £9.521m and these are shown in table 3 below:

Table 3: 2019/20 Year end deficit school balances

Phase	School	2019/20 Outturn £m
Nursery / Primary	Benton Dene Primary	(0.041)
	Fordley Community Primary	(0.055)
	Holystone Primary	(0.051)
	Ivy Road Primary	(0.257)
Nursery / Primary Total		(0.404)
Middle / Secondary	Longbenton High	(2.093)
	Marden Bridge Middle	(0.038)
	Marden High	(0.479)
	Monkseaton High	(4.309)
	Norham High	(2.198)
Middle / Secondary Total		(9.117)
Grand Total		(9.521)

Of the 4 primary schools in deficit at the year-end only Ivy Road Primary school remains in deficit in 2020/21 and has received a licenced deficit agreement. Marden Bridge Middle school did not require a licenced deficit agreement in 2020/21 and is no longer in deficit.

All of the secondary schools in deficit at year-end remain in deficit for 2020/21. Longbenton High school has submitted a 3-year Budget plan which shows the school having an in-year balance in year 3 of their plan (2022/23) with the potential to start replaying the deficit from 2023/24. Marden High school continue to make significant progress in reducing their overall deficit and have submitted a 3-year Budget plan which shows the school having a cumulative balanced position by year 3 (2022/23) where the school will be able to start to rebuild their balances to an appropriate level.

Monkseaton High School

The financial position for Monkseaton High school continues to be challenging, whilst the Governing Body are managing a considerable structural deficit. The 3-year budget plan submitted by the school in June 2020 showed that the overall deficit position is projected to be in the region of £6.945m by 2022/23, rising by around £0.880m per year.

Whilst officers are working with the School to manage the financial position Governors remain unable to bring about an in-year balanced budget. Surplus capacity within the school is proving the most challenging aspect of setting an in year balanced budget due to significant under occupancy as a result of parental choice. Based on current pupil projections the surplus capacity at Monkseaton High school for the next 3 years is estimated to be around 60%.

Table 4 below shows the schools current estimate of pupil numbers from 2020/21 to 2022/23, the overall capacity of the school and the estimated budget deficit.

Table 4: Pupil projections, Capacity and estimated Budget Deficit

	2020/21	2021/22	2022/23
Pupil Projections	379	393	385
PAN	240	240	240
Capacity	955	955	955
% Surplus	60%	59%	60%
Budget Deficit	(5,163,690)	(5,983,806)	(6,944,950)

Norham High School

The academy order from 2015 remains in place and attempts to find an academy sponsor were unsuccessful due to concerns raised around the financial viability and longer-term future of the school.

The appointment of a new headteacher in September 2019 has seen a change in fortune with an interim monitoring visit in December 2019 indicating effective action is being taken to remove special measures. Such efforts have not seen an increase in the proportion of parents identifying Norham as their school of first choice. In September 2020, only twenty-six pupils did so.

Local Authority officers continue to work productively with school leaders and Governors to remove the special measures. A detailed and well evaluated development plan is supporting gains in pupils' improved behaviour and attendance, their attitudes towards learning and their attainment. The Authority are hopeful of a positive outcome when the school is re-inspected.

The financial position for Norham High school continues to be challenging, whilst the Governing Body are managing a structural deficit. The 3-year budget plan submitted by the school in June 2020 showed that the overall deficit position is projected to be in the region of £4.858m by 2022/23. Whilst officers are working with the School to manage the financial position Governors remain unable to bring about an in-year balance budget. Based on current pupil projections the surplus capacity at Norham High school for the next 3 years is estimated to be around 25%.

Table 5 below shows the schools current estimate of pupil numbers from 2020/21 to 2022/23, the overall capacity of the school and the estimated budget deficit.

Table 5: Pupil projections, Capacity and estimated Budget Deficit

	2020/21	2021/22	2022/23
Pupil Projections	315	336	338
PAN	90	90	90
Capacity	450	450	450
% Surplus Capacity	30%	25%	25%
Budget Deficit	(3,192,905)	(4,100,193)	(4,858,245)

An in-depth financial review is currently underway, and Terms of Reference have been agreed between the Authority and the Governing Bodies of both schools. The review will include, but is not limited to, the following aspects:-

- 'Deep Dive' analysis on the financial position
 - Full understanding of the challenges that the school face;
 - Review of the leadership and staffing structure;
 - Integrated curriculum financial planning;
 - Benchmarking information against schools of a similar size;
 - Fully costed models for specific options in conjunction with the school;
 - Review of the schools Budget setting process;
 - Ofsted assessments;
 - School Development Plan;
 - Premises Improvement Plan;
 - Review of school organisation, staffing, departments, premises; and
 - Special Education Needs.

A full report of the outcome will be shared with Cabinet as soon as the review has been completed which is expected to be in January / February 2021. Both schools have welcomed the review and in line with the scheme for financing schools and Support and Challenge Framework are working collaboratively with the Authority.