LANCASHIRE SCHOOLS FORUM
Date of meeting 6 July 2021

Item No 10

Title: Recommendations of the Chairs' Working Group

Appendix A refers

Executive Summary

On 22 June 2021, Chairs' Working Group considered a number of reports, including:

- Schools in Financial Difficulty (SIFD) –Categorisations
- Schools in Financial Difficulty (SIFD) Support Criteria

A summary of the information presented, and the Working Group's recommendations are provided in this report.

Recommendations

The Forum is asked to:

a) **Note the report from the Chairs' Working Group held on 22 June 2021**
b) **Ratify the Working Group's recommendations.**

Background
On 22 June 2021, the Chairs' Working Group considered a number of reports. A summary of the information presented, and the Working Group's recommendations are provided below:

1. Schools in Financial Difficulty (SIFD) –Categorisations
Regular reports have been presented to the Chairs' Group/Forum around Schools in Financial Difficulty (SIFD) categorisations, and information was last shared with the group based on forecast data taken from the LCC accounts at December 2020

When considering the report on December 2020 forecast data, members requested an updated once the final outturn position for 2020/21 was available. This analysis is shown below

All schools based on school outturn data from 31 March 2021

Category	No. of schools	%
1	4	0.7%
2	7	1.2%
3	43	7.6%
4	514	90.5%
	568	

The following points were highlighted:

- The Schools in Financial Difficulty categorisation based on the March outturn position each year is always viewed as the most reliable, as it is determined on the actual year end position for individual schools, whereas analysis at other points in the year are calculated using forecast data.
- The number of schools in the analysis has reduced by 1 since the last report, as one maintained school has become an academy.
- The number of schools judged Category 1 Structural Deficit in March 2021 remains at 4 and is unchanged since the last report.
- The overall numbers of schools across Category 2 Significant Deficit and Category 3 Vulnerable Position, has decreased to 50 (8.8%) from 54 (9.5%) in the December 2020 analysis and is significantly reduced from the outturn position reported for March 2020 when 99 schools (17.2%) were identified in these categories.
- There is some concern that the analysis based on the March 2021 position may provide an overly optimistic perception for some schools due to the impact of COVID-19 on their financial position. Core school funding was increased for 2020/21 and has been largely protected during the pandemic, and additional funding has been allocated to schools by Government grants, some of which are targeted at educational recovery. However, national school lockdowns have meant that school expenditure has been curtailed, so balances at the end of the 2020/21 financial year may be artificially high with funding that is committed and will need to be utilised in 2021/22

Information was also shared with the group providing the analysis and comparison data by sector. Headlines from this analysis include:

- Nursery School Sector - Whilst the analysis of the financial position for nursery schools has improved slightly since the December 2020 data, the sector remains the most vulnerable in the March 2021 categorisation, with almost 30% of schools identified across categories 1-3. The county council has recommenced a review of maintained nursery schools in the county, which had been paused due to the pandemic.
- Primary School Sector - Primary school categorisation has also improved marginally in March 2021, with only 2 schools identified in category 2, compared to 6 when the December 2020 analysis was run.
- A further breakdown of primary school data was shared with the group providing an analysis by school size. As with previous primary school size analysis, the smallest schools, with fewer than 105 NOR, are the most financially vulnerable, with circa 19% of schools identified as category 3, compared to circa 1% in the over 210 NOR size, with 106-210 NOR in the middle.
- Secondary School Sector - The secondary school analysis for March 2021 is largely unchanged from December 2020, with over 90% of schools identified as category 4 Stable Position.
- PRU Sector - March 2021 categorisation for PRUs is identical to that presented on the December 2020 data, and still identifies 75% of PRUs in Category 3 Vulnerable Position. All PRUs remain in surplus at March 2021 and were provided with some funding protection in 2020/21 enabling termly redeterminations to be calculated on the basis of the higher of current or previous terms NOR. However, the actual NORs for the PRU sector were impacted by covid-19 and the categorisations reflect this uncertainty. Outcomes from the ongoing AP Strategy review will also need to be considered in the PRU funding formula going forward.
- Special School sector – Analysis of special schools shows a marginally improved position at March 2021, with 2 schools moving from category 2 in December 2020 to category 3. However, this sector retains the highest percentage of schools in category 1 structural deficit, at circa 7%.

The Group:

a) **Noted the report and analysis provided.**
b) **Noted that the Schools Block working group were being presented with a report bout the charging methodology associated with de-delegations including consideration of removing the lump sum element of the charge over time, which could disadvantage small schools.**

2. Schools in Financial Difficulty (SIFD) Support Criteria

The Schools in Financial Difficulty (SIFD) Support Criteria are kept under regular review. To be eligible for some elements of the support, for example the mitigation of interest charges or meeting the cost of contracting the School Financial Services Team at an enhanced level, the policy requires that schools in deficit have a Recovery Plan agreed with the authority.

The statutory framework for recovery plans is set out in the Scheme for Financing Schools and includes provision that '*the maximum length over which the school may repay the deficit is not greater than three years'.*

Officers have been reflecting on the fact that a small number of schools in the most serious financial difficulties are unable to agree a three year recovery plan with the LA, as they are not in a position to repay the accumulated deficit over that time period, even if the school leadership are fully engaged in the financial recovery of the school. In such circumstances, some schools are asked to submit a sustainability plan. A sustainability plan can set out the actions being taken to improve the financial position of the school over a 3 year timeframe and attempts to reach a balanced in year budget position as a first step. Approvals for sustainability plans would include conditions, similar to those contained in formal recovery plans, that the first call on each year's budget should be the repayment of the budget anticipation agreed as part of the plan, even though the plan may not demonstrate a return to a surplus position within the plan timeframe.

The sustainability plan should assist a school to reach a more stable financial position, whilst other strategic considerations about the future of a school are being reviewed. This stable position is an important step in ensuring that any budget deficit is not increasing whilst strategic options are being considered.

However, as no recovery position is achieved in the 3 year cycle of the plan, the LA is not able to agree the plan as a formal recovery plan, and hence the school would not be eligible for those basic SIFD elements of support relating to the mitigation of interest charges and School Finance support.

On reflection, officers feel that the current criteria are unduly penalising schools facing the most severe financial challenges. It was therefore proposed to amend the SIFD support criteria to indicate that interest charges and provision of school finance support will be met centrally from SIFD funding for schools with an agreed recovery plan, **or an agreed sustainability plan**.

Schools that fail to engage with the LA on financial improvements or schools submitting a sustainability plan that is not approved would continue to be excluded from receiving this SIFD support.

The Lancashire SIFD process also includes an action chart, which sets out some key dates and actions that take place through the year for schools and the LA.

It was proposed that a further paragraph should be added to the action chart that would specify a Notice of Concern in Respect of Financial Delegation would be issued going forward, where a school was unable to submit a viable 3 year recovery plan. Such schools would be issued with a NOC, which would include a condition that the school submit a sustainability plan covering 3 financial years and achieving an in year budget surplus as a minimum.

If the Forum approves these amendments to the SIFD arrangements, it was proposed that they would be applied to eligible schools based on their 2020/21 outturn position and then on an ongoing basis from 2021/22.

It was noted that these changes would only impact on a very limited number of schools and therefore the costs implications for the SIFD budget are low.

Members supported the proposals but questioned how the equity of any approvals would be sustained, and officers confirmed that the plan would need to achieve at least an in year balanced budget position for the plan to be approved.

The Group:

a) **Noted the report and the clarification around sustainability plan approvals.**
b) **Supported the proposed Schools in Financial Difficulty (SIFD) Support Criteria amendments to provide support for schools with an approved sustainability plan.**