Education Scrutiny Committee
Meeting to be held on Thursday, 6 December 2018

| Electoral Division affected: |
| (All Divisions); |

Schools in Financial Difficulty

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Executive Summary

This report provides an update on Lancashire schools in financial difficulty and the support that is being provided.

Recommendation

The Education Scrutiny Committee is asked to note and comment on the information provided.

Background and Advice

Previous reports to the Committee have set out information on Schools in Financial Difficulty (SIFD).

A report in September 2018 provided information on 'The Journey of a School Causing Concern and the Impact on Services', which included some reference to schools finance.

In June 2018, the Committee received a report on Maintained Nursery Schools. This report provided information about Lancashire's maintained nursery schools, including updates on standards and finances. It highlighted the financial challenges facing the sector and provided a comparison of nursery schools with other Lancashire schools, using the Authority's Schools in Financial Difficulty Categorisations.

As requested by the Committee, this report provides an update on the SIFD categorisations and the support that is being offered to schools identified in the higher risk categories.

Members may recall that the SIFD system classifies schools into one of four categories based on various financial indicators. Information on the four categories is provided below:

Category	Description
Category 1 **Structural Deficit**	Structural deficit beyond recovery, school is financially non-viable, strategic solutions required
Category 2 **Significant Deficit**	Schools have significant deficits requiring intensive intervention and focussed support to recover, or have no agreed recovery plan – pushing boundaries of 3 year timescale
Category 3 **Vulnerable Position**	Incorporates schools burning through reserves, losing significant pupil numbers, moving into or on the brink of deficit, or schools that are recovering from more significant financial problems, but where the recovery plan is agreed and is on track - require intervention and monitoring in order to prevent failure in the next 3 years – education, challenge and forecasting support
Category 4 **No financial issues**	No budget issues but continued monitoring of financial indicators to confirm ongoing financial health.

When information was provided to the June 2018 meeting, categorisations were based on forecast data from January 2018. At that time, the analysis provided the following categorisations:

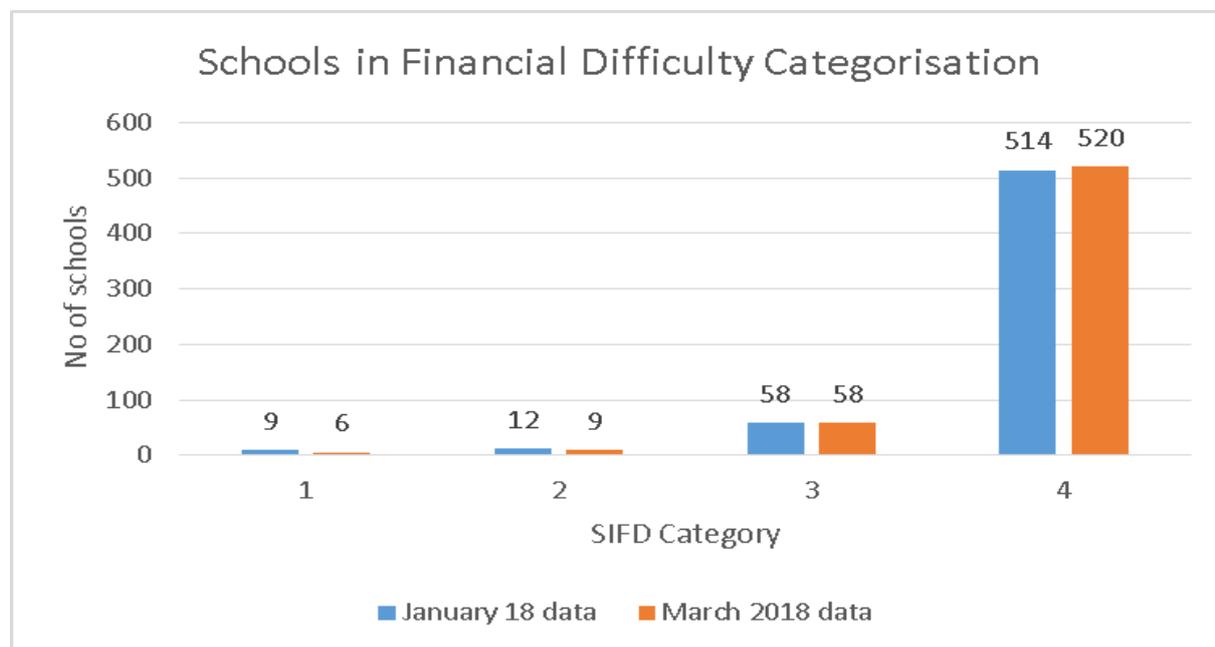*SIFD categorisation – All Schools January 2018 data*

Category	No. of schools	%
1	9	1.5%
2	12	2.0%
3	58	9.8%
4	514	86.7%
	593	100%

The school data used in the categorisation process is kept under regular review, against the agreed categories. Updated categorisations are provided below, which are based on the actual outturn data from schools as at the end of the last financial year on 31 March 2018. Updated categorisations are provided below:

SIFD categorisation – All Schools 31 March 2018 data

Category	No. of schools	%
1	6	1.0%
2	9	1.5%
3	58	9.8%
4	520	87.7%
	593	100%

For comparative purposes, the graph below shows the number of schools in each category at January 2018 and March 2018.

Schools in Financial Difficulty Categorisation

Phased Base Information

Further information is provided below on updated SIFD categorisations, using 31 March 2018 outturn data, on a phased basis, compared with the original January 2018 data (% figures may be affected by roundings).

These tables show that the SIFD support arrangements are having an impact on improving the financial health of schools, although significant financial challenges remain within the sector.

Nursery Schools

SIFD categorisation – Nursery Schools January 2018 data

Category	No. of schools	%
1	1	4.2%
2	5	20.8%
3	11	45.8%
4	7	29.2%
	24	

SIFD categorisation – Nursery Schools 31 March 2018 data

Category	No. of schools	%
1	0	0.0%
2	3	12.5%
3	10	41.7%
4	11	45.8%
	24	

Primary Schools

SIFD categorisation – Primary Schools January 2018 data

Category	No. of schools	%
1	0	0.0%
2	5	1.1%
3	28	5.9%
4	440	93.0%
	473	

SIFD categorisation – Primary Schools 31 March 2018 data

Category	No. of schools	%
1	0	0.0%
2	3	0.6%
3	29	6.1%
4	441	93.2%
	473	

Secondary Schools

SIFD categorisation – Secondary Schools January 2018 data

Category	No. of schools	%
1	6	10.3%
2	0	0.0%
3	12	20.7%
4	40	69.0%
	58	

SIFD categorisation – Secondary Schools 31 March 2018 data

Category	No. of schools	%
1	4	6.9%
2	1	1.7%
3	12	20.7%
4	41	70.7%
	58	

Pupil Referral Units (PRUs)

SIFD categorisation – PRUs January 2018 data

Category	No. of schools	%
1	0	0.0%
2	1	11.1%
3	4	44.4%
4	4	44.4%
	9	

SIFD categorisation – PRUs 31 March 2018 data

Category	No. of schools	%
1	0	0.0%
2	1	11.1%
3	4	44.4%
4	4	44.4%
	9	

Special Schools

SIFD categorisation – Special Schools January 2018 data

Category	No. of schools	%
1	2	6.9%
2	1	3.4%
3	3	10.3%
4	23	79.3%
	29	

SIFD categorisation – Special Schools 31 March 2018 data

Category	No. of schools	%
1	2	6.9%
2	1	3.4%
3	3	10.3%
4	23	79.3%
	29	

Support for Schools in Financial Difficulty Support
Schools in categories 1 and 2 require intensive support from finance and other services such as School Improvement and Schools HR.

The longer term viability of schools within Category 1 must be considered questionable and consideration is given to further actions by the LA at a strategic level, including possible closure.

Support for category 3 schools will vary depending on the level of estimated deficit. This work can often be done between the school and the Schools Finance Officer but with additional support if necessary.

Category 4 schools have no current budget issues but monitoring of financial indicators will continue to confirm ongoing financial health

Enhanced Financial Training
During the summer term 2018, a series of financial seminars were provided at venues across the county. The agenda for the seminars included input from School Finance, School Improvement Service, Schools HR and from headteachers of schools that have recovered from deficit.

Invitations were extended to Headteachers, Chairs of Governors and School Business Managers in primary and nursery schools and over 150 delegates attended.

It is proposed that there will be a focus on secondary schools during the next round of financial training. It is anticipated that these sessions may include input from the DfE and from the Association of School and College Leaders (ASCL).

Enhanced Commissioned Support
The LA is enhancing the support that is provided to SIFD, particularly those identified in Category 2.

The categorisation data will be used to identify the most vulnerable schools and phases. Additional targeted support will then be commissioned to assist individual school recovery. Specialist support will be directed across phases, utilising best practice, benchmarking data and successful strategies from similar schools. Initially, priority will be given to the nursery sector and the secondary sector.

Consultations

The SIFD support arrangements have been discussed with the Lancashire Schools Forum.

Implications:

This item has the following implications, as indicated:

Risk management

Financial
Dedicated Schools Grant (DSG) income has not kept pace with cost pressures and inflation for a number of years. This has brought greater financial pressures on schools from all sectors.

There is no immediate prospect of an above inflation rise for schools in 2019/20 and any financial position beyond that date must await the outcome of the government's comprehensive spending review.

The ongoing financial strain within the sector means that more schools are facing financial difficulty than was historically the case. It is therefore vital that the Schools in Financial Difficulty support arrangements continue to assist schools as they face the financially challenging environment.

At the extreme, where schools close or become an academy under the route where the Secretary of State (SoS) issues an Academy Order in respect of a school eligible for intervention, the deficit balance remains with the Authority. The Schools Forum has established a de-delegated reserve to mitigate the risk associated with these deficit balances, but this may not be sufficient to cover the risk for all schools in deficit meaning that there remains some residual risk with the LA.

School Standards
Schools that are facing financially challenging circumstances will often need to make savings on their delegated budgets, which can have a consequential impact on the educational standards of the school.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A	N/A	N/A

Reason for inclusion in Part II, if appropriate

N/A