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 with an update on matters concerning to school and academy budgets. This includes an update on the position of the conversion of maintained schools to academy status and on the anticipated cost pressures within school and academy budgets over the 2018-2021 period.

Date (s) of any Previous Discussion at the Forum

The Schools Forum received reports on school balances and implications of academy conversions on 15 March and 5 July 2017.

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 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.

Academies and Free Schools are responsible to the Education and Skills Funding Agency (the ESFA) for their financial reporting. As such, the Local Authority does not have a direct view of academy financial positions. The ESFA sets monitoring and reporting requirements and has oversight of academy balances. A key 'intervention tool' used by the ESFA is the issuance of a 'Financial Notice to Improve'. These Notices are posted on the ESFA'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 is typically transferred to the academy trust (so there is no benefit to the Local Authority nor the DSG), although there is provision for the Authority to retain surplus balances held by sponsored academies.
- 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 22 February is the continuation of the de-delegated fund of £150,000 for deficit provision for sponsored conversions for the primary phase.
- 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 2018-20201 from maintained schools is 15 May 2018. It is these submissions that give the Authority a clearer view of the position of school budgets. Report on budget positions and balances held by maintained schools at the end of the 2017/18 financial year will be presented to the Schools Forum on 16 May and 11 July 2018.

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 2018/19, and converts on 1 September 2018, 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 2017/18 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 Schools 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 has previously established "a formal 'Panel' of Forum Members 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, 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 2016.
- 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, the National Audit Office, in its report published in December 2016, 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, calculated that spending per pupil is expected to fall by 6.5% in real terms between 2015-16 and 2019-20. The assumptions behind these national studies need refreshing for recent announcement and funding changes, but the pressure in school and academy budgets resulting from the reduction in the value of funding per pupil in real terms is very present over the 2018-2021 financial period.

Details of the Item for Consideration

Financial Positions of Maintained Schools and Academy Conversions

The following information is provided in advance of the final closedown of accounts for maintained schools for the 2017/18 financial year and receipt of 2018-2021 approved budgets. As such, this is an interim position statement. Further updates on confirmed figures will be provided in May (March 2018 balances) and July (2018-2021 budget forecasts).

- The Local Authority has completed the financial close of 3 more maintained schools that have converted to academy status between April 2017 and March 2018. 1 of these has closed with a small deficit balance. This is a converter academy and the Authority has processed this as such with the ESFA and expects the value of this deficit to be repaid. At the time of writing this report, the Local Authority is processing the financial closures of 3 more conversions; 2 converters and 1 sponsored academy. All 3 of these schools are expected to close with surplus balances.

- There have been 46 conversions in total since September 2015. The number of conversions in 2017/18 (6) was substantially lower therefore, than the number that took place in the previous year.

- We have 125 maintained schools at 1 March 2018. We have immediate sight of around 20 schools that are planning conversion / may convert / are likely to convert over the next 12 months. The position is moving regularly. We would expect 5 of these 20 to be regarded as sponsored academies. On current information, there is risk of small values of deficits in 3 of the potential sponsored conversions (these are 3 primary sponsored academies).

- In terms of the financial positions of currently maintained schools, more generally, at March 2017, 8 schools held deficit revenue balances. We currently forecast that 10 schools will be in revenue deficit at March 2018, which is 8% of our total number of maintained schools. We continue to see a reduction in the total value of revenue balances held. The schools that are still maintained on 1 March 2018 held total net revenue surpluses of £9.1m at March 2017. These schools currently forecast to hold £4.5m at March 2018. Although we would assess that £4.5m 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 continuing to reduce. 63% of our maintained schools forecast to have in year deficits in 2017/18 (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 full report on 2017/18 final balances, deficits and surpluses, on 16 May 2018.

Details of the Item for Consideration

2018-21 Budget Challenge

The Forum has received information in previous reports on the level of financial challenge that is created for schools and academies from the reduction in the real terms value of funding per pupil 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 guidance to support maintained schools in their budget setting for 2018/19.

The vast majority of schools and academies have taken positive action so far to manage their budget positions. However, schools may find that the action they have already taken and / or have agreed to take based on their previous indicative 5 year planning is now not sufficient to deliver a balanced budget across 2018-2021. Critically, schools must now 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 income in year. To add to the difficulty, there is uncertainty at this time about increases in some significant costs in 2018/19, and then across 2018-2021, including pay awards and staff pension costs. Schools will need to regularly review their budget assumptions and forecasts. Financial pressure across all sectors has been driven by salary costs rising whilst values per pupil of formula funding, high needs funding, and other grants have remained broadly static. This is a pressure that school budgets must absorb before responding to other changes, such as changes in pupil numbers, the impact of national funding formula and early years funding reform, and the growth in the needs of children. This is also a pressure that is expected to continue to increase across 2018-2021 as salary costs continue to rise.

The outlook across 2018-2021 for some of the funding assumptions that we have previously made for budgeting purposes has improved, most noticeably:

- Primary & secondary schools will be allocated a minimum 0.4% increase in formula funding per pupil in 2018/19. It is reasonable for schools at this stage to broadly estimate to receive a cash flat per pupil position in 2019/20; this may be improved upon for schools on the MFG, up to 0.5%, depending on the overall 2019/20 settlement. The position from April 2020 is not yet clear and will depend on Government decisions about the full implementation of the National Funding Formula (NFF). However, 0.4% in 2018/19 is an improvement. A school that is funded on the MFG in 2018/19 will see a 0.4% increase in formula funding per pupil rather than a 1.5% reduction.
- Bradford has moved to adopt the NFF at April 2018. The schools that gain from this will see up to a 3% increase in their funding per pupil in 2018/19 with the vast majority of gaining schools being funded at their full higher NFF value in 2019/20. This is especially significant for the secondary phase.
- The value of PE and Sports Grant for primary schools was significantly increased at September 2017 and this higher level of funding will continue in 2018/19.
- The value of Pupil Premium Plus for Post-LAC children is increase at April 2018 to £2,300 from £1,900.

The outlook across 2018-2021 for a number of expenditure assumptions however, is more challenging:

- The local government employer's pay offer for 2018/19 and 2019/20 for NJC scale (non-teaching) staffing, currently being consulted on, effectively means that the cost of non-teacher staffing salaries will increase by in excess of 2% in 2018/19 and 2% again in 2019/20, which is more than the 1% most schools and academies may have previously forecasted. The overall weighted cost to school budgets (perhaps generally between 3.5% and 4.5%) will vary depending on the number of staff employed on lower scale points that are proposed to increase more in % terms. The cost will also be greater if the final agreed pay award exceeds the employer's current offer.
- The national STRB has still to provide its recommendation to the Secretary of State on the teacher's pay award for the 2018/19 academic year. As at September 2017, the implementation of a general recommendation is likely to include some element for local determination. Schools will be aware that the award for the Main Pay Scale was agreed in Bradford at 2% at September 2017. It appears reasonable for schools to plan on the basis that the pay award for teachers from September 2018 will exceed the previously assumed 1%.
- The outcome of the next review of the rate of contribution by employers to teacher pensions is due to be implemented in 2019/20. The current contribution rate is 16.48%. The new rate is still to be announced (likely in the Chancellor's Spring Budget). However, we anticipate that the rate will increase at April 2019.
- The outcome of the next review of the rate of contribution by maintained school employers to the local government (West Yorkshire) pension scheme for non-teaching staffing is due to be implemented at April 2020. The current contribution rate is 17.5%. The actuary has not yet given an indication of the possible change at April 2020 but it is reasonable to begin to plan on the basis that this will increase above 17.5%.
- Inflation is currently running at around 3%.Although broadly the rate of inflation is expected to reduce on its current position over time there is a great deal of economic uncertainty.

Details of the Item for Consideration (continued)

Intended as an estimated guide only for discussion - using the expenditure profiles recorded in the 2016/17 outturn positions *and making some assumptions about funding levels and salaries costs increases (based on what is said above)*, it is estimated *on a very general basis* that the average basic pressure on expenditure in schools and academies across 2018-2021 could fall around 10% (between 8% - 11%). This excludes the impact of changes in pupil numbers and increases in pupil need and other specific / local factors that may impact on individual schools and phases differently. In cash terms, on this basis, every £1m of budget that a school or academy has now could buy £100,000 less (between £80,000 and £110,000 less) activity in 2020/21.

This continued pressure comes in the context of schools and academies already having responded to the reduction in the real terms value of funding since 2015 and as revenue reserves are now much smaller in value.

These are matters that the Schools Forum will wish to further consider and monitor.

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

Contact Officer *(name, telephone number and email address)*

Andrew Redding, Business Advisor (Schools)
01274 432678
andrew.redding@bradford.gov.uk