

SCHOOLS FORUM AGENDA ITEM

For Action

For Information



Brief Description of Item (including the purpose / reason for presenting this for consideration by the Forum)

To provide Members an update on matters related to school and academy budgets. In particular, this report responds to the request made by Members at the last meeting for an interim update on the anticipated volume of conversions of maintained schools to academy status in Bradford and the likelihood of liabilities resulting from the conversion of schools holding deficit budgets.

Date (s) of any Previous Discussion at the Forum

The Schools Forum received a detailed report on school balances and implications of academy conversions on 18 May 2016 (Document GA).

Background / Context

The financial year runs from 1 April to 31 March. At the end of each financial year, maintained schools are required to 'closedown' their accounts and to finalise the values of balances held at this point. This information is forwarded to the DfE and is publicly published. The Authority's Deficit Budget Protocol is in place to manage maintained schools that hold (or forecast to hold) deficit revenue balances.

Maintained schools are permitted to carry forward surplus revenue balances. Currently, schools with revenue balances in excess of 4% (Secondary) or the greater of £60,000 or 6% (all other schools) of funding must comply with the Authority's Surplus Balances Protocol, which requires schools to assign the value of excess balances to spend on permitted schemes. With the School Forum's support, the Surplus Balances Protocol was reviewed (strengthened) during 2013.

Academies and Free Schools are responsible to the Education Funding Agency (the EFA) for their financial reporting and positions. As such, the Local Authority does not have a direct view of academy financial positions. The EFA sets monitoring and reporting requirements and has oversight of academy balances. A key 'intervention tool' used by the EFA is the issuance of a 'Financial Notice to Improve'. These Notices are posted on the EFA's website for public record / scrutiny.

Deficit budgets on the closure of a maintained school revert back to the Local Authority and may be charged to the DSG if de-delegated arrangements operate to enable this. Surplus balances are credited to the DSG. Any claw back of surplus balances from maintained schools through the Intended Use of Balances process increases the amount of funding available for the Schools Budget in the DSG.

On the conversion of a maintained school to academy status:

- A surplus balance (irrespective of the type of conversion) is transferred to the academy trust (so there is no benefit to the Local Authority nor the DSG).
- A deficit of a maintained school that is a 'converter' academy is also transferred to the academy trust (so there is no liability on the Local Authority nor the DSG).
- A deficit of a maintained school that is a 'sponsored' academy reverts back to the Local Authority and may be charged to the DSG if de-delegated arrangements operate to enable this.

Forum Members are reminded:

- That an identified sum of £0.65m is held within the DSG (within one off monies) to support the cost of the deficit of a secondary school converting to academy status.
- That within the recommendations that were agreed by Council on 23 February is the establishment of a new fund of £150,000 for deficit provision for sponsored conversions for the primary phase in 2017/18.
- Of the information that has previously been presented to the Schools Forum on how the Local Authority (School Funding Team) supports and challenges schools on their budget positions and works to identify and resolve issues early. The Authority also has published a detailed guidance document for schools, which sets out expectations in preparation for financial close on academy conversion.
- That the deadline for the submission of governor approved budgets for 2017-2020 from maintained schools is 15 May 2017. It is these submissions that give the Authority a clearer view of the position of school budgets.

Background / Context

- That the timing of conversion is an important factor in the potential for liability related to deficit budgets of sponsored academies. For example, a school that has an in year deficit budget in 2017/18, and converts on 1 September 2017, may respond to this in year, but savings from staffing restructure may only be implemented at the start of the new academic year. So, although the school's budget will balance in the full year, it is the academy's budget post 1 September that will benefit from these savings. The maintained school's budget may fall into cumulative deficit if the value of the school's balance held at the end of 2016/17 is not sufficient to meet the value of overspending in the first half of the year.
- That an update on the position of academy conversions is a standing item on School Forum agendas.
- That, as a result of expectations on the speed of academy conversions in Bradford, the Authority effectively ceased last year to offer the capital loans scheme to maintained schools, which is funded by the DSG reserve.
- That the Forum agreed on 20 July 2016 that, "a formal 'Panel' of Forum Members be established with the remit to discuss in detail the financial implications of academy conversions and requests for financial support from the DSG that may be made. That this Panel includes Members representing governors. That this Panel makes recommendations back to the full Schools Forum."
- That, following an initial 'scoping' meeting, the Panel recommended criteria that should be used in the consideration of requests that may be made to the Schools Forum for financial support related to academy conversion. The Forum agreed these criteria on 20 July.
- That the Schools Forum received a letter from Oastler School in July 2016, which asked for consideration of financial support for its deficit budget. The Forum's Panel met in the autumn term to consider this and asked for further information. A final recommendation from the Panel is to be presented to the Forum.
- Of the warnings previously given that the opportunity for liabilities to arise relating to deficit balances is greater due to the expected larger number of academy conversions and as budgets become tighter following the continued fall in the real terms value of funding. As reported to the Forum in January, the National Audit Office, in its report published in December 2016, has calculated an average 8.7% reduction in the value of school funding in real terms over the period 2016-2020. The Institute for Fiscal Studies (IFS), in its report published on 27 February 2017, has calculated that spending per pupil is expected to fall by 6.5% in real terms between 2015-16 and 2019-20 and that this will be first time schools have seen real terms cuts in spending per pupil since the mid 1990's. The IFS has also stated that 16-18 education has been the "biggest loser" from education spending changes over the last 25 years.

Details of the Item for Consideration

Financial Positions of Maintained Schools and Academy Conversions (interim update)

The following information is provided in advance of the final closedown of financial accounts for maintained schools for the 2016/17 financial year and receipt of 2017-2020 approved budgets. As such, this is an interim position statement. Further updates on confirmed figures will be provided in May (March 2016 balances) and July (2014/18 budget forecasts).

- Since February 2016, at time of writing this report, the Local Authority has completed the financial close of 13 maintained schools that have converted to academy status. None of these have closed with deficit budgets. A total of £1.90m of surplus balances has been paid across for these 13 conversions.
- The Local Authority is currently processing the financial closures of 24 maintained schools that have converted to academy, 4 of which are sponsored academies i.e. there have been 37 conversions of maintained schools to academy status in total between February 2016 and March 2017. There is risk of a small value of deficit in one of these 24 conversions (a primary sponsored academy). However, on current information, the other 23 schools will convert with surplus balances. We will continue to keep the Schools Forum informed about the position of these conversions.
- At 1 March 2017 we have 133 maintained schools. We have immediate sight of around 30 schools that are planning conversion / may convert / are likely to convert during 2017. The position is moving regularly. 5 of these 30 would potentially be regarded as sponsored academies. On current information, there is risk of a small value of deficit in one of the 5 potential sponsored conversions (a primary sponsored academy) and risk of a larger value of deficit in a secondary sponsored academy conversion.
- In terms of the financial positions of maintained schools generally, at March 2016 we had 6 maintained schools in deficit. At March 2017, we currently forecast that 10 maintained schools will be in deficit. 10 represents 7.5% of our total number of maintained schools. We are seeing a general reduction in the values of balances held by maintained schools. The schools that are still maintained held a net £15.2m surplus balance at March 2016 and are currently forecasting to hold a net £7.7m at March 2017. Although

Details of the Item for Consideration

we expect that the forecast of £7.7m is an underestimation, as schools have historically underestimated their balances in their prior-year end forecasts, this does identify that the values of balances are reducing. 71% of our schools forecast to have in year deficits in 2016/17 (where in year spending exceeds in year income and the school's budget is supported by the use of carry forward balances). The Schools Forum will receive a report about 2016/17 final balances; deficits and surpluses in May 2017 and a report on forecasted 2017/18 budget positions in July 2017.

2017-20 Budget Challenge (Update and highlight of 2 additional pressures)

The Forum has received information previously on the level of financial challenge that is created for schools from the reduction in the real terms value of funding as well as other significant changes in funding streams (including the ESG, National Funding Formula and reform of early years funding). The Local Authority has recently published detailed guidance to support maintained schools in their budget setting.

The vast majority of schools have so far taken quick and positive action to manage their budget positions. However, the profile of increasing cost pressures is such that the next 3 year period, 2017-2020, will be very financially challenging. Schools and academies may find that the action they have already taken and / or have agreed to take based on their indicative planning is not sufficient to deliver a balanced budget in 2017/18 or 2018/19. Critically, schools must look again in detail at their budgets, focusing especially on their 'in year' positions i.e. the extent to which their expenditure in year may exceed their in year income. On top of the general messages that have previously been reported to the Schools Forum, there are 2 additional headline changes affecting budget positions from April 2017 that are highlighted below:

- Schools, where applicable, must add into their budgets annually from April 2017 the cost of the Government's Apprenticeship Levy. The Levy accompanies new responsibilities to be placed on all public sector bodies (including schools and academies) for the development of apprenticeships. Please refer to the additional guidance available on Bradford Schools Online [here](#). All community and voluntary controlled maintained schools will be charged 0.5% of their monthly pay bills, on an on-going basis, beginning at April 2017. This is 0.5% on all pay that is subject to National Insurance. For example, a school with a monthly pay bill of £100,000 will be charged £6,000 a year (£100,000 x 12 months x 0.5%). For other types of maintained schools (voluntary aided, foundation and trust) and for academies, as the Council is not the employer, the applicability of the charge depends on the sizes of their individual pay bills. These schools should refer to the Government's guidance and discuss this further with their HR and payroll partners.
- All Bradford maintained schools must factor into their budgets, from April 2017, the increase from 14.2% to 17.5% in the employer's contribution (non-teaching staffing) to the West Yorkshire Pension Scheme as well as the anticipated additional annual lump sum payment to be made in 2017/18. Academies should discuss their positions directly with the WYPS. Schools will be aware of the changes that were implemented at April 2014 in the way employer's contributions to the Local Government Pension Scheme (West Yorkshire Pension Fund) are taken. For reminder, the value of employer's monthly contribution in 2013/14, prior to change, was 15.00%. This contribution reduced to 14.20% at April 2014 with schools being required to make instead a separate payment relating to the element of the contribution to support the deficit within the pensions fund calculated by the Actuary. As outlined in the letter to schools in June 2014, this separate payment covered the period up to the end of the 2016/17 financial year. The cost structure from April 2017 is:
 - As a result of tri-annual valuation, an increase in the monthly employer's contribution rate to 17.50% from 14.20%. This is a significant increase, which is the result of pensioners living longer and higher than expected pay growth. This will have a full year impact on school budgets in 2017/18. This 17.5% contribution is expected to remain for 2017/18, 2018/19 and 2019/20, with the next valuation for April 2020.
 - A lump sum payment, which we anticipate will be roughly a third of the £145,000 total payment to be made by the Council, relating to the fund deficit calculation. Although this means a much smaller value of lump sum payment than schools were charged in 2014/15 (£2.23m), reflecting good investment returns more recently, this payment only relates to 2017/18 and does not cover a 3 year period. The deficit position of the fund will now be reviewed on an annual basis and it is expected that annual lump sum payments will be made by schools at values at least the same as in 2017/18. Further information, including the value of lump sum charge for individual schools in 2017/18, and how this charge will be administered, will be published for schools early in the new financial year.

Implications for the Dedicated Schools Grant (DSG) (if any)

As set out in the report.

Recommendations

The Schools Forum is asked to consider and to note the information provided in the report.

List of Supporting Appendices / Papers (where applicable)

None

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