

Education Scrutiny Committee

Meeting to be held on Monday, 22 July 2019

Electoral Division affected: (All Divisions);
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School Finance update

(Appendix A refers)

Contact for further information:

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Executive Summary

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

Recommendation

The Education Scrutiny Committee is asked to:

- i. Note the report and the information provided;
- ii. Discuss and comment on the support arrangements provided.

Background and Advice

Previous reports to the Committee have set out information on Lancashire school finances and the Schools in Financial Difficulty (SIFD) support that is being provided.

This report provides an update for the Committee based on the outturn position for individual school budgets at the end of the 2018/19 financial year,

School Balances Outturn 2018/19

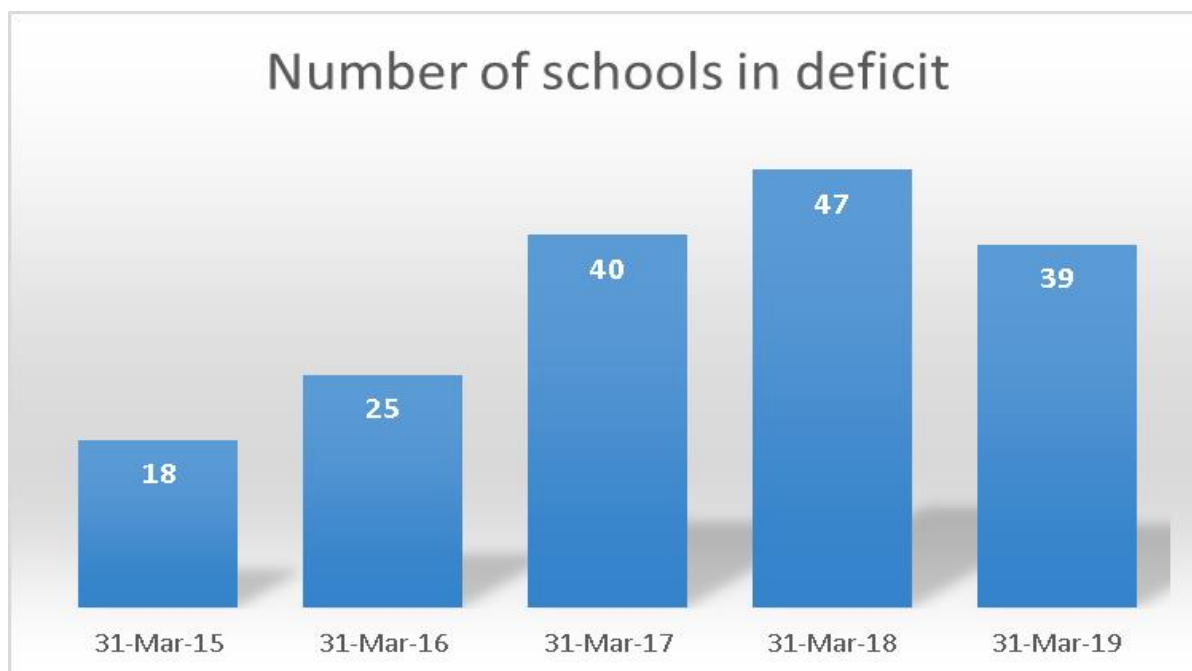
The final outturn position against schools delegated budgets at 31 March 2019 is an overspend of £1.409m. This means that school balances have decreased by £1.409m in 2018/19, to a total of £42.741m. Aggregate school balances at 31 March 2019 are at their lowest level since 2009/10. This position is indicative of the continued pressure facing school budgets, as many schools utilise their reserves to set balanced budgets.

To provide context for the total school balances, the current authority guideline for schools is to have reserves equating to 12% of their total Combined Financial Reporting (CFR) income or a minimum of £60,000. This is to ensure that individual schools can withstand potential financial risks and financial stresses. If all Lancashire schools held the guideline balance, the total balance would have been circa £102m, compared to the actual balances held of circa £43m. This figure equates to circa 5% of the total Combined Financial Reporting (CFR) income.

Schools in Deficit

The number of schools that ended the 2018/19 financial year in deficit was 39. This was a reduction from 47 school in deficit a year earlier.

The graph below shows the number of schools in deficit at the financial year end across the last 5 years.



As the Committee will be aware, the financial pressure on schools has been increasing in recent years. Funding has remained cash flat or not kept pace with inflation and cost and demand led pressures have continued to rise.

Throughout this year, the county council has provided significant targeted support and enhanced monitoring and early warning around Schools in Financial Difficulty, and this, along with the commitment of individual school leaders, has contributed to the reduction in the number of schools in deficit. However, the financial environment for schools remains extremely difficult, with a number of key challenges continuing across all school sectors.

Schools in Financial Difficulty Categorisations

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.

The school data used in the categorisation process is kept under regular review, against the agreed categories. The latest categorisation has been run against the school outturn data at 31 March 2019. This data for all Lancashire schools is shown below:

SIFD categorisation – All Schools 31 March 2019 data

Category	No. of schools	%
1	5	0.9%
2	11	1.9%
3	44	7.5%
4	524	89.7%
	584	

Whilst the SIFD categorisation is updated at certain points throughout the year, the year-end report is the key point for analysing the SIFD position, as it is based on the actual outturn data. Other updates in the year are based on forecast data. Comparative information on the SIFD categorisation is therefore provided below, against the 31 March 2018 data.

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%

The difference in the overall number of schools is due to maintained schools converting to academies during the year.

As can be seen, the aggregate number of schools in Category 1 Structural Deficit has reduced by 1 since March 2018. This actually includes two schools removed from this category and a further one added. One secondary school and one special school have been removed from Category 1. Whilst these two schools remain in deficit, the financial position at the schools has been stabilised and viable recovery plans and strategic solutions have been put in place. A nursery school has been

added to Category 1. A separate report on the agenda provides a more detailed update around maintained nursery schools.

The overall number of schools across categories 2 and 3 has reduced to 55 from 67 a year earlier, a reduction of 12.

This reduction in the number of Schools in Financial Difficulty provides further evidence of the increased SIFD support that has been put in place in recent years alongside the work done and decisions taken by schools to resolve financial issues. However, there remains significant uncertainty about the level of funding the sector may receive going forward especially due to awaiting the Government's Comprehensive Spending Review.

Phased Base Information

Previous reports to the Committee have provided a further breakdown of the SIFD categorisation broken down by phase. This information is provided at Appendix A and has been updated to include March 2019 data. March 2018 data is also provided for comparison.

Support for Schools in Financial Difficulty Support

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.

During 2018/19, two schools in Category 1 were re-categorised in category 2, as the financial position of the schools was stabilised and viable recovery plans and strategic solutions have been put in place. Work continues with the other schools in this category, involving a range of support from across the county council. One secondary school is scheduled for closure at the end of the academic year and it is anticipated that another secondary school will shortly convert to an academy.

Support also continues for schools in categories 2 and 3, either via targeted support or through the standard support offered by the traded Schools Financial Services offer.

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

Early Warning Process

In order to provide assistance to schools in identifying possible future financial issues, an early warning process has been introduced. Financial data is analysed and letters are issued to schools that trigger certain thresholds, which are currently:

- LA forecasts a surplus at year end but balances are reducing by 70% or more;
- LA forecasts a deficit at year end that was not anticipated on the school's Income & Expenditure (I&E) return;
- School Number on Roll (NOR) has fallen by 10% or more since the previous October.

Letters were issued to 44 schools as part of the 2019 early warning process.

3 Year Budget Forecasts

Schools have a statutory responsibility to plan beyond the current financial year as part of the Schools Financial Value Standard.

Up to now, the LA has only required schools to prepare and approve a formal budget plan each year and submit this to the Authority (Except where schools are in deficit and are required to submit a budget recovery plan).

From the 2019/20 financial year onwards, the Authority will require schools to submit a balanced budget plan for the year, along with financial forecasts for the subsequent two years.

This is intended to ensure that governing bodies and school leaders plan in a timely manner and at an appropriately early stage to achieve a sustainable budget strategy.

Enhanced Financial Training

Following a series of finance seminars during 2018, aimed at primary and nursery schools, enhanced training in 2019 has focussed mainly on the secondary sector.

In addition to county council officer input, the finance sessions have also included contributions from the DfE and the Association of School and College Leaders (ASCL). Schools Financial Services officers also attended the sessions so that good practice and financial techniques can be disseminated across the 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 information about the school funding settlement for 2020/21 and beyond until the outcomes of the government's comprehensive spending review are announced.

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. Evidence from the 2018/19 financial year does show some improvement in a number of key indicators.

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