

Report to	Corporate Governance and Audit Committee
Date of report	27 th January 2021
Lead Member / Officer	Councillors Huw Hilditch-Roberts & Julian Thompson-Hill / Geraint Davies, Head of Education & Steve Gadd, Head of Finance and Property
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Title	Challenge & Intervention Framework for Schools in Financial Difficulty (SIFD) - Update

1. Purpose of the Report

1.1 To update Corporate Governance and Audit Committee on the progress of the implementation of the Challenge & Intervention Framework for Schools in Financial Difficulty (SIFD) process that was brought to CG&AC on 29th November 2017.

2. What is the reason for making this report?

2.1 To re-present the council's process for working with schools in financial difficulty.

2.2 To update the Committee on how the process has worked in practice.

3. What are the Recommendations?

3.1 For the contents of the report to be discussed.

4. Report details

Background

The management and responsibility for school budgets is delegated to individual school governing bodies. The legislative provisions are within the School Standards and Framework Act, 1998 and the School Funding (Wales) Regulations 2010. Both sets of legislation underpin the council's Scheme for Financing Schools (Appendix 2). The council determines the total amount of school budget - before external grants - annually and then delegates most of this (approximately 85%) to

schools through an agreed formula. The remainder is managed centrally on behalf of schools to fund items such as school transport and other central costs.

The financial management support for schools is delegated to the schools through dedicated the business and finance managers. Under the above Scheme, each school is required to submit a three-year budget plan to the council annually. Budget plans must show the school's intentions for expenditure in the following three financial years and the assumptions underpinning that budget plan. Schools are responsible for the management of surpluses or deficits over the period.

The Scheme also makes provision to license a deficit position for and in support of this, the council developed a more detailed challenge and intervention framework. The framework was developed and enhanced during 2016/17 in consultation with schools and was presented to this committee in November 2017. The framework is attached as Appendix 1 and is best summarised in the flow chart on Page 3.

By way of context, from 2011/12 to the end of 2016/17, councils were directed by the Welsh Government to protect school budgets financially by an amount 1% above the level of financial grant from the UK government to the Welsh government. Denbighshire elected to provide more funding to schools over this period, providing 70% more in total to schools than would have been the case by simply applying the mechanism required by Welsh Government. The financial value of Welsh Government protection to Denbighshire schools was £4.422m over 6 years from 2011/12 to 2016/17 whereas Denbighshire school budgets increased by £7.519m over same period.

Recent Activity and Current Position

Budget Strategy – Since the end of the period of WG 'protection' the Council has funded schools by implementing the following principles:

- Pay and price inflation is calculated each year
- Demography adjustment is calculated based on September PLASC data – this is to ensure that per pupil funding is at least maintained
- Passport any direct funding from WG including transfers and new responsibilities
- Consideration of any strategic pressures
- Application of an efficiency savings target (between 1% and 2% in recent years)

This brings schools broadly in line with how other services are treated – however it should be noted that service savings targets have ranged from 2% to 17% depending on the year and service.

The budget proposals for Schools for 2021/22 are set out below:

- Inflationary pressures are recognised amounting to £1.205m
- Investment in Additional Learning Needs £1.192m
- Investment in small schools' sustainability £161k
- Demographic pressure of £718k
- 2020/21 Teachers' Pay Grant of £0.135m (transfer in)
- 1% (£0.733m) Schools efficiency target from Schools Delegated Budgets

The investment of £3.4m amounts to a 3.4% uplift, however, after a 1% efficiency target based on pre-uplift budgets this equates to a net increase of 2.5%. The need for the investment in ALN and small schools has been identified as a result of the SIFD process.

Current Position – The budget agreed by Council for 2020/21 included a total net additional investment (excluding increases in Welsh Government grants) in schools delegated budgets of just over £2.9m. The latest projection for school balances to be carried forward into 2021/22 is a net deficit balance of £1.591m, which represents an increase of £0.203m on the deficit balances brought forward into 2020/21 of £1.388m (as shown in Appendix 3). The latest lockdown and the details of how additional costs will be funded will be monitored closely and it is hoped this will see an improved position by year end.

Following this year's submission of three-year budget estimates the School financial support team meet with all schools projecting a deficit balance (a 'SIFD' school) on a termly basis (ie at least 3 times a year). In 20/21 they have had 2 terms of meetings, the last term will take place around March time. The Head of Education and Head of Finance and Property meet termly with the finance team to go through the agreed position for all SIFD schools. They also meet periodically to discuss particular schools if and when required. This year there are 18 SIFD schools out of a total of 54 (33%), out of these 12 have a licensed deficit following an agreed financial plan to improve the position. The service is working closely with the remaining 6 (11%) in order to reach an agreed position. The ALN and small schools' investment included in the budget proposals for 2021/22 have not been factored into the current recovery plans and it is hoped this will improve the position further.

5. How does the decision contribute to the Corporate Priorities?

Effective management of the council's revenue and capital budgets and delivery of agreed budget strategies underpins activity in all areas, including corporate priorities.

6. What will it cost and how will it affect other services?

There are no additional cost implications as a result of this report.

7. What are the main conclusions of the Well-being Impact Assessment?

It is the professional judgement of the Head of Education and Section 151 Officer that a Well-being Impact Assessment is not required for this report as it is merely reporting an existing framework to the council's audit committee.

8. What consultations have been carried out with Scrutiny and others?

Schools have been consulted on both the Scheme for Financing Schools and the SIFD framework. The School Budget Forum keeps both under review.

9. Chief Finance Officer Statement

The nature and rate of delegation to schools comes with responsibility to manage the financial position. It is accepted that within this framework, there will be surpluses and deficits. It is the responsibility of the schools to ensure surpluses are managed responsibly and that deficits are addressed over a reasonable period. The SIFD framework is the council's mechanism to ensure this happens and includes appropriate sanctions if it does not.

10. What risks are there and is there anything we can do to reduce them?

The Scheme for Financing Schools and the SIFD framework set out the council's approach and controls to ensure that delegated school budgets are properly managed.

11. Power to make the decision

Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs.

School Standards and Framework Act, 1998 and the School Funding (Wales) Regulations 2010 sets out the specific arrangements for schools.