

Committee:	School Forum
Meeting Date:	27 November 2017
Title:	Schools facing financial Challenges
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Decision making / consultative / information:	Decision making De-delegated – by phase – primary and secondary maintained schools members only

What is the Forum being asked to decide?

1. Schools Forum is asked to agree the de-delegation of funding back to the Local Authority for the continuation of Contingency (Schools in financial difficulties). Option 3 is recommended.
2. It should be noted that de-delegation for mainstream schools requires Schools Forum approval.
3. The Forum is also being asked to note the summary of recent risk monitoring of maintained schools.

Reason for recommendation

4. Funding for de-delegated services is allocated through the funding formula but can be passed back i.e. de-delegated, for maintained mainstream primary and secondary schools.
5. The de-delegated services require separate approval by Schools Forum each year.

Alternative options

6. If funding for the Contingency (Schools in financial difficulties) was stopped or reduced there would be an immediate impact on the efficient running of some schools and in several cases, some of the burden of that work and significant costs would fall on schools.
7. The diverse community of schools in Suffolk have in the last three years been on a positive improvement journey, working collaboratively to tackle the historic issues of underperformance. This service is part of a range of activity the council undertakes which has contributed directly to the improving picture of performance outcomes.
8. For these reasons, the alternative option of not to fund the service is not being proposed.

Who will be affected by this decision?

9. The decision whether a service should be de-delegated by phase will apply to all maintained mainstream schools in that phase.
10. De-delegation is not an option for academies, special schools, nurseries or PRUs.
11. Where de-delegation has been agreed for maintained mainstream primary and secondary schools, it is the Department's presumption that the LA will offer the service to those schools and academies in their area which are not covered by the de-delegation. Academies will continue to receive a share of funding for these services in their delegated budget.
12. The service providers will also be affected by the decision if Schools Forum decide to withdraw approval of the funding. If no DSG funding is made available for the Contingency (Schools in financial difficulties) individual schools will be faced with the full cost burden of their individual challenging circumstances.

Main body of the Report – Background

13. This report is presented in two parts.
14. The first section relates to the Schools' Accountancy Team's summary of recent risk analysis monitoring of maintained schools which highlights the upward trend of in year deficits and the longer-term reduction in reserves that LA maintained schools hold.
15. The second part of the report considers the wider risk management of schools in the maintained sector and the use of the de-delegated risk fund (Contingency – schools in financial difficulties). This is in response to the request from Schools Forum (3 October 2017 - Paper C) for more information and options regarding the funding of the budget in order to make a decision regarding the de-delegation of the service for 2018-19.

Risk analysis

16. The environment within which schools operate, as documented previously has changed in recent years and as a consequence the Schools' Accountancy Team has seen the perceived risks of schools shift from those unable to set acceptable recovery plans to schools which may convert under sponsor arrangements and leave deficit balances with the LA. The Licensed Deficit agreement arrangement is also compromised as many schools with deficits will no longer see the agreements through to recovery as they convert to academy status before the end of the standard 3-year term. A shorter recovery period is not usually achievable.
17. There are two situations where a school's deficit balance may pass to the Authority and cannot be recovered:
 - a) Where a school secures an academy sponsor and converts with a deficit balance. The deficit cannot be passed on to the successor academy or the sponsor.

b) Where a middle school closes with a deficit.

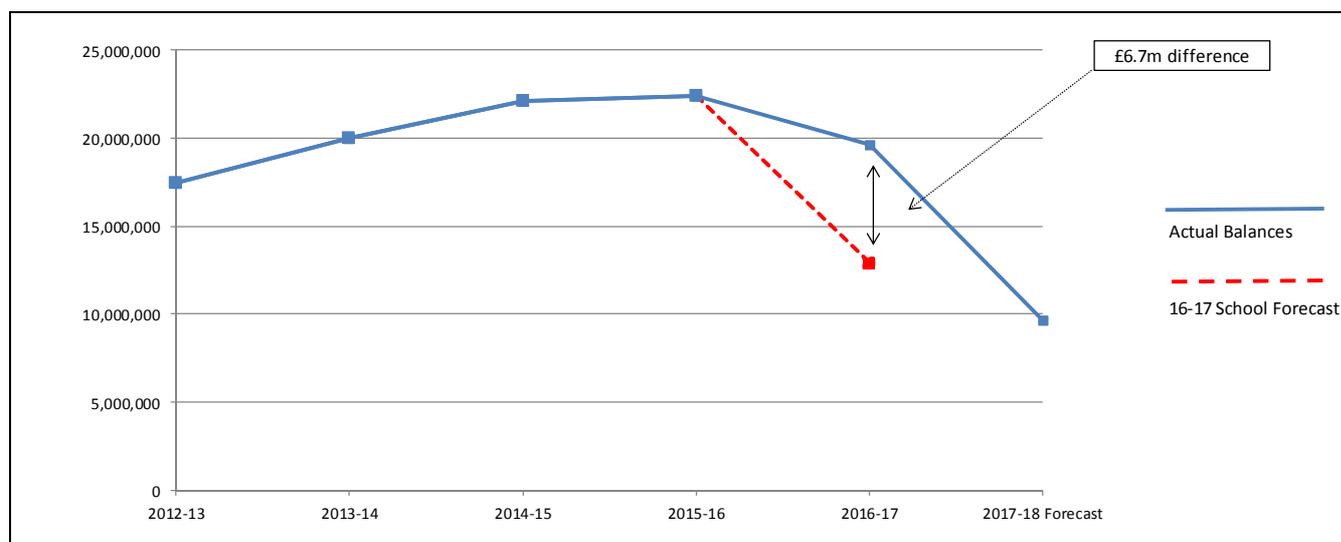
18. These situations present a significant risk to the Authority however, SOR closures of middle schools was completed last year therefore, this will no longer be a risk factor. The Schools' Accountancy Team's monitoring and interventions have been reviewed and revised to prioritise the elimination or reduction of deficits prior to conversions.
19. At the start of the 17-18 financial year there were 199 LA maintained schools. By 1st October 2017 this had fallen to 172 (including 2 schools which belong to a federation).
20. As SOR is now complete, the 27 closures so far this year comprise academy conversions only; 7 of which have been sponsored, 19 have joined Multi Academy Trusts and 1 has set up a new Trust (Claydon). Of the 7 sponsored conversions, 3 have been too recent to have closing balances determined but, do not plan to have deficits on closure however, predicted reserves levels are low and do not provide sufficient cushion to guarantee this. Of the other 4, none have had deficit balance determinations and have taken reserves to their new academy.
21. There are currently 5 schools with imminent academy conversions under a sponsored arrangement where the LA will take any deficit on closure. 3 of these schools have deficit BP revenue predictions totalling £-260k and the 2 others have low reserves predictions totalling £53k. These are school estimations and the closure balances could be more adverse than predicted, sometimes due to the timing of the closure. One of these schools currently has a cashflow advance of £25k.
22. There are a further 12 schools likely to join with Multi Academy Trusts in this financial year. The LA is not liable for deficits left by these schools under this arrangement. Only one has a Budget Plan deficit - a prediction of £-74k – and the five others have BP predictions of less than £50k but, should any of these conversions change to sponsored arrangements, there could be significant risk to DSG.
23. The School's Accountancy Team collects relevant data from school submissions including Budget and Strategic Plan predictions. These are considered with a range of other information including carry forward data and potential closure status. The Schools' Accountancy team liaise closely with the Education and Learning team to assess risk regarding schools likely to be forced along the academy route due to poor educational standards, as these will be sponsored conversions, and usually with deficit balances more likely after having to address educational shortfalls from the school's budget.
24. Each risk factor is assessed and attributed risk points. Schools are then ranked in order of risk points and all those with more than 4 risk points are allocated a monitoring officer to work with the school to avoid or reduce any potential deficit balance that could be left with the LA. The summary of risk scores and number of schools in each category is below:

SCHOOLS' RISK SCORES as at 18th October 2017

School Risk Score	10 +	9	8	7	6	5	4	3	2	1	0	-1	Total Schools
All schools	12	2	0	4	5	6	13	9	24	85	34	5	199
Only open schools	7	2	0	4	3	5	13	7	20	76	30	5	172
	34						27			111			
Only closed schools	5	0	0	0	2	1	0	2	4	9	4	0	27

25. The National Funding Formula (NFF) indicative figures for 18-19 have been also factored in, showing as a positive -1 risk where a school's income will be growing on base numbers by 2.5% or more, to acknowledge the growth in base delegated income.

26. The 16-17 carry forward revenue reserves balances for the 199 maintained schools (as at 31st March 2017) totalled £19.66m. This was a decrease of £2.8m which represents a 12.8% reduction on 15-16 balances. School balances had been steadily increasing; however schools forecast a significant drop in reserves in their 16-17 plans, reducing to £12.9m. However the plans and spending levels were overstated and there was a £6.7m gap between that forecast and actual. See the table below:



27. Schools have forecast, for 17-18 a reduction of £9.9m of reserves held. This is over a 50% reduction. However, based on schools historic prudent forecasting and following the 16-17 trend, a reduction in the region of £2.5m - £3.0m may be more realistic. Another 12% reduction would leave school balances at approx. £17.0m.

28. With the continued cost pressures schools are facing and the uncertainty around school funding, even with the announcement of the National Funding Formula, more schools are now spending above their means (as forecast in the plans). Reserves are depleting and longer term the position schools find themselves in is not sustainable.

29. There were 199 maintained schools at the start of the financial year. Budgets were received from all except eight closing schools who were not required to submit a plan.
30. Of the 172 current maintained schools, 20 are predicting deficit balances by year end which represents 12% – this is in comparison with 206 maintained schools last year with only 5% (11 schools) predicting deficits.
31. Of the 172 current maintained schools, 112 of these showed a reduction in reserve balance between 15/16 and 16/17 year ends (including one federation of two schools). This amounts to 65% of our current schools having overspent in-year for 16/17 and demonstrates that, although schools may be prudent in their predictions, their figures nevertheless do represent a true indication of trend.
32. Of 170 Strategic Plans that were due in the summer term (note: a closing schools' submission is not required, and federations submit combined plans), 121 were received. Of these, 73 are predicting deficit balances for both 2018-19 and 2019-20.
33. Schools that have not submitted Strategic Plans are awarded the same number of risk points as those forecasting deficits in both years as we assume worst-case.
34. With the uncertainty around future funding and the increased number of schools converting to academy status it is imperative the LA continues to work with its schools, promoting yearly and longer-term planning - which the LA does appreciate can be a difficult process.
35. The LA has £478k of outstanding cashflow loans in total; 12 schools have a cashflow advance.

Wider risk management in the maintained sector

36. In addition to the monitoring of financial risk described in this paper the local authority undertakes wider risk management in the maintained sector. This is required where schools face challenging circumstances, including those that have gone into an Ofsted category, are facing leadership issues and or complex and potentially high cost HR issues. In such schools there are often a range of issues to address that bring additional financial pressures to manage.
37. Examples include the costs of:
 - Interim Headteachers
 - Interim Executive Boards
 - Legal Advice including Barrister fees for tribunals
 - HR Advice
 - Settlements (negotiated and tribunal ordered)

38. The risk fund (Contingency – schools in financial difficulties) is used to support and protect individual schools from the significant costs that the above circumstances can lead to and is in effect an insurance policy that means no maintained school that has followed HR advice will be left vulnerable. In the absence of a centrally held risk fund the local authority would be challenged to meet its duties and the current costs would have to fall to individual schools.
39. The risk fund (Contingency – schools in financial difficulties) is currently a de-delegated service. De-delegated services are for maintained schools only (and is not an option for academies, special schools, nursery schools or PRUs) and the funding for de-delegated services is allocated through the formula but the funding is then passed back for maintained mainstream primary and secondary schools with Schools Forum approval. The decision to de-delegate a service is required for each financial year and relates to that year only.
40. At the meeting on 3 October, where the de-delegation of services was considered (Paper C), Schools Forum asked for more information and options regarding the funding of the budget for Contingency – schools in financial difficulties in order to make a decision for 2018-19.
41. In response, the local authority has proposed three different options. There is a recognition that with a reducing number of maintained schools the risk changes. However, the high cost implications for some individual schools circumstances means that there is not a linear reduction of risk in line with a reducing number of maintained schools. For this reason, Option 3 is recommended. This acknowledges that there are fewer maintained schools but maintains a viable budget, that is in effect an insurance policy, to support maintained schools in the most challenging of circumstances.

Option 1 - to retain the current level of funding i.e. £635,108

Option 2 - to reduce the current budget by 50% to £317,554

Option 3 - to retain 75% of the current level of funding i.e. £476,331

42. Each of these options is presented in the table below together with the estimated cost per pupil if the service was de-delegated to all maintained primary and secondary schools and the estimated cost per pupil if the service was de-delegated only to maintained primary schools. The table also provides an indication of the financial impact on a school for each option.

The cost per pupil and financial impact on schools of the different options for the de-delegation of Contingency – schools in financial difficulties

		De-delegated across all primary and secondary maintained schools			De-delegated across primary maintained schools only		
		£	£	£	£	£	£
		Option A	Option B	Option C	Option D	Option E	Option F
	Cost per	14.67	£7.33	£11.00	17.51	£8.75	£13.13
	Budget	£635,108	£317,554	£476,331	£635,108	£317,554	£476,331
	Cost per school						
Primary school - pupil numbers							
	100	£1,467	£733	£1,100	£1,751	£875	£1,313
	210	£3,081	£1,539	£2,310	£3,677	£1,838	£2,757
	315	£4,621	£2,309	£3,465	£5,516	£2,756	£4,136
	630	£9,242	£4,618	£6,930	£11,031	£5,513	£8,272
Secondary school - pupil numbers							
	600	£8,802	£4,398	£6,600	-	-	-
	900	£13,203	£6,597	£9,900	-	-	-
	1200	£17,604	£8,796	£13,200	-	-	-

43. It should be noted that these figures will change for 2018-19 to reflect the number of pupils recorded in the October 2017 census and further academy conversions. Final totals will be reported to the January meeting prior to submission to the DfE.